Consolidated Financial Statements Audit Report issued by an Independent Auditor

ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARY COMPANIES
Consolidated Annual Financial Statements and Consolidated Management Report for the year ended December 31, 2021

Building a better working world

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries

Consolidated Annual Financial Statements and Consolidated Management Report for the year ended Friday, December 31, 2021

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ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated Balance Sheet at December 31, 2021
(Thousand euro)

ASSET	Notes	2021	2020
NON-CURRENT ASSETS		**101,690**	**84,942**
Intangible assets		**48,862**	**32,915**
Consolidation goodwill	6	24,297	10,428
Other intangible assets	7	24,565	22,487
Property, plant and equipment	**8**	**27,644**	**23,421**
Land and buildings		7,872	5,750
Technical facilities and other property, plant and equipment		16,078	14,507
In-progress tangible assets and prepayments		3,694	3,164
Real estate investments	**9**	**149**	**142**
Land		149	142
Investments in group companies and associates		**307**	**307**
Shareholdings consolidated using the equity method	10	307	307
Long-term financial investments	**11**	**1,583**	**2,645**
Equity instruments	3.3 and 11	323	391
Loans to third parties	11 and 13	320	1,478
Derivatives	11 and 21.2	15	-
Other financial assets	11 and 13	925	776
Non-current receivables from public administrations	**22**	**1,073**	**1,230**
Deferred tax assets	**22**	**22,072**	**24,282**
CURRENT ASSET		**183,633**	**141,355**
Inventory	**12**	**61,786**	**49,976**
Goods for resale		228	75
Raw and sundry materials		25,358	18,852
Work in progress		18,228	12,659
Finished products		17,040	16,528
By-products, residues and materials recovered		278	286
Prepayments to suppliers		654	1,576
Trade and other receivables	**13**	**60,399**	**53,093**
Trade receivables for sales and services rendered	11	38,636	36,428
Sundry receivables	11	938	993
Personnel	11	54	45
Other receivables from public administrations	22	20,771	15,627
Short-term financial investments		**2,011**	**6,928**
Loans to companies	11 and 13	49	3,535
Derivatives	11 and 21.2	268	1,022
Other financial assets	11	1,694	2,371
Short-term accruals		**728**	**798**
Cash and cash equivalents	**14**	**58,709**	**30,560**
TOTAL ASSETS		**285,323**	**226,297**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated Balance Sheet at December 31, 2021
(Thousand euro)

EQUITY AND LIABILITIES	Notes	2021	2020
EQUITY		**58,514**	**26,059**
SHAREHOLDERS' FUNDS		**91,571**	**55,690**
Issued capital	**15.1**	**5,709**	**4,948**
Authorized capital		5,709	4,948
Share premium	**15.2**	**50,180**	**20,942**
Other reserves of the Parent Company	**15.3**	**90,499**	**81,889**
Legal and by-law reserves		990	982
Other reserves		89,509	80,907
Reserves in consolidated companies	**15.3**	**(62,985)**	**(53,118)**
Parent Company shares	**15.4**	**(375)**	**-**
Profit/(loss) for the year attributed to the Parent Company	**15.5**	**8,543**	**1,029**
Consolidated profit and loss		8,717	1,874
Profit and loss attributed to non-controlling shareholders		(174)	(845)
MEASUREMENT ADJUSTMENTS		**(40,598)**	**(36,228)**
Exchange differences of consolidated companies	**17.1**	**(40,487)**	**(36,665)**
Hedging transactions	**17.2**	**(111)**	**437**
GRANTS, DONATIONS AND BEQUESTS RECEIVED	**18**	**1,829**	**1,541**
In consolidated companies		1,829	1,541
NON-CONTROLLING INTERESTS	**19**	**5,712**	**5,056**
NON-CURRENT LIABILITIES		**76,450**	**70,837**
Non-current provisions	**20**	**1,938**	**2,966**
Non-current Social Security obligations		1,004	1,000
Other provisions		934	1,966
Non-current creditors	**21**	**71,591**	**64,972**
Bank borrowings	21.1	37,544	40,823
Financial lease creditors	21.1	485	435
Derivatives	17 and 21.2	1,046	-
Other financial liabilities	21.2	32,516	23,714
Deferred tax liabilities	**22**	**2,921**	**2,899**
CURRENT LIABILITIES		**150,359**	**129,401**
Current provisions	**20**	**1,369**	**2,735**
Current creditors	**21**	**55,220**	**42,150**
Liabilities and other negotiable securities	21.2	27,500	14,000
Bank borrowings	21.1	15,241	23,545
Financial lease creditors	21.1	514	437
Derivatives	17 and 21.2	1,377	131
Other financial liabilities	21.2	10,588	4,037
Trade and other payables		**93,770**	**84,504**
Suppliers	21	59,899	49,714
Sundry payables	21	15,148	13,621
Personnel (accrued wages and salaries)	21	2,553	3,834
Current tax liabilities	22	788	1,631
Other payables to Public Administrations	22	9,903	7,539
Customer advances	21	5,479	8,165
Current accruals		**-**	**12**
TOTAL EQUITY AND LIABILITIES		**285,323**	
		226,297	

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated income statement for the year ended December 31, 2021
(Thousand euro)

	Notes	2021	2020
CONTINUING OPERATIONS			
Revenues	**23.2**	**282,033**	**264,680**
Sales		274,722	256,856
Rendering services		7,311	7,824
Changes in inventories of finished products and work in progress		**6,546**	**(1,597)**
Work performed by the entity and capitalized	**7.1**	**5,143**	**4,605**
Supplies	**23.3**	**(161,855)**	**(138,769)**
Consumption of raw materials, goods for resale and others		(145,819)	(124,500)
Subcontracted work		(15,874)	(13,922)
Impairment of goods purchased for resale, raw materials and others		(162)	(347)
Other operating income		**1,542**	**1,115**
Sundry and other income		1,272	863
Operating grants released to income during the year		270	252
Personnel costs	**23.4**	**(68,997)**	**(64,233)**
Wages, salaries and similar remuneration		(53,484)	(50,458)
Social security		(15,513)	(13,775)
Other operating expenses		**(40,732)**	**(37,974)**
External services	23.5	(39,218)	(36,467)
Taxes		(727)	(749)
Losses, impairment and changes in trade provisions	13	(654)	(697)
Other operating expenses		(133)	(61)
Depreciation and amortization	**6, 7, 8 and 9**	**(11,615)**	**(10,847)**
Grants related to non-financial assets and others	**18**	**314**	**338**
Impairment and results on disposals of assets		**165**	**-**
Results on disposals and other items		165	-
Other gains or losses		**(28)**	**(151)**
OPERATING PROFIT/(LOSS)		**12,516**	**17,167**
Financial revenue	**2.4 and 25**	**3,760**	**135**
From equity instruments		3,760	135
Financial costs	**25**	**(4,144)**	**(5,296)**
From third parties		(4,002)	(5,105)
On adjustments to provisions		(142)	(191)
Exchange differences	**25**	**2,065**	**(2,383)**
Impairment and gains or losses on disposals of financial instruments	**25**	**(352)**	**-**
Impairment losses and losses		(352)	-
FINANCIAL INCOME/(EXPENSE)		**1,329**	**(7,544)**
Interest in profit/(loss) obtained by equity-consolidated companies	**10**	**-**	**-**
PROFIT/(LOSS) BEFORE INCOME TAXES		**13,845**	**9,623**
Corporate income tax	**22.1**	**(5,128)**	**(2,478)**
PROFIT/(LOSS) FOR YEAR FROM CONTINUING OPERATIONS		**8,717**	**7,145**
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS (net of taxes)	**26**	**-**	**(5,271)**
PROFIT/(LOSS) FOR THE YEAR		**8,717**	**1,874**
Profit/(loss) attributed to the Parent Company	**15.4**	**8,543**	**1,029**
Profit/(loss) attributable to non-controlling interests	**19**	**174**	**845**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated statement of changes in equity for the year ended December 31, 2021
(Thousand euro)

A) Statement of recognized income and expense for the year ended December 31, 2021

	Notes	2021	2020
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	**15.5**	**8,717**	**1,874**
INCOME AND EXPENSE RECOGNIZED DIRECTLY TO CONSOLIDATED EQUITY			
Exchange differences	17.1	(3,822)	(10,256)
On cash flow hedges	17.2	(717)	354
Grants, donations and bequests received	18	694	796
Tax effect	17 and 18	(12)	(300)
Non-controlling shareholders, net of taxes	19	496	(62)
TOTAL INCOME AND EXPENSE RECOGNIZED DIRECTLY TO CONSOLIDATED EQUITY		**(3,361)**	**(9,468)**
TOTAL TRANSFERS TO THE CONSOLIDATED INCOME STATEMENT			
Grants, donations and bequests received	18	(314)	(338)
Tax effect	18	75	80
TOTAL AMOUNTS TRANSFERRED TO THE CONSOLIDATED INCOME STATEMENT		**(239)**	**(258)**
TOTAL CONSOLIDATED RECOGNIZED INCOME AND EXPENSES		**5,117**	**(7,852)**
Profit/(loss) for the year attributed to the parent company		**4,461**	**(8,635)**
Profit/(loss) attributable to non-controlling interests		**656**	**783**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated statement of changes in equity for the year ended December 31, 2021
(Thousand euro)

B) Statement of total changes in consolidated equity for the year ended December 31, 2021

	Authorized capital (Note 15.1)	Share premium (Note 15.2)	Other reserves of the Parent Company (Note 15.3)	Reserves in consolidated companies (Note 15.3)	Treasury stock and equity interests (Note 15.4)	Profit/(loss) for the year attributed to the parent company (Note 15.5)	Exchange differences of consolidated companies (Note 17.1)	Hedging transactions (Note 17.2)	Grants, donations and bequests received (Note 18)	Non-controlling interests (Note 19)	TOTAL
CLOSING BALANCE 2019	**4,910**	**20,942**	**67,852**	**(40,757)**	**-**	**893**	**(26,409)**	**191**	**1,195**	**4,237**	**33,054**
Total consolidated recognized income and expenses	-	-	-	-	-	1,029	(10,256)	246	346	783	(7,852)
Transactions with shareholders and owners											
Capital increase (Note 15.1)	38	-	(38)	-	-	-	-	-	-	-	-
Other changes in consolidated equity											
Distribution of consolidated profits 2019	-	-	(2,776)	3,669	-	(893)	-	-	-	-	-
Impact of hyper-inflation in Argentina (Note 2.5)	-	-	-	840	-	-	-	-	-	-	840
Other transactions	-	-	16,851	(16,870)	-	-	-	-	-	36	17
CLOSING BALANCE 2020	**4,948**	**20,942**	**81,889**	**(53,118)**	**-**	**1,029**	**(36,665)**	**437**	**1,541**	**5,056**	**26,059**
Total consolidated recognized income and expenses	-	-	-	-	-	8,543	(3,822)	(548)	288	656	5,117
Transactions with shareholders and owners											
Capital increase (Note 15.1)	761	29,238	(2,577)	-	-	-	-	-	-	-	27,422
Other changes in consolidated equity											
Distribution of consolidated profits 2020	-	-	1,029	-	-	(1,029)	-	-	-	-	-
Impact of hyper-inflation in Argentina (Note 2.5)	-	-	-	494	-	-	-	-	-	-	494
Transactions with shareholders and owners	-	-	-	-	(375)	-	-	-	-	-	(375)
Other transactions	-	-	10,158	(10,361)	-	-	-	-	-	-	(203)
CLOSING BALANCE 2021	**5,709**	**50,180**	**90,499**	**(62,985)**	**(375)**	**8,543**	**(40,487)**	**(111)**	**1,829**	**5,712**	**58,514**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated cash flows statement for the year ended December 2021
(Thousand euro)

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for year from continuing operations before income taxes		**13,845**	**9,623**
Profit/(loss) for year from discontinued operations before income taxes	**26**	**-**	**(5,271)**
Adjustments to results		**12,470**	**21,063**
Depreciation and amortization	6, 7, 8 and 9	11,615	10,847
Impairment adjustments		2,133	2,108
Variation in provisions		(1,368)	2,670
Grant allocations	18	(314)	(338)
Profit/(loss) on write-off and disposal of assets		(165)	-
Profit/(loss) on write-off and disposal of financial assets		185	-
Financial revenue	25	(3,760)	(135)
Financial costs		4,144	5,296
Other income/expenses		-	115
Shareholdings in profits of companies consolidated using the equity method	10	-	500
Changes in working capital		**(10,651)**	**709**
Inventory		(9,703)	5,678
Trade and other receivables		(4,864)	17,806
Other current assets		820	(210)
Trade and other payables		7,346	(13,781)
Other current liabilities		(12)	(27)
Effect of exchange differences on the working capital of foreign companies		(4,395)	(8,468)
Other non-current assets and liabilities		157	(289)
Other cash flows from operating activities		**(7,808)**	**(5,392)**
Interest paid		(4,002)	(5,296)
Interest received		181	135
Income tax receipts (payments)		(3,987)	(231)
CASH FLOWS FROM OPERATING ACTIVITIES		**7,856**	**20,732**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments on investments		**(21,217)**	**(12,943)**
Intangible assets	7	(6,007)	(5,235)
Property, plant and equipment	8	(6,147)	(6,441)
Other financial assets		-	(1,267)
Acquisition of group companies, associates and jointly controlled entities	2.4	(9,063)	-
Divestment proceeds		**5,864**	**231**
Group companies and associates		4	-
Property, plant and equipment		816	92
Other financial assets		5,044	139
CASH FLOWS FROM INVESTING ACTIVITIES		**(15,353)**	**(12,712)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from and payments on equity instruments		**27,742**	**796**
Acquisition of equity instruments	15.4	(375)	-
Issue of equity instruments	15.1	27,422	-
Grants, donations and bequests received	18	695	796
Proceeds from and payments on financial liability instruments		**7,904**	**2,473**
Issuance			
Liabilities and other negotiable securities		27,500	14,000
Bank borrowings		15,241	30,157
Other payables		10,592	17,157
Repayment and redemption of			
Liabilities and other negotiable securities		(14,000)	-
Bank borrowings		(26,824)	(45,925)
Other payables		(4,605)	(12,916)
CASH FLOWS FROM FINANCING ACTIVITIES		**35,646**	**3,269**
NET INCREASE/(DECREASE) IN CASH OR CASH EQUIVALENTS		**28,149**	**11,289**
Cash and cash equivalents at beginning of the year	**14**	**30,560**	**19,271**
Cash and cash equivalents at year end	**14**	**58,709**	**30,560**

1. GROUP ACTIVITIES

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

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

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

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

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

As of December 31, 2021 and 2020, 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).

The offers for subscription, whose Information Document of Incorporation to the Market was approved by the BME Growth Board of Directors on June 8, 2021, was fully subscribed at a price of 3.94 euros per share and it was aimed at both qualified and non-qualified investors for a minimum amount of 100 thousand euro.

As a result of this transaction, 7,614,213 shares of the company were issued, which constituted 13% of the post-offering capital (i.e., once new securities had been issued).

The funds raised as a result of the offers are financing the Group's growth, including the identification of new business opportunities that suit its strategy. Likewise, they contribute towards the improvement of the Group's balance sheet stability and enhance its market positioning, in line with its mission to be an international benchmark in the electricity sector.

1.1 Effects of the COVID-19 pandemic on the Group's activity

The international pandemic, declared as such on March 11, 2020 by the World Health Organization (WHO), led to the unfolding of an unprecedented health crisis which impacted the macroeconomic environment and performance of businesses. Due to this, there have been disruptions in the supply chain, increases in raw materials and energy prices and a shrinkage of the supply of certain components. The pandemic has affected the economy in general as well as the Company's operations, the consequences of which are uncertain for the coming months and will largely depend on the direction the pandemic takes and how far it spreads.

In this context, in 2020, the activities of all the Arteche Group's productive plants were designated as essential suppliers for critical operators given their importance in guaranteeing the delivery of electric energy. This fact helped avoid shutdowns which were not planned for industrial operations (in spite of having suffered minor regulatory shutdowns in the countries in which the Group operates), focusing the attention of Management on guaranteeing the continuity of operational security for the business as a priority and monitoring the impacts on the Group's business and risk exposure (such as the impacts on results, capital and reserves or liquidity).

The governance system pertaining to this risk has been based on a continuous monitoring of the pandemic everywhere the Arteche Group operates by means of its own Contingency Plan, based on several action protocols with both a global and regional perspective, as well as through a weekly pandemic management monitoring led by the Board of Directors in its different areas (health, finance, strategy, business continuity, etc.).

Although COVID-19 was deemed a priority risk in the 2020 Arteche Group corporate risk map insofar as it represented a business continuity risk, in 2021, its impact on social and health care was no longer significant, while its impact on the supply chain and operations became more significant. As a result, we have lowered their relative importance in our risk matrix, proportionally increasing the risks associated with business continuity and cost increases.

In light of the risks identified and under the Contingency Plan, the Group has implemented various measures in different areas, which are described in detail in the 2021 Non-Financial Statement, an integral part of the Management Report:

- Business continuity and operations
- Workplace health and safety
- Work-life balance and flexibility
- Financial Risks
- Cybersecurity
- Purchases and supply chain

The pandemic has affected the economy in general as well as the Group's operations, the consequences of which are uncertain for the coming months and will largely depend on the direction the pandemic takes and how far it spreads.

At the end of 2021 and at the date these Consolidated Financial Statements were drafted, the Directors of Arteche Lantegi Elkartea, S.A. consider that business continuity is not at risk given the excellent solvency and liquidity position of the Group, based on the information available.

2. SUBSIDIARIES AND ASSOCIATES

2.1 Subsidiaries

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

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

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

2.2 Associates

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

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

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

2.3 Jointly-controlled companies

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

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

2.4 Changes in consolidation scope

The main movements in 2021 and 2020 are as follows: 2021:

Esitaş Elektrik Sanayi ve Ticaret A.Ş

On July 9, 2021 Arteche Instrument Transformers, S.L. acquired 50,000,000 shares of Esitaş Elektrik Sanayi ve Ticaret A.Ş, which constitute 100% of the share capital for an estimated amount of 17,351 thousand euro at acquisition date. At year-end, the amount paid for the July 2021 purchase amounted to 6,424 thousand euro, with an additional payment of 648 thousand euros having been made in February 2022 and two contingent payments pending. The final amount of said pending payments is subject to certain financial parameters of the acquired company's performance. The payment schedule and estimated amount thereof at December 31, 2021 are as follows:

(Thousand euro)	**Amount**
Year	
2022	3,595
2023	4,318
	7,913

During the identification process of the assets acquired and the liabilities assumed, an amount of 983 thousand euro has been allocated to intangible assets for the measurement of the acquired customer portfolio with the corresponding 216 thousand euro 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 a 536 thousand euro amount was recorded.

(Thousand euro)

12,010 thousand has been recorded under the “Goodwill” heading. As of the acquisition date (July 9, 2021), the net assets acquired at fair value and the goodwill generated from the acquisition of Esitaş Elektrik Sanayi ve Ticaret A.Ş were as follows:

Thousand euro	Esitaş Elektrik Sanayi ve Ticaret A.Ş
NON-CURRENT ASSETS	**1,663**
Intangible assets	1,002
Property, plant and equipment	661
CURRENT ASSETS	**7,280**
Inventory	2,564
Trade and other receivables	2,260
Short-term financial investments	37
Cash and cash equivalents	2,419
TOTAL ASSETS	**8,943**
Thousand euro	Esitaş Elektrik Sanayi ve Ticaret A.Ş
CURRENT LIABILITIES	**3,602**
Current provisions	20
Current creditors	1,373
Trade and other payables	1,993
Deferred tax liabilities	216
TOTAL LIABILITIES	**3,602**
EQUITY	**5,341**
ACQUISITION PRICE	**17,351**
RESULTING GOODWILL	**12,010**

The cash outflow resulting from the acquisition of Esitaş Elektrik Sanayi ve Ticaret A.Ş at December 31, 2021 was as follows:

	Thousand euro
Net cash acquired from the Subsidiary	(2,419)
Cash paid	6,424
	4,005

During the period from the acquisition date to December 31, 2021, the business acquired has yielded the Group a consolidated ordinary income and net income amount of a 10,099 thousand euro and 2,492 thousand euro (profit), respectively.

If the acquisition had occurred on January 1, 2021, the ordinary income and consolidated income contributed to the Group in the year ended December 31, 2021 would have amounted to 18.1 million euro and 3.3 million euro, respectively.

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 euro at acquisition date. At December 31, 2021 the amount paid for the August 2021 purchase amounted to 676 thousand euro, with an additional payment of 366 thousand euro having been made in February 2022 and two contingent payments pending. The final amount of said pending payments is subject to certain financial parameters of the acquired company's performance. The payment schedule and estimated amount thereof at December 31, 2021 are as follows:

(Thousand euro) Year	
2022	630
2023	272
	902

As a result of this transaction and of the identification process for the assets acquired and liabilities assumed, the Group has recorded 335 thousand euro under "Goodwill."

As of the acquisition date (August 6, 2021), the net assets acquired at fair value and the goodwill generated from the acquisition of PT Esitaş Pacific were as follows:

Thousand euro	PT Esitaş Pacific
NON-CURRENT ASSETS	**222**
Intangible assets	5
Property, plant and equipment	148
Deferred tax assets	69
CURRENT ASSET	**1,662**
Inventory	855
Trade and other receivables	283
Short-term financial investments	33
Cash and cash equivalents	491
TOTAL ASSETS	**1,884**

(Thousand euro)

Thousand euro	PT Esitaş Pacific
CURRENT LIABILITIES	**681**
Current provisions	112
Trade and other payables	569
EQUITY	**1,203**
ACQUISITION PRICE	**1,538**
RESULTING GOODWILL	**335**

The cash outflow resulting from the acquisition of Esitaş Elektrik Sanayi ve Ticaret A.Ş was as follows:

	Thousand euro
Net cash acquired from Subsidiary	(491)
Cash paid	676
	185

During the period from the acquisition date to December 31, 2021, the business acquired has yielded the Group a consolidated ordinary income and net income amount of a 910 thousand euro and 69 thousand euro (loss), respectively.

If the acquisition had occurred on January 1, 2021, the ordinary income and consolidated income contributed to the Group in the year ended December 31, 2021 would have amounted to 2.6 million euro and 0.3 million euro (loss), respectively.

Smart Digital Optics Pty. Ltd

Likewise, on December 21, 2021, the Arteche Group company Instrument Transformers, S.L., purchased 94,299 shares of the Smart Digital Optics Pty. Ltd. Company, in the amount of 3,500 thousand euro, thereby acquiring control of the company. Said shares represented 42.4% of the share capital of Smart Digital Optics Pty. Ltd. Up until that date, the Arteche Group held the remaining 57.6% of this company's capital, percentage for which it had paid 4,755 thousand euros, but did not have control over the company.

As a result of this transaction, the Group recorded 9,076 thousand euro 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 euro.

In addition, as a result of this transaction, the Group recorded at fair value the previous percentage interest it held by means of a 3,579 thousand euro income entry under the heading "Financial income from marketable securities and other financial instruments" in the consolidated income statement attached.

(Thousand euro)

The detail of the total net assets acquired at fair value and the goodwill generated by the purchase of Smart Digital Optics Pty. Ltd. as of the acquisition date (December 21, 2021) was as follows:

Thousand euro	Smart Digital Optics Pty. Ltd.
NON-CURRENT ASSETS	**26**
Intangible assets	11
Property, plant and equipment	15
CURRENT ASSETS	**1,121**
Inventory	300
Trade and other receivables	723
Cash and cash equivalents	98
TOTAL ASSETS	**1,147**

Thousand euro	Smart Digital Optics Pty. Ltd.
CURRENT LIABILITIES	**1,968**
Current provisions	124
Current payables to group companies and associates	1,768
Trade and other payables	76
EQUITY	**(821)**
FAIR VALUE OF CONSIDERATION (*)	**8,255**
RESULTING GOODWILL	**9,076**

(*) Including the amount paid in December 2021 and investments made in previous years.

The accounting for these business combinations has been determined on a provisional basis. If any adjustments on provisional appraisals become necessary due to new information on facts and circumstances in existence at the acquisition date being unveiled within a period not exceeding twelve months from said date, they shall be recorded retroactively.

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.

2020:

Once various internal restructuring operations had been finalized, the Turnkey Solution segment (Turnkey Systems) was disposed of on December 29, 2020, which included the operational branch of the previously spun off company STK Sistemas do Brasil, Ltda, Naire XXI, S.L., and Arteche México Turnkey Solutions, S.A. de C.V. to the company Lur Zabalondo, S.L. for an amount of 895 thousand euros. In addition, this transaction also involved the Arteche Group transferring the credit claims it held with the companies comprising the Turnkey Solutions segment to Lur Zabalondo, S.L. (a company entirely held by the parent of the Arteche Group at December 31, 2020) in the amount of 2,810 thousand euros. The aforementioned amounts have been paid in full by Lur Zabalondo, S.L. to the Arteche Group in 2021 (Note 27). The global result of this transaction was a loss of 2,534 thousand euros, recognized under "Profit (loss) from discontinued operations (net of taxes)" in the accompanying 2020 consolidated statement of profit or loss (Note 26). These receivables were collected in 2021.

2.5 Effect of considering Argentina a hyper-inflated country in 2021

As a result of the classification of Argentina as a hyper-inflated country since July, 2018, with a retroactive effect dating back to January 1 of that same year, the Group annually reviews its disclosure policies regarding the effects of the hyper-inflationary situation currently affecting the Argentine economy and its subsidiaries located there (AIT, S.A. and ZB Inversiones, S.A.).

Hyper-inflationary regulations entail:

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

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

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

- Converting the items on the financial statements of AIT, S.A. and ZB Inversiones, S.A. to the closing exchange rate, with the corresponding exchange rate as of December 31, 2021 being 116.59 pesos per euro (103.16 pesos per euro as of December 31, 2020).

The main effect on the 2021 and 2020 consolidated financial statements of the Arteche Group arising as a result of the above-mentioned matters are as follows (in thousands of euros):

ASSET	Notes	2021	2020
NON-CURRENT ASSETS		**712**	**1,011**
Property, plant and equipment	8	712	1,011
CURRENT ASSET		**14**	**63**
Inventory		14	63
TOTAL ASSETS		**726**	**1,074**

EQUITY AND LIABILITIES	Notes	2021	2020
EQUITY		**494**	**840**
SHAREHOLDERS' FUNDS		**494**	**840**
Reserves in consolidated companies	15.3	494	840
NON-CURRENT LIABILITIES		**232**	**234**
Deferred tax liabilities	22	232	234
TOTAL EQUITY AND LIABILITIES		**726**	**1,074**

The equity effects of hyperinflation are shown in the line "Reserves in consolidated companies." In 2021, the total impact on equity amounts to 494 thousand euros (840 thousand euros in 2020).

In addition, as a result of the derecognition of fixed assets of the AIT S.A. company in 2021, the hyperinflation adjustment for the year 2020 has decreased by 69 thousand euros, the effect of which has been recorded under "Reserves in consolidated companies" (39 thousand euro in the year 2020).

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

a. Fair presentation

The consolidated annual accounts for 2021 have been prepared on the basis of the accounting records of Arteche Lantegi Elkartea, S.A. and subsidiaries and include all adjustments and reclassifications required for consistency in terms of timing and measurement with the Group's accounting policies.

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

These consolidated annual accounts were prepared by the Board of Directors of Arteche Lantegi Elkartea, S.A. on March 28 2022, together with those relating to investee companies, and will be submitted for approval by the relevant shareholders. The directors believe that such approval will be obtained without any modification being made.

The 2020 consolidated annual accounts for the Group were approved by the shareholders at the Annual General Meeting of Arteche Lantegi Elkartea, S.A. held on April 29 2021, and were filed at the Vizcaya Mercantile Registry.

On January 30, 2021, Royal Decree 1/2021,of January 12, was published, amending the General Accounting Plan approved by Royal Decree 1514/2007, dated November 16. The changes to the Spanish General Accounting Plan are applicable to fiscal years beginning on or after January 1, 2021 and are intended to adapt recognition and measurement standards no. 9, "Financial instruments" and no. 14, "Revenues from sales and services rendered", to International Financial Reporting Standards (IFRS) 9 and 15, respectively, as follows:

- Financial instruments

With regard to financial instruments, the General Accounting Plan reform and its adaptation to IFRS 9 does not introduce all the requirements of the International Financial Reporting Standard and, essentially, implies changes in the classification and presentation of financial instruments and in hedge accounting.

The changes made have not had a significant effect on these consolidated financial statements, except for the modification regarding classification categories of financial assets and liabilities.

- Income recognition

On February 13, 2021, the Resolution of February 10, 2021, of the Institute of Accounting and Accounts Auditing was published, establishing the recognition, measurement and drafting standards for the annual accounts, for income recognition relating to the delivery of goods and rendering of services.

Thus, with regard to revenue recognition, the amendment to the General Accounting Plan involves the adaptation to the five-step model specified in IFRS 15, which came into force in 2018 within the international accounting framework of International Financial Reporting Standards and which entails applying significant judgments on performance obligations.

(Thousand euro)

The application of said Standard has not entailed any relevant changes to the consolidated financial statements.

b. Comparative information

In accordance with Spanish mercantile law, for comparative purposes, for each of the headings included in the consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of changes in equity, and the consolidated cash flow statement, in addition to the figures for 2021, those corresponding to the prior year are likewise presented. Quantitative information for the previous year is also included in the notes to the consolidated financial statements unless an accounting standard specifically states that this is not required.

c. Basis of consolidation

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

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

The companies that are immaterial to a true and fair view of the Group are not consolidated. All subsidiaries and associates were included in the 2020 and 2021 consolidated annual accounts, 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%
Basque Electrical Laboratories Alliance AIE (*)	33.33%

(*) In liquidation process as of December 31, 2021.

The assets and results 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. in 2020. On July 12, 2021 this company was liquidated.

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

d. Grouping of items

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

e. Key aspects of the measurement and estimation of uncertainty

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

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

Impairment of the value of non-current assets

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

Estimated impairment of goodwill

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

Deferred tax assets

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

Recognition of income based on stage of completion

The Group applies the stage of completion policy so as to recognize the income of the contracts of automation systems business that meet the requirements for such recognition. (Note 4.24). This requires a reliable estimate to be made for the revenue from each contract and for the total contract costs, as well as for the percentage of completion of each facility at the year-end, from both a technical and economic standpoint.

Provisions and contingent liabilities

The Group recognizes provisions for risks, in accordance with the accounting policy indicated in Note 4.20 of these notes to the annual accounts. 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.

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 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 Company has used discounted cash flow analysis for several financial assets available for sale that are not traded on active markets.

4. ACCOUNTING POLICIES

4.1 Subsidiaries

4.1.1. Acquisition of control

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

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

Expenses related to the issue of the equity instruments or financial liabilities delivered do not form part of the cost of the business combination and are recognized in accordance with the rules applicable to financial instruments (Note 4.13). 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. Acquisition in control stages

When control over a subsidiary is obtained through several transactions carried out on different dates, the goodwill (or the negative difference) is the result of the difference between the cost of the business combination, plus the fair value at the acquisition date of any prior investment made in the investee company, and the value of the identifiable assets acquired minus that of the liabilities assumed.

Any profit or loss arising as a result of the fair value measurement on the date on which the buyer obtains control over the shareholding is recognized in the income statement. If the investment had been previously stated at fair value, measurement adjustments that have yet to be taken to profit and loss for the year are transferred to the consolidated income statement.

4.1.3. Consolidation method

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

1. Consistency in terms of timing. The consolidation of the annual accounts takes place at the same date and for the same period as the annual accounts of the companies required to consolidate. Companies that have a different closing date are included using interim accounts prepared at the same date and for the same period as the consolidated accounts.

2. Consistency in terms of measurement. Assets and liabilities, income and expenses and other items of the Group companies' annual accounts are measured on a consistent basis. Those assets or liabilities, or those revenue or expense items that have been measured using criteria that are not consistent with respect to those applied to the consolidation have been re-measured and all necessary adjustments have been made solely for the purposes of consolidation.

3. Aggregation. The different headings in the individual annual accounts previously made uniform are aggregated according to their nature.

4. Elimination of investment-equity. The carrying amounts representing subsidiaries' equity instruments held directly or indirectly by the parent company are offset by the proportional part of the equity headings recorded by the subsidiary concerned that is attributable to the shares, generally based on the values resulting from the application of the aforementioned acquisition method. In consolidations subsequent to the year in which control is obtained, the excess or shortfall in equity generated by the subsidiary since the acquisition date that is attributable to the parent company is presented in the consolidated balance sheet under reserves or adjustments due to changes in value, based on their nature. The portion attributable to non-controlling shareholders is recorded under "Non-controlling interests."

5. Non-controlling interests. Non-controlling interests are measured on the basis of the effective interest held in the equity of the subsidiary following the above adjustments. Consolidation goodwill is not attributed to non-controlling interests. The excess between the losses attributable to non-controlling interests of a subsidiary and the equity that proportionally relates to them is attributed to them, even if this gives rise to a receivable under that heading.

6. Eliminations of intra-group items. Payables and receivables, income and expenses, and cash flows between Group companies are completely eliminated. All of the results deriving from internal transactions are also eliminated and deferred until the amounts are realized with respect to third parties outside the Group.

4.1.4. Change in shareholding without loss of control

Once control over a subsidiary has been obtained, any subsequent operations that result in a change in the parent company's shareholding in the subsidiary without it representing a loss of control are recognized in the consolidated annual accounts as an equity transaction and the following rules are applied:

a) Recognized goodwill or negative differences on consolidation are not modified and other recognized assets and liabilities are not changed.

b) The profit or loss that would have been recognized in the individual accounts is eliminated on consolidation by making the relevant adjustment against the reserves of the company whose shareholding is being reduced.

c) The amounts of the "adjustments for changes in value" and "grants, donations and bequests" are adjusted to reflect the shareholding in the subsidiary's capital that is maintained by Group companies.

d) The interest held by non-controlling shareholders in the subsidiary's equity is carried based on the interest that the outside third parties hold in the subsidiary once the transaction is completed, which includes the interest in the goodwill recognized in the consolidated annual accounts associated with the change that took place.

e) The necessary adjustment resulting from points a), c) and d) above is recognized in reserves.

4.1.5. Loss of control

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

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

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

c) The interest in the equity of the subsidiary that is retained after the loss of control and which does not fall within the scope of consolidation will be measured in accordance with the criteria applicable to the financial assets (Note 4.11), initially estimating its value as the fair value at the date the interest is excluded from consolidation.

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

4.2 Joint ventures and associates

4.2.1. Proportional consolidation method

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

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

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

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

- Payables and receivables, income and expenses, cash flows and profit or loss on transactions with jointly-controlled companies are eliminated in the proportion of the group companies' equity interest in the jointly-controlled company

- No item is recorded with respect to outside shareholders of the jointly-controlled companies.

4.2.2. Equity consolidation method

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

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

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

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

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

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

The higher value attributed to the shareholding as a result of the application of the acquisition method is reduced in subsequent years by charging consolidated results or the equity concerned, and to the extent that the relevant equity items are depreciated, eliminated or sold. Consolidated results are also charged when there are impairment losses affecting the investee company's equity items, up to the limit of the capital gain assigned to those items at the date of first consolidation using the equity method.

Changes in the value of the shareholding relating to the investee company's results for the year form part of consolidated results and are stated in the heading “Shareholdings in profit/(loss) of equity consolidated companies.” However, if the associate incurs losses, the reduction of the account representing the investment will have the limit of the carrying amount of the shareholding. If the shareholding is reduced to zero, the additional losses and the relevant liability are recognized to the extent that there are legal or contractual obligations, whether implicit or tacit, or if the Group has made payments on behalf of the investee company.

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

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

4.2.3. Change in shareholding

To determine the cost of an investment in a jointly-controlled company, the cost of each individual transaction is taken into account.

During any new acquisition of shares in the equity consolidated company, the additional investment and the new goodwill or negative difference on consolidation is calculated in the same manner as the first investment. However, if with respect to the same investee company both goodwill and a negative difference on consolidation arise, the latter is reduced up until the limit of the embedded goodwill.

If a reduction in the investment results in a decrease in the shareholding but no loss of significant influence, the new investment is measured at the amounts relating to the percentage interest maintained.

4.2.4. Loss of the status of associate or jointly-controlled company

Any interest in the equity of a company that is maintained after that company's loss of status as an associate or jointly-controlled company is measured in accordance with the accounting policies applicable to the financial instruments (Note 4.11), taking into consideration that their initial cost is the consolidated carrying amount on the date that they cease to be included within the scope of consolidation.

If the associate or jointly-controlled company becomes a subsidiary, Note 4.2.1 applies.

If an associate attains the status of jointly-controlled company (and the proportional consolidation method is applied) the equity items attributable to the previous interest are maintained and the proportional method is applied as indicated in Note 4.2.1.

If a jointly-controlled company (consolidated using the proportional method) becomes an associate, it is then called an associate, initially recognized using the equity method based on the consolidated assets and liabilities attributable to that shareholding, maintaining the equity items attributable to the retained shareholding in the balance sheet.

4.3 Intangible assets

4.3.1. Goodwill

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

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

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

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

4.3.2. Research and development

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

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

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

Other development expenses are recognized as an expense when they are incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs that have a finite useful life are amortized on a straight line basis over the estimated useful life of each project, up to a maximum of 5 years.

If an asset’s carrying amount is greater than its estimated recoverable amount, its carrying amount is written down immediately to its recoverable amount (Note 4.8).

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

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

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

4.3.3. Concessions

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

4.3.4 Licenses

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

4.3.5 Software

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

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

4.3.6 Other intangible assets

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

4.4 Property, plant and equipment

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

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

(Thousand euro)

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

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

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

	Years of useful life
Buildings	25 years
Machinery, plant, tooling and furnishings	5 - 20 years
Other property, plant and equipment	10 years

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

4.5 Real estate investments

Investment properties consist of office 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

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

4.7 Consolidation goodwill

Goodwill at the time of acquisition is initially valued at cost, which is the excess over the cost of the business combination represented by the fair value of the identifiable assets acquired, less liabilities assumed. On an exceptional basis, the goodwill existing at the date of transition to the General Accounting Plan approved by Royal Decree 1514/2007 is recognized at its carrying amount at 1 January 2008, i.e. at cost less accumulated amortization that was recognized at that date, in accordance with the aforementioned accounting standards.

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

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

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

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

4.8 Impairment of non-financial assets

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

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

4.9 Swaps

When property, plant and equipment, intangible assets or property investments are acquired through swaps of a commercial nature, they are measured at the fair value of the asset delivered plus any monetary compensation paid in exchange, unless there is clearer evidence regarding the asset received and any applicable limits.

A swap is of a commercial nature when the configuration of the cash flows relating to the asset received differs from the configuration of the cash flows relating to the asset delivered, or the current value of the cash flow after taxes relating to the activities affected by this swap is modified. Furthermore, any of the above differences must be significant with respect to the fair value of the exchanged assets.

If the swap is not of a commercial nature, or the fair value of the assets involved in the transaction cannot be determined, the asset received is measured at the carrying amount of the delivered asset plus any monetary compensation provided, up to the limit of the fair value of the received asset if said asset's value is less than the aforementioned amount and only if it is available.

4.10 Leases

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

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

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

Financial assets at fair value with changes in profit or loss

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

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

a) It is produced or acquired in order to sell it in the short term.

b) At the time of initial recognition, the asset is part of a portfolio of identified and jointly managed financial instruments for which there is evidence of recent actions aimed at short-term profit.

c) It is considered a derivative financial instrument, provided that it is not a financial guarantee contract and has not been designated as a hedging instrument.

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

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

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

Financial assets at amortized cost

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

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

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

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

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

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

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

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

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

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

Financial assets at cost

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

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

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

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

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

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

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

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

Financial assets at fair value with changes in equity

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

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

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

Subsequently, the financial assets included in this category are valued at fair value, without deducting any transaction costs that may be incurred in their sale. Changes in fair value are recorded directly in equity until the financial asset is derecognized or impaired, at which time the amount recognized as such is transferred to the income statement.

However, impairment adjustments and profits and losses resulting from exchange differences on monetary financial assets in foreign currency are recorded in the income statement, in accordance with the foreign currency standard.

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

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

4.12 Impairment of the value of financial assets

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

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

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

Impairment losses, as well as their reversal in the event the amount of such loss decreases due to a subsequent event, are recognized as an expense or income, respectively, in the income statement. An impairment reversal is limited to the asset's carrying amount as it would have been recognized at the date of reversal if no impairment had been recorded.

As a substitute for the present value of future cash flows, the Group uses the instrument market value, provided that it is sufficiently reliable to be considered it representative of the value that could be recovered by the company.

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

Equity instruments at fair value with changes in equity

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

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

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

Financial assets at cost

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

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

4.13 Financial liabilities

Classification and measurement

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

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

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

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

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

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

4.14 Financial derivatives and hedge accounting

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

a) Fair value hedge

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

The Group does not engage in fair value hedges.

b) Cash flow hedges

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

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

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

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

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

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

4.15 Inventory

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

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

- Maintains for sale during the ordinary course of its business.

- Is producing, constructing or developing with the purpose of selling, except with respect to the work in progress for which income is recognized based on the stage of completion, in accordance with the matters indicated in Note 4.24.

- Expects to consume said assets in the production process or in the provision of services.

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

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

4.16 Equity

Share capital consists of ordinary shares.

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

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

4.17 Cash and cash equivalents

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

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

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

4.18 Grants

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

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

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

4.19 Current and deferred taxes

The following group subsidiaries are taxed on a consolidated basis with the parent Arteche Lantegi Elkartea, S.A., new tax consolidation parent company since 2018: Electrotécnica Arteche Hermanos, S.L., Electrotécnica Arteche Smart Grid, S.L., Inversiones Zabalondo, S.L., Arteche Smart Grid, S.L.U., Arteche Instrument Transformers, S.L., Arteche Turnkey Solutions, S.A., Arteche Ventures, S.L., and Arteche Gas Insulated Transformers, S.L.U. The aforementioned tax group was assigned number 02918 BSC for administrative purposes.

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

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

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

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

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

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

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

4.20 Provisions and contingencies

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

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

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

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

4.21 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 4.27).

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).

4.22 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.”

4.23 Termination benefits

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

4.24 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 at December 31 have not yet been fully completed, given that they comply with the following requirements:

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

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

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

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

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

d) Interest income

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

e) Dividend income

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

4.25 Transactions in foreign currency

a) *Functional and presentation currency*

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

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

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

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

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

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

The historic exchange rate is:

- For equity items existing at the acquisition of the shares being consolidated: the exchange rate at the transaction date.

- In the case of revenues and expenses, including those recognized directly under equity: the exchange rate at the transaction date. If the exchange rates have not changed significantly, an average weighted rate for the annual period is used.

- Reserves generated after the transaction dates as a result of non-distributable results: the effective exchange rate resulting from translating the expenses and revenues that gave rise to those reserves.

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

4.26 Environmental assets

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

4.27 Related-party transactions

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

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

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

(Thousand euro)

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 at December 31, 2021 and 2020 is as follows:

	Thousand euro	
	2021	2020
Non-current financial investments (except equity instruments)	1,245	2,254
Trade and other receivables (except balances with public administrations)	39,628	37,466
Short-term financial investments	2,026	6,928
	42,899	46,648

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.

Within the framework of this risk minimization policy, at December 31, 2021, the Group has transferred the risks on receivables amounting to 28,767 thousand euro (13,612 thousand euro in 2020) to various financial institutions, which they have paid at the time of their assignment. However, in compliance with current accounting regulations, at December 31, 2021, the Group recorded an amount of 33 thousand euro (1,534 thousand euro at December 31, 2020) under Receivables, which had been assigned with recourse to financial institutions.

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 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.

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 variable interest rate financing is tied to Euribor for loans and credits in euro, to Libor dollars for credits in U.S. dollars and to the TIIE (Tasa de Interés Interbancaria de Equilibrio) for credits in Mexican pesos.

The Arteche Group hedges interest rate risk on cash flows mainly through interest rate derivatives. Under the interest rate call options, Arteche has the right, and the counterparty the obligation, to settle the difference between the variable interest rate and the stipulated rate in the event that it is positive. At December 31, 2021, the Group has taken out an interest rate "CAP" option for the syndicated loan (Note 21.2).

Interest rate swaps (IRS) have the economic effect of converting external resources with a variable interest rate cost into a fixed rate cost, thus avoiding the risk of fluctuations in variable interest rates. Under these instruments, the Arteche Group—together with other counterparties, all of accredited financial solvency—undertakes to exchange, at the agreed frequency, the difference between the fixed interest and the variable interest, calculated on the basis of the notional amounts contracted. As of December 31, 2021, the Group has not taken out any interest rate swaps.

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.

In January 2022, several derivative instruments were contracted to hedge the variation risk for the variable interest rate concerning (i) all of the two drawdowns made on the Parent Company's loan with the EIB, i.e. 15,000 thousand euro, and (ii) 50% of the outstanding nominal amount of the syndicated loan at the date the derivative was contracted, i.e. 12,189 thousand euro.

The structure employed was an IRS for the two drawdowns on the EIB, given that this loan's floor clause is not set at 0%, with average fixed swap rates of 0.4919% for an 8,000 thousand euro drawdown and 0.3769% for a 7,000 thousand euro drawdown. The option chosen for interest rate risk hedging in 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.

By taken out these derivatives, Arteche has hedged the interest rate risk of approximately half of its non-current, variable rate debt. If we also take into account the loans already contracted at a fixed rate, Arteche now has interest rate risk coverage for approximately 62% 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 analyses 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 2021 and 2020, 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 17.2 and 21.2.

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

Raw material price risk

Fluctuations in the variables that set raw material prices, represented by the variability of global commodity markets, can affect the cost of the production process and can have a greater or lesser impact on business profitability. The Group is exposed to variations in the prices of raw materials listed on regulated markets. In order to mitigate this risk, the Group's companies employ a strategy of geographical market and supplier diversification through constant monitoring of supply and demand and active management of optimum stock levels.

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 profit or loss" is not significant given the low importance of these investments in the context of the Group's total assets and the shareholders' equity.

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

The maximum exposure to equity instrument price risk at 31 December 2021 amounts to 323 thousand euro (391 thousand euro at December 31 2020).

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).

(Thousand euro)

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

	Million euro	
	2021	2020
Gross financial debt	**111.3**	**101.8**
Bank borrowings (including finance leases)	**53.7**	**65.2**
Syndicated loan	24.4	26.3
Other financial institutions	29.3	38.9
Other financial liabilities	**57.6**	**36.6**
Alternative Fixed-Income Market (MARF)	27.5	14.0
European Investment Bank (EIB)	15.0	15.0
Instituto de Crédito Oficial (ICO)	6.5	1.5
Cofides	6.6	3.0
Other (excluding free financing)	2.0	3.1
Liquid assets	**(60.4)**	**(35.4)**
Cash and cash equivalents	(58.7)	(30.6)
Other cash equivalents	(1.7)	(4.8)
Net financial debt	**50.9**	**66.4**
Unused lines of credit and discounting bills	40.0	44.0
Undrawn portion of syndicated loan	5.0	0.0
Undrawn portion of EIB and ICO	25.5	30.5
Undrawn MARF Commercial Paper programs	22.5	36.0
Availabilities	**93.0**	**110.5**

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

In addition, the following table details the working capital presented in the Group's consolidated balance sheet as of December 31, 2021 and 2020:

		Million euro	
	Notes	2021	2020
Current asset		**183.6**	**141.4**
Current operating asset		**122.2**	**103.0**
Inventory	12	61.8	49.9
Trade and other receivables	13	60.4	53.1
Current non-operating asset		**61.4**	**38.4**
Short-term financial investments		2.0	6.9
Short-term accruals		0.7	0.8
Cash and cash equivalents	14	58.7	30.7
Current liabilities		**(150.3)**	**(129.4)**
Current operating liability		**(93.8)**	**(84.5)**
Trade and other payables		(93.8)	(84.5)
Non-current operating liability		**(56.56)**	**(44.9)**
Current creditors	21	(55.2)	(42.2)
Current provisions	20	(1.3)	(2.7)
Working capital		**33.3**	**12.0**

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 2022.

d) Debt and solvency risk

At December 31, 2021, the Arteche Group recorded a consolidated net financial debt of 50.9 million euro, a 23.3% reduction when compared to the end of the previous year.

As a result, the financial solvency indicators at the end of 2021 reflect a debt equivalent to 1.95 times the EBITDA operating result for the last twelve months (compared to 2.22 times in 2020), 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 2021, these commitments have been fulfilled. Management monitors changes in debt based on several indicators:

- Net Financial Debt / EBITDA: 1.95x
- Net Financial Debt / Equity - Shareholders' Funds: 55.6%
- EBITDA / financial expenses: 6.5x

In addition, the "Liquidity risk" section and Note 21 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 21 million and 19 million euro, respectively (13 million and 31 million euro at the end of 2020, 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.

(Thousand euro)

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 2021 and 2020 are as follows:

	Thousand euro						
	31.12.19	Movements	31.12.20	Changes in the Scope (Note 2.4)	Amortization	Exchange differences	31.12.21
Arteche North América, S.A. de C.V.	582	(96)	486	-	(98)	21	409
Arteche EDC Equipamientos e Sistemas, S.A.	214	(35)	179	-	(36)	1	144
Arteche DYH Electric Co., Ltd.	210	(36)	174	-	(36)	17	155
SAC Maker, S.A.U.	9,230	(1,847)	7,383	-	(1,847)	-	5,536
Arteche Chile, S.p.A.	117	(18)	99	-	(18)	(12)	69
Smart Digital Optics Pty, Limited	2,529	(422)	2,107	7,376	(425)	18	9,076
Esitaş Elektrik Sanayi ve Ticaret Anonim Sirketi	-	-	-	12,010	(401)	(3,040)	8,569
PT Esitaş Pacific	-	-	-	335	(9)	13	339
	12,882	**(2,454)**	**10,428**	**19,721**	**(2,870)**	**(2,982)**	**24,297**

As indicated in Note 4.7, the Group assesses the impairment of its goodwill on an annual basis. In this regard, for the purposes of the impairment test, the CGUs (cash generating units) identified by the Group correspond to each of the production subsidiaries and are directly equivalent to the Group's factories mentioned in the table above, except for SAC Maker, S.A.U., which includes the network automation and electrical 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.

In the case of goodwill arising from business combinations carried out in 2021 (Note 2.4), the transaction’s fair value has been considered for impairment tests, given that they constitute recent transactions among independent parties.

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.

In the case of the goodwill allocated to the SAC Group, a discount rate of between 9.08% and 10.21% (between 9.08% and 10.21% at December 31, 2020) and a flow growth rate beyond the 5-year period of between 2.25% and 3%, depending on the geographic areas targeted by the sales transactions (2.54% in 2020), have been considered.

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. Likewise, based on the sensitivity analyses performed by Management on the key variables, variations in the estimates used do not have a significant impact on the recoverability of such goodwill.

6.1 Description of the main movements

The 2021 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.

(Thousand euro)

7. OTHER INTANGIBLE ASSETS

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

2021	Opening balance	Additions and allocations	Deactivation	Exchange of differences	Hyper-inflation effect (Note 2.5)	Incorporations to the scope (Note 2.4)	Opening Balance
Cost							
Development	82,711	5,214	(4)	564	107	-	88,592
Concessions	646	-	-	(25)	-	-	621
Licenses	1,251	7	-	(132)	-	426	1,552
Software	11,395	786	-	11	35	-	12,227
Other intangible assets	8,002	-	-	(339)	-	983	8,646
	104,005	6,007	(4)	79	142	1,409	111,638
Accumulated amortization							
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 (Note 26)	(518)	-	-	-	-	-	(518)
Net carrying amount	**22,487**						**24,566**

(Thousand euro)

2020	Opening balance	Additions and allocations	Deactivation	Exchange differences	Opening Balance
	Thousand euro				
Cost					
Development	78,810	4,670	(89)	(680)	82,711
Concessions	554	-	-	92	646
Licenses	1,285	-	-	(34)	1,251
Software	11,104	563	-	(272)	11,395
Other intangible assets	7,982	-	-	20	8,002
	99,735	5,233	(89)	(874)	104,005
Accumulated amortization					
Development	(61,746)	(4,042)	-	230	(65,558)
Concessions	(139)	(166)	-	-	(305)
Licenses	(492)	(5)	-	20	(477)
Software	(9,921)	(417)	-	235	(10,103)
Other intangible assets	(4,324)	(233)	-	-	(4,557)
	(76,622)	(4,863)	-	485	(81,000)
Impairment	(518)	-	-	-	(518)
Net carrying amount	**22,595**				**22,487**

7.1 Description of the main movements

Of the total amount of development expenses incurred in 2021, the Group capitalized a 5,143 thousand euro amount (4,605 thousand euro in 2020), the rest was direct additions. That amount was materialized in several technology development projects that represent improvements to the product range manufactured by the Group, from which it expects to obtain future profits and positive results.

Development projects that had not been completed by year-end represented a 1,285 thousand euro amount as of December 31, 2021 and, therefore, have not yet started to be amortized (4,335 thousand euro in 2020).

(Thousand euro)

7.2 Intangible assets located abroad

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

	Thousand euro		
	Cost	Accumulated amortization	Net carrying amount
2021			
Development	6,652	(4,979)	1,673
Concessions	621	(288)	333
Patents, licenses and trademarks	401	(379)	22
Computer software	1,862	(1,652)	210
Other intangible assets	668	(28)	640
	10,204	**(7,326)**	**2,878**
2020			
Development	5,767	(3,907)	1,860
Concessions	543	(137)	406
Patents, licenses and trademarks	129	(129)	-
Computer software	1,379	(1,151)	228
	7,818	**(5,324)**	**2,494**

7.3 Fully-amortized intangible assets

At December 31, 2021 there are intangible assets, still in use, and fully amortized with an accounting cost of 77,871 thousand euro (70,667 thousand euro at December 31, 2020). This amount corresponds mainly to development projects.

7.4 Insurance

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

(Thousand euro)

8. PROPERTY, PLANT AND EQUIPMENT

Details and movements in the various items that make up property, plant and equipment in the consolidated balance sheet for 2021 and 2020 are as follows:

	Thousand euro							
	Opening balance	Hyper-inflation effect (Note 2.5)	Additions and allocations	Changes in the scope of consolidation (Note 2.4)	Deactivation	Transfers	Exchange differences	Closing balance
2021								
Cost								
Land and buildings	11,224	664	1,719	-	(7)	190	500	14,290
Plant and other PPE	79,418	2,337	2,651	2,173	(644)	1,518	133	87,586
In-progress tangible assets and prepayments	3,164	-	1,777	-	-	(1,708)	462	3,694
	93,806	3,001	6,147	2,173	(651)	-	1,095	105,570
Accumulated amortization Buildings	(5,474)	(181)	(397)	-	4	-	(370)	(6,418)
Technical facilities and other property, plant 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	**23,421**							**28744**

(Thousand euro)

	Thousand euro							
	Opening balance	Hyper-inflation effect (Note 2.5)	Additions and allocations	Changes in the scope of consolidation	Deactivation	Transfers	Other movements and Exchange differences	Opening Balance
2020								
Cost								
Land and buildings	10,367	1,133	226	-	-	21	(523)	11,224
Plant and other PPE	75,414	1,435	3,561	(208)	(139)	3,295	(3,940)	79,418
In-progress tangible assets and prepayments	4,006	-	2,654	-	-	(3,316)	(180)	3,164
	89,787	2,568	6,441	(208)	(139)	-	(4,643)	93,806
Accumulated amortization								
Buildings	(5,112)	(270)	(385)	-	-	-	293	(5,474)
Plant and other PPE	(63,720)	(1,287)	(3,145)	114	110	-	3,017	(64,911)
	(68,832)	(1,557)	(3,530)	114	110	-	3,310	(70,385)
Net carrying amount	**20,955**							**23,421**

(Thousand euro)

The land value amounts to 1,017 thousand euro at December 31, 2021 (251 thousand euro at December 31, 2020).

8.1 Description of the main movements

Additions in 2021 and 2020 were mainly a result of the acquisition of plant and machinery in connection with the replacement and improvement of production processes.

8.2 Fully depreciated assets

At December 31, 2021, the company recorded buildings with an original cost of 1,100 thousand euro (1,085 thousand euro at December 31, 2020) that are fully depreciated and still in use. The cost of other fully depreciated property, plant and equipment in use amounts to 48,351 thousand euro (41,988 thousand euro at December 31, 2020).

8.3 Property, plant and equipment pledged to guarantees

As of December 31, 2021 and 2020 there are no items of property, plant and equipment subject to guarantees.

8.4 Assets under finance leases

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

	Thousand euro		
	Cost	Accumulated amortization	Net carrying amount
2021			
Plant and machinery	1,249	(356)	893
Data-processing equipment	322	(178)	144
	1,571	**(534)**	**1,037**
2020			
Plant and machinery	1,150	(160)	990
Data-processing equipment	304	(143)	161
	1,454	**(303)**	**1,151**

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.

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.

(Thousand euro)

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

The expenses relating to those agreements amounted to 3,992 thousand euro (4,080 thousand euro in 2020) (Note 23.5).

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

	Thousand euro	
	2021	2020
Up to one year	3,743	3,613
Between one and five years	12,091	12,562
More than five years	17,631	20,148
	33,465	36,323

8.6 Property, plant and equipment located abroad

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

	Thousand euro		
	Cost	Accumulated amortization	Net carrying amount
2021			
Land and buildings	13,037	(5,302)	7,735
Technical facilities and other property, plant and equipment	35,155	(24,781)	10,374
In-progress tangible assets and prepayments	1,861	-	1,861
	50,053	(30,083)	19,970
2020			
Land and buildings	8,062	(4,034)	4,028
Technical facilities and other property, plant and equipment	28,195	(19,753)	8,442
In-progress tangible assets and prepayments	1,960	-	1,960
	38,217	(23,787)	14,430

8.7 Purchase commitments

At December 31, 2021, the Group recognizes commitments to make investments in plant and other assets totaling 1,229 thousand euro (614 thousand euro at December 31, 2020).

(Thousand euro)

8.8 Insurance

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

9. REAL ESTATE INVESTMENTS

The breakdown and movements in the various items making up investment properties are as follows:

	Thousand euro				
	Opening balance	**Activation and allocations**	**Losses and reversal of value adjustments for impairment**	**Exchange of differences**	**Opening Balance**
2021					
Cost					
Land	142	-	-	7	149
Net carrying amount	**142**	**-**	**-**	**7**	**149**
2020					
Cost					
Land	163	-	-	(21)	142
Net carrying amount	**163**	**-**	**-**	**(21)**	**142**

At December 31, 2021 and 2020, all investment properties are located abroad.

10. SHAREHOLDINGS CONSOLIDATED USING THE EQUITY METHOD

Associates are considered to be those in which an interest exceeding 20% is held without control or, if the interest is below that, there is influence or even control by related companies but they are considered negligible. In accordance with the accounting policies in force, these shareholders are consolidated using the equity method.

The information regarding the business and domicile of those investee companies is included in the Appendix to these notes to the consolidated annual accounts.

(Thousand euro)

Movements recognized in the account “Equity consolidated shareholdings” in the consolidated balance sheet are as follows:

	Thousand euro				
	Opening Balance	Partner contributions	Profit for the year recognized to the parent company (Note 15.5)	Transfers (Note 20)	Opening Balance
2021					
Elmya Arteche Limited	-	910	-	(910)	-
Zizkua Inversiones, S.L.	307	-	-	-	307
	307	**910**	**-**	**(910)**	**307**
2020					
Elmya Arteche Limited (Note 2.4)	-	-	(500)	500	-
Zizkua Inversiones, S.L.	323	-	-	(16)	307
	323	**-**	**(500)**	**484**	**307**

The percentage interest capital and the amounts of capital, reserves, results and equity relating to these companies at 31 December are as follows:

			Thousand euro			
	% ownership	Issued capital	Reserves and other equity items	Profit/(loss) year	Exchange for the differences	Total equity
2021						
Elmya Arteche Limited	49.9%	1,825	(1,908)	(88)	184	12
Zizkua Inversiones, S.L.	15%	2,110	(62)	-		2,048
2020						
Elmya Arteche Limited	49.99%	37	(908)	(862)		(1,733)
Zizkua Inversiones, S.L.	15%	2,110	(62)	-		2,048

The company Elmya Arteche Limited, accounted for by the equity method, includes in the results for 2021 and 2020 the amounts corresponding to activities and/or acts or actions carried out by the Company prior to the entry of the external partner, regardless of the percentage of ownership in the share capital, as established in the purchase and sale agreements of said company. During the year 2020, the Group has discontinued the activity of this company, and its result for 2020 is recorded under the heading "Result from discontinued operations (net of taxes)" in the accompanying consolidated income statement. The aforementioned heading also includes the provision recorded in 2020 to cover future fiscal year losses.

(Thousand euro)

The primary asset of the subsidiary Zizkua Inversiones, S.L. Consists of its shareholding in MAM Objects, S.L.

11. FINANCIAL ASSETS

Financial assets at December 31 is are analyzed below:

	Thousand euro					
	Equity instruments		Debt securities and others (Note 13)		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Non-current financial assets						
Financial assets at fair value with changes in equity	323	391	-	-	323	391
Financial assets at amortized cost (Note 13)	-	-	1,245	2,254	1,245	2,254
Derivatives (Note 21.2)	-	-	15	-	15	-
	323	391	1,260	2,254	1,583	2,645
Current financial assets						
Financial assets at amortized cost (Note 13)	-	-	41,371	43,372	41,371	43,372
Derivatives (Note 21.2)	-	-	268	1,022	268	1,022
	-	-	41,639	44,394	41,639	44,394
	323	**391**	**42,899**	**46,648**	**43,222**	**47,039**

Financial assets at fair value with changes in equity

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

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.

(Thousand euro)

12. INVENTORY

The composition of this consolidated balance sheet heading at December 31, 2021 and 2020 is as follows:

	Thousand euro	
	2021	2020
Goods for resale	228	75
Raw and sundry materials	25,358	18,852
Work in progress	18,228	12,659
Finished products	17,040	16,528
By-products, residues and materials recovered	278	286
Prepayments to suppliers	654	1,576
	61,786	**49,976**

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

Movements in impairment adjustments are as follows:

	Thousand euro	
	2021	2020
Opening balance	2,893	2,273
Measurement adjustments during the year	636	1,221
Reversal	(112)	(217)
Exchange differences	66	(384)
Closing balance	**3,483**	**2,893**

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

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

At December 31, 2021, there are firm commitments to acquire raw materials totaling 18,955 thousand euro (18,551 thousand euro at 2020 year-end). Firm commitments to sell finished products and firm order portfolio at December 31, 2021 totaling 115,783 thousand euro (108,222 thousand euro at 2020 year-end).

(Thousand euro)

13. FINANCIAL ASSETS AT AMORTIZED COST

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

	Thousand euro	
	2021	**2020**
Non-current financial assets		
Loans to third parties	320	1,478
Other financial assets	925	776
	1,245	**2,254**
Current financial assets		
Trade and other receivables (except public entities)	39,628	37,466
Loans to companies	49	3,535
Other financial assets	1,694	2,371
	41,371	**43,372**

Other long-term financial assets

As of December 31, 2021, non-current items record 71 thousand euro (109 thousand euro in 2020) in court deposits made by the subsidiary Arteche EDC Equipamientos e Sistemas, S.A. with respect to certain contingencies and court claims that are in progress (Note 20).

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.

Other short-term financial assets

At December 31 2021 and 2020, the amount recognized in this asset category and included under “Other short-term financial assets” relates to euro denominated term deposits totaling 1,694 thousand euro (2,371 thousand euro at December 31 2020) that have been pledged to secure certain obligations with the financial institutions where the deposits have been made. The interest rates accrued in 2021 has been 0% (0% in 2020).

Loans to third parties

At December 31, 2021, the total long-term amount of 53 thousand euro (303 thousand euro at December 31, 2020) relates to the deferred receivable on the sale of the shareholding that the parent company held in Brawin, S.A.

(Thousand euro)

Trade and other receivables

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

	Thousand euro	
	2021	2020
Trade receivables for sales and services rendered	38,636	36,428
Sundry receivables	938	993
Personnel	54	45
	39,628	**37,466**

In addition, the "Trade receivables for sales and services" account is presented net of impairment adjustments. The movements in these adjustments in 2021 and 2020 are as follows:

	Thousand euro	
	2021	2020
Opening balance	7,171	8,802
Provision / Reversal for impairment of trade receivables	445	697
Cleared items	(3,073)	-
Consolidations /Deconsolidations	525	(1,300)
Exchange differences (	61)	(1,028)
Closing balance	**5,007**	**7,171**

Impairment adjustments to trade receivables are recognized and reversed in “Losses, impairment and changes in provisions for commercial transactions” in the income statement.

The other accounts included in this heading are not impaired.

14. CASH AND CASH EQUIVALENTS

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

	Thousand euro	
	2021	2020
Cash	62	59
Demand current accounts	58,372	29,576
Bank deposits	275	925
	58,709	**30,560**

Current accounts accrue the market interest rate for this type of account. The balance denominated in foreign currency totals 23,506 thousand euro (22,586 thousand euro at December 31, 2020).

Bank deposits maintained in 2021 and 2020 essentially relate to interbank deposits with daily liquidity. The interest rate was 0%.

There are no restrictions on the availability of cash balances.

15. SHAREHOLDERS' FUNDS

15.1 Issued capital

The share capital of the group's parent company consists of 491,020 fully subscribed and paid registered shares with a par value of 10 euro each at 31 December 2019.

On May 12, 2020, the agreements reached at the General Shareholders' Meeting of the Company held on April 27, 2020 were ratified by public deed. Said agreements approved a capital increase of 38 thousand euros with a charge to voluntary reserves via the issuing of 3,778 shares at a nominal value of 10 euros each.

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 euro, corresponding to 761 thousand euro of share capital and 29,238 thousand euro of share premium, via the issuing of 7,614,213 new Company shares at a nominal value of 0.10 euro 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 euro each at 31 December 2021.

(Thousand euro)

As of December 31, 2021 and 2020, the shareholders which held over 5% of the capital stock were as follows:

	31.12.2021	31.12.2020
Ziskua Ber, S.L.	52.38%	61.64%
ECN Cable Group	21.21%	28.11%
Basque Fondo de Capital Riesgo	6.4%	7.30%
Onchena, S.L.	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.

15.2 Share premium

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

15.3 Reserves and prior year results

Details of and movements in the account Reserves and prior year results are as follows:

	Thousand euro				
	Opening balance	Distribution of the profit/(loss) for the year	Capital increases	Transfers	Opening Balance
2021					
Legal reserve	982	8	-	-	990
Other reserves and prior year results	80,907	1,021	(2,577)	10,158	89,509
	81,889	**1,029**	**(2,577)**	**10,158**	**90,499**
2020					
Legal reserve	701	281	-	-	982
Other reserves and prior year results	67,151	(3,057)	(38)	16,851	80,907
	67,852	**(2,776)**	**(38)**	**16,851**	**81,889**

(Thousand euro)

By the end of 2021 and 2020, the breakdown of Reserves and Prior year results is as follows:

	Thousand euro	
	2021	2020
Legal reserve	990	982
Voluntary reserves	89,509	80,907
Total Parent Company reserves	**90,499**	**81,889**
Reserves in fully consolidated companies	(53,700)	(47,179)
Reserves in proportionally consolidated companies	(8,092)	(5,240)
Reserves in equity consolidated companies	(1,193)	(699)
Total reserves in consolidated companies	**(62,985)**	**(53,118)**
Total reserves	**27,514**	**28,771**

Legal reserve

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, 2021, the Parent Company does not present any development costs among its assets (the same situation as at the end of 2020). 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 2021, the Parent Company has recorded under this heading the incremental expenses incurred for the listing of all the shares representing the Company's capital stock in the BME Growth segment of BME MTF Equity for a 2,577 thousand euro amount.

15.4 Treasury stock and equity interests

On April 23, 2021, the Company acquired 1,346 treasury shares at 267.26 euro each, for a total payment of 360 thousand euro. 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, amounting to 15 thousand euro, has been recorded under "Voluntary reserves" (Note 15.3).

(Thousand euro)

15.5 Profit/(loss) for the year attributed to the Parent Company

The contribution of the companies to results for the year attributed to the parent company, after taking into consideration the relevant consolidation adjustments, is as follows:

	Thousand euro	
	2021	**2020**
Profit of the Parent Company (considering consolidation adjustments)	(3,629)	(4,568)
Profit/(Loss) of subsidiaries: Electrotécnica Arteche Hermanos, S.L.	2,057	1,829
Electrotécnica Arteche Smart Grid, S.L.U.	4,233	3,153
Inversiones Zabalondo, S.L.	428	349
Arteche Instrument Transformers, S.L.	210	(18)
Arteche Smart Grid, S.L.U.	(458)	(435)
Arteche Turnkey Solutions, S.A.	(49)	1,785
Arteche Centro de Tecnología, A.I.E.	(50)	86
Arteche North America, S.A. de C.V.	822	2,356
AIT, S.A.	562	374
Arteche EDC Equipamientos e Sistemas, S.A.	(339)	50
Arteche Medición y Tecnología, S.A. de C.V. (***)	-	(741)
Arteche USA, LLC.	534	604
Arteche ACP do Brasil, Ltda. (formerly, STK Sistemas do Brasil, Ltda. (spun-off, Note 2.4))	(1,215)	175
Arteche DYH Electric Co., Ltd.	394	2,059
Arteche GAS Insulated Transformers, S.L.U.	(442)	(481)
Arteche Chile, S.p.A.	(477)	(138)
SAC Maker, S.A.U.	931	(905)
Arteche ACP, S.A. de C.V.	(56)	(207)
Arteche México Turnkey Solutions, S.A. de C.V. (using proportional consolidation) (*)	-	(2,963)
ZB Inversiones, S.A.	159	272
Smart Digital Optics Pty., Ltd	3,216	(379)
Elmya Arteche Ltd (using the equity method)	-	(500)
Naire XXI, S.L. (using proportional consolidation) (*)	-	111
Zizkua Inversiones, S.L. (Using the equity method)	-	6
Esitaş Elektrik Sanayi ve Ticaret Anonim Sirketi (**)	2,057	-
PT Esitaş Pacific (**)	(79)	-
Arteche Andina, S.A.S.	(87)	-
Arteche Inael Brasil	(5)	-
	8,717	1,874
Profit/(loss) attributable to non-controlling interest (Note 19)	(174)	(845)
Income for the year attributed to the Parent Company	**8,543**	**1,029**

(*) Company disposed of in 2020 (Note 2.4)
(**) Company acquired in 2021 (Note 2.4)
(***) Company liquidated in 2020 (Note 2.4)

(Thousand euro)

16. PROFIT/(LOSS) FOR THE YEAR

The distribution of the net profit/(loss) for 2021 that the Board of Directors of the parent company will propose for approval by the shareholders at the Annual General Meeting is as follows:

	Thousand euro	
	2021	**2020**
Distribution basis		
Balance in the profit and loss accounts	5,378	4,143
	5,378	**4,143**
Distribution		
To voluntary reserves	2,663	4,135
To legal reserve	152	8
Final dividend	2,563	-
	5,378	**4,143**

By virtue of the syndicated loan contract (Note 21.1) there is a limit to the distribution of dividends to shareholders, corresponding to 25%, 30% or 50% of the net consolidated profit, depending on the level of compliance with the Net Financial Debt / EBITDA ratio.

17. MEASUREMENT ADJUSTMENTS

17.1 Exchange differences of consolidated companies

The movements recorded in the 2021 and 2020 "Exchange differences of consolidated companies" account relate mainly to the translation of amounts at year-end.

The balance at the year-end in this account based on the generating companies is as follows:

	Thousand euro	
	2021	**2020**
Arteche North America, S.A. de C.V.	(10,076)	(10,956)
AIT, S.A.	(9,967)	(9,662)
Arteche EDC Equipamientos e Sistemas, S.A.	(5,665)	(5,683)
Arteche ACP do Brasil, Ltda. (formerly, STK Sistemas do Brasil, Ltda. (spun-off, Note 2.4))	(9,126)	(9,140)
Arteche DYH Electric Co., Ltd.	2,420	1,300
Arteche Chile, S.p.A.	366	238
Arteche Inael Industrial Elétrica Ltda	92	94
Arteche USA, LLC.	(195)	(339)
Arteche ACP, S.A. de C.V.	(46)	(106)
ZB Inversiones, S.A.	(2,232)	(2,077)
Smart Digital Optics Pty. Ltd.	(636)	(334)
Esitaş Elektrik Sanayi ve Ticaret Anonim Sirketi (*)	(5,491)	-
PT Esitaş Pacific (*)	69	-
	(40,487)	**(36,665)**

(*) Companies acquired in 2021 (Note 2.4)

(Thousand euro)

17.2 Hedging transactions

The breakdown and movements in hedging transactions are as follows:

	Thousand euro		
	Opening balance	Variation In value	Opening Balance
2021			
Cash flow hedges	602	(717)	(115)
Tax effect	(165)	169	4
	437	**(548)**	**(111)**
2020			
Cash flow hedges	248	354	602
Tax effect	(57)	(108)	(165)
	191	**246**	**437**

The information regarding the derivative financial instruments relating to these hedge transactions are included in Note 21.2.

18. GRANTS, DONATIONS AND BEQUESTS RECEIVED

Movements under the heading "Grants, donations and bequests received" in equity in 2021 and 2020 were as follows:

	Thousand euro				
	Opening balance	Additions	Transfers to the income statement	Other	Closing balance
2021					
Non-repayable grants	1,033	695	(280)	786	2,234
Repayable advance payments (embedded grant)	1,000	-	(34)	(786)	180
	2,033	695	(314)	-	2,414
Tax effect	(492)	(168)	75	-	(585)
	1,541	**527**	**(239)**	**-**	**1,829**
2020					
Non-repayable grants	1,071	222	-	(260)	1,033
Repayable advance payments (embedded grant)	504	574	-	(78)	1,000
	1,575	796	-	(338)	2,033
Tax effect	(380)	(192)	-	80	(492)
	1,195	**604**	**-**	**(258)**	**1,541**

(Thousand euro)

The amount recorded in the account “Non-repayable grants” essentially relates to grants provided by the Basque Government and State Agencies to be used to finance development projects.

The embedded grants refer to repayable interest-free prepayments and the loans accruing less than market rate interest received from official institutions.

19. NON-CONTROLLING INTERESTS

Movements under this heading during 2021 and 2020 are as follows:

	Thousand euro	
	2021	**2020**
January 1	5,056	4,237
Profit/(loss) for the year (Note 15.5)	174	845
Exchange differences	492	(93)
Hedging transactions	(5)	31
Other	(5)	36
December 31	**5,712**	**5,056**

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

	Thousand euro						
	Share capital	**Prior year losses**	**Profit/(loss) for the year**	**Hedging operations**	**Other items**	**Exchange differences**	**Total**
2021							
Arteche DYH Electric Co., Ltd.	4,754	(834)	161	14	(31)	1,365	5,429
Arteche Inael, S.L.	786	(67)	-	-	-	-	719
Arteche Inael Industrial Eléctrica, Ltda.	-	(535)	(2)	-	-	73	(464)
ZB Inversiones, S.A.	4	88	5	-	-	(69)	28
	5,544	**(1,348)**	**174**	**14**	**(31)**	**1,369**	**5,712**
2020							
Arteche DYH Electric Co., Ltd.	4,754	(1,669)	838	19	(31)	867	4,778
Arteche Inael, S.L.	786	(66)	-	-	-	-	720
Arteche Inael Industrial Eléctrica, Ltda.	-	(534)	(2)	-	-	74	(462)
ZB Inversiones, S.A.	15	60	9	-	-	(64)	20
	5,555	**(2,209)**	**845**	**19**	**(31)**	**877**	**5,056**

(Thousand euro)

20. PROVISIONS AND CONTINGENCIES

Details of non-current and current provisions at December 31, 2021 and 2020 are as follows:

	Thousand euro		
	Non-current	**Current**	**Total**
2021			
Social security obligations	1,004	225	1,229
Provision for contingencies and other risks	934	1,144	2,078
	1,938	**1,369**	**3,307**
2020			
Social security obligations	1,000	62	1,062
Provision for contingencies and other risks	1,966	2,673	4,639
	2,966	**2,735**	**5,701**

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

	Thousand euro					
	Opening Balance	**Appropriations**	**Applications and payment**	**Transfers**	**Exchange difference**	**Opening balance**
2021						
Social security obligations	1,000	4	-	-	-	1,004
Provision for contingencies and other risks	1,966	278	(1,201)	-	(109)	934
	2,966	**282**	**(1,201)**	**-**	**(109)**	**1,938**
2020						
Social security obligations	644	147	-	-	209	1,000
Provision for contingencies and other risks	1,657	765	-	-	(456)	1,966
	2,301	**912**	**-**	**-**	**(247)**	**2,966**

Social security obligations

This account records the estimated amount payable to the personnel that worked at the subsidiary Electrotécnica Arteche Hermanos, S.A. prior to 2002 and with whom certain commitments existed. This provision was contributed in 2011 to these subsidiaries that benefited from its spin-off: Electrotécnica Arteche Hermanos, S.L., Electrotécnica Arteche Smart Grid, S.L.U., Electrotécnica Arteche Power Quality, S.L. and Inversiones Zabalondo, S.L. In addition, a financial measurement of certain length of service awards is included in accordance with the stipulations of certain collective wage agreements and the employment legislation in force in some countries. Allocations and payments made during the year essentially refer to agreed early retirements paid during the year. The current portion is recorded in the account “Wages and salaries pending payment”.

(Thousand euro)

Provision for contingencies and other risks

Firstly, the provision for contingencies and other risks makes reference to the in 71 thousand euro (209 thousand euro at December 31, 2020) provision for employment contingencies in the Brazilian subsidiary Arteche EDC Equipamientos e Sistemas, S.A..

Secondly, it includes provisions set aside to hedge other risks in the AIT, S.A. subsidiary in relation to the Electroingeniería ICSSA-AIT joint venture (UTE) and Elmya Arteche Limited, amounting to 279 thousand euro (732 thousand euro at 31 December 2020) and 17 thousand euro, respectively (937 thousand euro at 31 December 2020). Any variations in these provisions from one year to the next are due to exchange differences and payments made towards hedging Elmya Arteche Limited's equity position.

Contingencies

At the end of 2021 and 2020, the Group did not have any employment or tax claims and therefore no provision was recognized.

21. FINANCIAL LIABILITIES

Details of non-current and current financial liabilities as of December 31, 2021 and 2020 are as follows:

	Thousand euro					
	Bank borrowings		Derivatives and Other		Total	
	2021	2020	2021	2020	2021	2020
Non-current financial liabilities						
Financial liabilities at amortized cost	38,029	41,258	32,516	23,714	70,545	64,972
Hedging derivatives	-	-	1,046	-	1,046	-
	38,029	41,258	33,562	23,714	71,591	64,972
Current financial liabilities						
Financial liabilities at amortized cost	15,755	23,982	121,167	93,371	136,922	117,353
Hedging derivatives	-	-	1,377	131	1,377	131
	15,755	23,982	122,544	93,502	138,299	117,484
	53,784	65,240	156,106	117,216	209,890	182,456

(Thousand euro)

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

	Thousand euro					
	Bank borrowings		Derivatives and Other		Total	
	2021	2020	2021	2020	2021	2020
Non-current financial liabilities						
Non-current creditors	37,544	40,823	-	-	37,544	40,823
Derivatives	-	-	1,046	-	1,046	-
Creditors for finance lease	485	435	-	-	485	435
Other liabilities		-	32,516	23,714	32,516	23,714
	38,029	41,258	33,562	23,714	71,591	64,972
Current financial liabilities						
Liabilities and other negotiable securities	-	-	27,500	14,000	27,500	14,000
Current creditors	15,241	23,545	10,588	4,037	25,829	27,582
Derivatives	-	-	1,377	131	1,377	131
Creditors for finance leases 514		437	-	-	514	437
Trade and payables (except public administrations)	-	-	83,079	75,334	83,079	75,334
	15,755	23,982	122,544	93,502	138,299	117,484
	53,784	**65,240**	**156,106**	**117,216**	**209,890**	**182,456**

20.1 Bank borrowings

At December 31, 2021 and 2020, bank borrowings were as follows:

	Thousand euro	
	2021	2020
Non-current		
Bank borrowings and credit facilities	37,544	40,823
Creditors for finance lease	485	435
	38,029	41,258
A Current		
Bank borrowings and credit facilities	15,157	21,928
Creditors for finance lease	514	437
Lines of credit, discounting of bills and factoring	33	1,534
Accrued interest pending payment	51	83
	15,755	23,982
	53,784	**65,240**

The total amount of bank borrowings denominated in foreign currency is 8,612 thousand euros (11,666 thousand euro at December 31, 2020), primarily U.S. dollars, Mexican pesos and Argentinian pesos.

(Thousand euro)

Bank borrowings and credit facilities

On February 3, 2015, Arteche Lantegi Elkartea, S.A. obtained a syndicated loan. This loan was signed for a 68.7 million euro amount and included an amortization schedule extending through 2020. On December 27, 2017, a new syndicated loan was signed for 55,567 thousand euro, which replaced the aforementioned loan, and came into effect in January 2018, thereby extending the amortization schedule for another 6 years.

On January 29, 2021 a novation agreement was arranged for the syndicated loan held by the Group, increasing the available amount with an additional 5,000 thousand euro credit line (Tranche B) and extending its maturity to 2026. As of December 31, 2021, the Group has not drawn any portion of the second tranche amount.

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 amount drawn down from the syndicated loan was of 24,378 thousand euro (23,790 thousand euro at amortized cost) at December 31, 2021 (26,101 thousand euro in 2020), of which 4,876 thousand euro (8,662 thousand euro in 2020) falls due in the short-term.

The group companies, Electrotécnica Arteche Hermanos, S.L., Electrotécnica Arteche Smart Grid, S.L., Inversiones Zabalondo, S.L., Arteche North America, S.A. de C.V., Arteche EDC Equipamientos e Sistemas, S.A., Arteche Gas Insulated Transformers, S.L.U., SAC Maker S.A.U., Arteche ACP, S.A. de C.V., Arteche USA, INC and AIT, S.A. are guarantors for that transaction.

The applicable interest rate is Euribor plus a margin that is determined based on compliance with certain ratios. The Company has taken out a rate cap to hedge variable interest rate variations on a portion of the nominal amount pending amortization (Note 21.2). The average interest rate during the year was of approximately 2.25% (approximately 2.25% in 2020). Interest expense accrued in the year amounted to 827 thousand euro (880 thousand euro in 2020).

At all times over the life of the credit agreement the parent company must meet a series of ratios calculated based on the Group's consolidated annual accounts. Non-compliance with the ratios is cause for the early termination of the agreement. The Company's directors consider that these ratios were met in 2021.

Details by due date of the items recognized under Non-current bank borrowings at the end of 2021 are as follows:

	2023	2024	2025	2026 and afterwards	Total
Bank borrowings	11,345	11,448	9,259	5,977	38,029
	11,345	**11,448**	**9,259**	**5,977**	**38,029**

(Thousand euro)

The rest of the amount recognized in this “Bank borrowings” account refers to loans from subsidiaries that accrue a market interest rate.

In February 2020, a long-term loan of 7,000 thousand euro was signed with Cajamar.

Furthermore, additional loans were arranged during 2020, providing the group with the financial stability necessary to fulfill all its commitments, the most noteworthy of which were the loans from financial entities guaranteed by the Instituto de Crédito Oficial for a balance of 12.8 thousand euro at December 31, 2021 (12.8 million euro at December 31, 2020), maturing in 2025. In 2021, the Group arranged a novation agreement for the aforementioned loans, extending the repayment of installments by one year.

Lines of credit and discounting bills

At the end of the year the Group maintained lines of credit and discounting facilities that were still available in the amount of 20,588 thousand euro (13,090 thousand euro at 2020 year-end) and 19,257 thousand euro (31,439 thousand euro at 2020 year-end), respectively. They accrue market interest rates.

Factoring transactions

The Group carries out factoring without recourse transactions with certain customer receivables and in those cases in which the consideration is that the risks and rewards inherent to the transaction have not been substantially transferred, in accordance with contractual conditions, the receivables are not canceled and a financial liability in the same amount is recognized. The factorized balance at December 31, 2021 amounts to 28,767 thousand euro (13,612 thousand euro at December 31, 2020).

21.2 Derivative financial instruments and other

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

	Thousand euro	
	2021	2020
Non-current		
Hedging derivatives (Note 17.2)	1,046	-
Other financial liabilities		
Repayable advances	1,834	2,265
Loans	26,075	21,449
Other payables	4,607	-
	33,562	23,714
Current		
Liabilities and other negotiable securities	27,500	14,000
Hedging derivatives (Note 17.2)	1,377	131
Other financial liabilities		
Repayable advances	546	620
Loans	3,021	678
Asset suppliers	2,638	2,067
Other payables	4,227	672
Trade and other payables (except public administrations)	83,079	75,334
	122,544	**93,502**

(Thousand euro)

Derivatives

The breakdown of derivatives at December 31 is as follows:

	Thousand euro			
	Notional		Value Fair value	
	2021	2020	2021	2020
Syndicated loan interest rate hedges (cash flow hedges)	4,706	7,059	-	-
Exchange hedges for US dollar denominated receivables	6,785	26,265	94	978
Exchange hedges for euro denominated receivables	770	1,584	62	(71)
Exchange hedges for Turkish lira denominated receivables	6,342	-	(2,310)	-
Exchange hedges for Indonesian rupiahs denominated receivables	688	-	14	-
	19,291	30,611	(2,140)	907

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:

	Thousand euro	
	2021	2020
Non-current borrowings - Derivatives	15	-
Current borrowings - Derivatives	268	1,022
Non-current creditors - Derivatives	(1,046)	-
Current creditors - Derivatives	(1,377)	(131)
	(2,140)	**891**

The Parent Company regularly obtains hedges to cover the risk of interest rate and exchange rate variations Note 21.1. The conditions for the hedge instrument and the hedged instrument coincided at 31 December 2021 and 2020 and therefore the hedge was effective.

The counterparties to the derivatives are banks of accredited solvency.

The years in which cash flows are expected to occur and affect the income statement are as follows:

	Thousand euro	
	2021	2020
2021	-	891
2022	(1,109)	-
2023	(1,031)	-
	(2,140)	891

(Thousand euro)

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. Through this program the Company may issue commercial paper with terms of between 3 and 730 days. Rates will be set according to supply and demand upon issuance, which will depend on market conditions, the time structure of the yield curve, and the investor appreciation or interest in the issuer's credit rating. Interest rates on the Company's commercial paper issued in 2020 ranged from 0.73% to 0.95% per annum, excluding the placement fee. The total balance of commercial paper issued during 2020 amounted to 17.6 million euros, out of which 14 million euros were pending maturity as of December 31, 2020, recognized under "Bonds and other marketable debt securities" and maturing between January and September 2021.

Interest rates on the Company's commercial paper issued in 2021 ranged from 0.6% to 0.95% per annum, with a 27.5 million euro amount pending payment as of December 31, 2021 and maturing between January and June 2022.

Based on the above conditions, the Company expects to meet the maturities of these issues in 2022 via the forecast generation of cash from its business or new issues, gradually attempting to optimize the term and interest rate structure and further diversifying its funding sources. The Group had sufficient liquidity at the end of 2021 in the form of immediately available and unused long-term bank borrowings to meet all its maturities.

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 4.18, 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.

The breakdown by maturity date of the refundable prepayments at December 31 is as follows:

	Thousand euro	
	2021	**2020**
2021	-	767
2022	546	507
2023	497	559
2024	538	557
2025	442	642
2026 and afterwards	357	-
	1,834	**3,032**

(Thousand euro)

Other financial liabilities - Loans

The breakdown of the main loans as of December 31, 2020 and 2021 is as follows:

	Thousand euro	
	2021	**2020**
European Investment Bank (EIB)	15,000	15,000
Cofides (granted to Arteche Lantegi Elkartea, S.A.)	4,000	-
Cofides (granted to Arteche North America, S.A. de CV)	2,625	3,000
Instituto de Crédito Oficial (ICO)	6,500	1,500
Other	3,021	2,600
	31,146	**22,100**

The Basque Finance Institute, which forms part of the Basque Government, granted the subsidiary Arteche Nissin, S.L. (named Arteche Gas Insulated Transformers, S.L.U. In 2017) a maximum loan of 2,202 thousand euro on December 20, 2011, as the investments totaling 4,404 thousand euro made between 2010 and 2012 qualify as “strategic technological-scientific investments”. The interest rate applicable over the term of the loan will be 1.232% per year, with a grace period for capital and interest payments up until 2 January 2015. The loan was scheduled to be repaid over 10 years through 10 equal installments and the first installment will be paid on 2 January 2016. The amount received at 31 December 2011 after justifying the investments totaled 1,790 thousand euro. The Basque Finance Institute also granted this company a 72 thousand euro loan on 27 November 2012 in addition to the financing granted in 2011, under the same terms and conditions. The Basque Finance Institute also granted this company a 72 thousand euro loan on 2 July 2013 in addition to the financing granted in prior years, under the same terms and conditions as those for the loans granted in 2011 and 2012. In accordance with the accounting policy described in Note 4.18, this loan is presented net of the embedded grants equivalent to the difference between the nominal value of the prepayment and its restated value calculated at the effective cost of outside borrowings on the date on which it is received, and 872 thousand euro is recognized as non-current and 333 thousand euro is recognized as current at 31 December 2020. This loan was repaid in January 2022.

On November 6, 2019, the Group signed a loan with LB Structure Lease, S.A. for a 1,888 thousand euro amount maturing in August 2024. The balance at December 31, 2020 for this item was 1,446 thousand euro, and the pending balance was amortized in 2021.

On September 10, 2019, the Group signed a loan with the Ministry of Industry, Trade and Tourism for a 1,973 thousand euro amount maturing in 2029. The first installment will be paid in September 2023.

In addition, it is worth highlighting that 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. The Group availed itself of this facility for the first time in January 2020, drawing a balance of 8,000 thousand euros. In addition, a second drawdown of 7,000 thousand euros was carried out in April 2020, with 15,000 thousand euros pending amortization at December 31, 2021 and December 31, 2020. In November 2021, a novation was signed, extending the loan drawdown period until December 2022 and adapting the financial ratios established to those provided for in the novation of the syndicated loan signed in January of the same year.

(Thousand euro)

Likewise, in 2020, the ICO (Instituto de Crédito Oficial) endorsed our R+D+i plan and its fit with the guidelines set by the European Union in the field of Innovation and Sustainability, granting us long-term (6 years) and flexible financing for the amount of 20 million euro that will allow the Arteche Group to tackle the plans for the coming years. On November 2, 2021, the Group proceeded with the novation of the financing, extending the drawdown period to November 2022 and modifying the thresholds of the financial ratios established to align them with those established in the novation of the syndicated loan signed in January of the same year. At December 31, 2021, 6.5 million euro (December 31, 2020: 1.5 million euro) are available.

Likewise, in 2020 a 3 million euro loan was signed with Cofides, with a one-year grace period and four-year amortization period (beginning in 2021) for the expansion of the Medium Voltage plant in Tepeji del Rio (Arteche North America, S.A. de C.V.). At December 31, 2021, the amount pending amortization totals 2.6 million euro (3 million euro at December 31, 2020).

Finally, in July 2021 Arteche Lantegi Elkartea, S.A. signed a new contract with Cofides for 4 million euro, with a 6-month Euribor variable interest rate and maturity in 2028, so as to partially finance the purchase of the company Esitaş Elektrik Sanayi ve Ticaret Anonim Sirketi.

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

	Thousand euro	
	2021	**2020**
2022	-	895
2023	4,550	3,419
2024	5,350	3,349
2025	4,975	5,986
2026 and afterwards	11,200	7,800
	26,075	**21,449**

Other financial liabilities - Asset suppliers

This account fundamentally records outstanding payables to asset suppliers for the implementation of new software and the acquisition of plant and machinery, as is described in Notes 7 and 8.

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).

(Thousand euro)

Trade and other payables (except public administrations)

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

	Thousand euro	
	2021	**2020**
Suppliers	59,899	49,714
Sundry payables	15,148	13,621
Personnel (accrued wages and salaries)	2,553	3,834
Customer advances	5,479	8,165
	83,079	**75,334**

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

In compliance with current legislation, the annual accounts at 31 December 2020 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	
	2021	**2020**
Average payment period for suppliers	119	121
Ratio of transactions paid	115	113
Ratio of transactions pending payment	92	145

	Thousand euro	
	2021	**2020**
Total payments made	106,353	95,619
Total pending payments	34,242	35,163

(Thousand euro)

22 FISCAL SITUATION

22.1 Public Administration balances

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

	Thousand euro	
	2021	**2020**
Debit balance		
Non-current receivables from public administrations	1,073	1,230
Deferred tax assets	22,072	24,282
Other receivables from public administrations	20,771	15,627
Withholdings and interim payments	3,031	1,191
Value-Added Tax and others:	17,203	12,009
Social Security and others	537	2,427
	43,916	**41,139**
Credit balances		
Deferred tax liabilities	(2,921)	(2,899)
Current tax liabilities	(788)	(1,631)
Other payables to Public Administrations	(9,903)	(7,539)
Personal income tax withholdings	(2,386)	(1,510)
Social Security	(1,504)	(1,257)
VAT	(6,013)	(4,772)
	(13,612)	**(12,069)**

22.2 Corporate tax calculation

The parent company and some domestic investee companies included in the scope of consolidation as indicated in Note 4.19, file consolidated corporate income tax returns. That group applies this system indefinitely, as long as it complies with the established requirements or does not expressly waive its right to apply the system by filing the relevant tax form.

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

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

(Thousand euro)

For 2021 and 2020, corporate income tax expense/(income) from continuing operations breaks down as follows:

	Thousand euro			
	Consolidated income statement		Directly recognized to consolidated equity	
	2021	2020	2021	2020
Current year tax	2,873	2,550	-	-
Change in deferred taxes	1,868	(608)	65	(220)
Adjustment to corporate income tax expense for the preceding year, unrecoverable withholdings and other	387	536	-	-
Tax expense from continuing operations	**5,128**	**2,478**	**65**	**(220)**
Current year tax	-	20	-	-
Change in deferred taxes	-	(155)	-	-
Tax expense from discontinued operations	**-**	**(135)**	**-**	**-**
Total tax expenses	**5,128**	**2,343**	**65**	**(220)**

22.3 Reconciliation of accounting income to taxable income

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

	Thousand euro	
	2021	2020
Consolidated income before taxes	**13,845**	**4,217**
Consolidated income before taxes from continuing operations	13,845	9,623
Consolidated income before taxes from discontinued operations	-	(5,406)
Permanent differences	(13,370)	(19,638)
Temporary differences		
Originating in the year	(5,643)	7,724
Arising from prior years	(710)	(929)
Offsetting of capitalized tax loss carryforwards from prior years	(1,320)	(3,935)
Offsetting of unused tax loss carryforwards from previous years	(1,301)	(1,978)
Consolidation adjustments	225	(4,909)
Taxable income	**(8,274)**	**(19,448)**
Tax consolidation eliminations portfolio impairment	1,033	6,188
Elimination of tax consolidation dividends	12,887	20,201
Other tax consolidation adjustments	(2,558)	(1,333)
Adjusted taxable income	**3,088**	**5,608**

The permanent differences in 2021 and 2020 correspond mainly to dividends distributed by the Group's subsidiaries and income from industrial property. Temporary differences in 2021 and 2020 correspond mainly to non-deductible provisions.

(Thousand euro)

22.4 Reconciliation of accounting income to income tax expense

The reconciliation between the income tax that would result from applying the nominal corporate income tax rate in force for the parent company and the income tax expense recorded in the consolidated income statement for 2021 and 2020 is presented below:

	Thousand euro	
	2021	**2020**
Consolidated income before taxes	13,845	4,217
Tax expense at the parent company's tax rate	3,323	1,012
Net permanent differences and tax consolidation adjustments	(3,209)	(4,713)
Effect of consolidation differences	54	(1,178)
Effect of the application of different tax rates	2,842	4,825
Adjustments to prior years' taxes	20	(33)
Tax paid abroad	392	470
Impairment due to the Technical Review Panel (TRP) process	1,300	-
Deductions and tax loss carryforwards and others	848	1,960
	(442)	-
Income tax expense / (income)	**5,128**	**2,343**
Discontinued operations income tax expense / (income)	**-**	**(135)**
Continued operations income tax expense / (income)	**5,128**	**2,478**

In 2021, the asset recorded in the company Arteche ACP do Brasil, Ltda. (formerly STK Sistemas do Brasil, Ltda.) has been recognized as impaired as a result from the judicial and administrative proceedings related to the TRP program, based on the low probability of recoverability estimated.

The calculation of Corporate income tax (receivable) / payable for the different Group companies is as follows:

	Thousand euro					
	Receivables		**Payables**		**Total**	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Effective annual rate	-	-	(1,573)	(2,534)	(1,573)	(2,534)
Withholdings and interim payments	785	903	-	-	785	903
Corporate income tax (receivable) / payable	**785**	**903**	**1,573**	**(2,534)**	**(788)**	**(1,631)**

(Thousand euro)

22.5 Deferred tax assets and liabilities

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

	Thousand euro							
		Changes recognized in						
	Opening balance	Hyper-inflation Effect (Note 2.5)	Consolidated income statement	Consolidated equity	Other movements	Entries into the scope (Note 2.4)	Exchange of differences	Opening Balance
2021								
Deferred tax assets								
Tax deductions	15,494	-	(329)	-	(269)	-	-	14,896
Tax losses carried forward	1,475	-	(247)	-	269	-	-	1,497
Cash flow hedges	4	-	-	(3)	-	-	-	1
Others - temporary differences	7,309	(59)	(1,598)	34	(98)	-	90	5,678
	24,282	(59)	(2,174)	31	(98)	-	90	22,072
Deferred tax liabilities								
On business combinations	(828)	-	64	-	-	(223)	74	(913)
Grants	(489)	-	-	(93)	-	-	-	(582)
Cash flow hedges	(188)	-	13	(7)	-	-	(9)	(191)
Other	(1,394)	(173)	229	-	98	-	5	(1,235)
	(2,899)	(173)	306	(100)	98	(223)	70	(2,921)
	21,383	**(232)**	**(1,868)**	**(69)**	**-**	**(223)**	**160**	**19,151**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Notes to the consolidated annual accounts for the year ended December 31, 2021
(Thousand euro)

	Thousand euro							
		Changes recognized in						
	Opening balance	Hyper-inflation Effect (Note 2.5)	Consolidated income statement	Consolidated equity	Other movements	Discontinued operations	Exchange differences	Opening Balance
2020								
Deferred tax assets								
Tax deductions	15,494	-	-	-	-	-	-	15,494
Tax losses carried forward	2,842	-	(1,181)	-	-	-	(186)	1,475
Net assets Cash flow hedges	94	-	-	-	(94)	-	-	-
	(58)	-	-	-	62	-	-	4
Other - temporary differences	5,908	-	2,128	-	177	(155)	(749)	7,309
	24,280	-	947	-	145	(155)	(935)	24,282
Deferred tax liabilities								
On business combinations	(883)	-	55	-	-	-	-	(828)
Grants	(380)	-	22	(134)	3	-		(489)
Cash flow hedges	-	-	-	(188)	-	-	-	(188)
Other	(949)	(234)	(241)	13	(145)	-	162	(1,394)
	(2,212)	(234)	(164)	(309)	(142)	-	162	(2,899)
	22,068	**(234)**	**783**	**(309)**	**3**	**(155)**	**(773)**	**21,383**

(Thousand euro)

The Group records deductions that have yet to be applied at December 31, 2021 in the amount of 28,995 thousand euro (29,333 thousand euro at December 31, 2021). It has recognized the relevant deferred tax asset in this respect for an amount of 14,896 thousand euros (15,494 thousand euros at December 31, 2020). The deductions break down as follows:

Year arising	Deadline for application	Total deductions 2021	Total deductions 2020 adjusted
1999	30 years *	581	581
2000	30 years *	754	754
2001	30 years *	952	952
2002	30 years *	687	687
2003	30 years *	788	788
2004	30 years *	1,070	1,070
2005	30 years *	1,236	1,236
2006	30 years *	860	860
2006	18 years	132	132
2007	30 years *	526	526
2007	18 years	118	118
2008	30 years *	1,610	1,610
2008	18 years	143	143
2009	30 years *	1,929	1,929
2009	18 years	71	71
2010	30 years *	1,748	1,800
2010	18 years	97	97
2011	30 years *	2,439	2,674
2011	18 years	176	176
2012	30 years *	2,319	2,321
2012	18 years	731	731
2013	30 years *	2,182	2,188
2013	18 years	104	104
2014	30 years *	2,042	2,049
2014	18 years	235	235
2015	30 years *	739	742
2015	18 years	32	32
2016	30 years *	1,106	1,106
2016	18 years	4	4
2017	30 years *	1,328	1,338
2017	18 years	4	4
2018	30 years *	705	721
2018	18 years	69	69
2019	30 years *	588	590
2019	18 years	78	78
2020	30 years *	768	773
2020	18 years	46	46
(**)		**28,997**	**29,333**

(*) Compensation period for taxable income and rebates as of 12.31.2013: 30 years from 01.01.2014. 5th and 22nd Transitional Provision of the local regulations on Corporate Income Tax Law.

(**) Deductions for 2021 are not included

(Thousand euro)

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

At December 31, 2021, the Group has unused tax losses which, taking future forecasts into account, have an active tax credit in the amount of 1,497 thousand euro (1,475 thousand euro in 2020) The breakdown of total tax credits is as follows:

		Thousand euro	
		Tax credit	
Year arising	**Deadline for application**	**2021**	**2020**
2010	30 years *	376	376
2011	30 years *	307	307
2011	Unlimited	206	329
2012	30 years *	649	926
2012	Unlimited	578	628
2013	30 years *	2,904	2,953
2013	Unlimited	1,523	1,863
2014	30 years *	1,973	1,973
2014	Unlimited	2,934	2,973
2015	30 years *	107	107
2015	Unlimited	2,008	2,036
2016	30 years *	2,281	2,281
2016	Unlimited	1,861	1,923
2016	10 years	-	169
2017	30 years *	890	890
2017	Unlimited	489	506
2017	10 years	-	113
2018	30 years *	6,091	6,091
2018	Unlimited	480	496
2018	10 years	6	69
2019	30 years *	588	588
2019	Unlimited	274	272
2019	10 years	222	200
2020	30 years *	13	32
2020	Unlimited	730	735
2021	5 years	30	-
2021	10 years	953	-
2021	12 years	38	-
2021	Unlimited	137	-
		28,648	**28,836**

(*) Compensation period for taxable income and rebates as of 12.31.2013: 30 years from 01.01.2014. 5th and 22nd Transitional Provision of the local regulations on Corporate Income Tax Law.

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

(Thousand euro)

22.6 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, in the event of inspection, from possible different interpretations of the tax regulations applicable to the transactions carried out by the Group companies.

23 INCOME AND EXPENSES

23.1 Operating profit/(loss) by business segment

Details of the consolidated profit/(loss) for 2021 and 2020 for each of the business units where the Group operates are as follows:

	Thousand euro			
	Measuring & Monitoring Systems	Network reliability	Network automation and distribution	Total
2021				
Revenues	203,998	21,130	56,905	282,033
Changes in inventories	2,760	1,878	1,908	6,546
Work performed by the entity and capitalized	2,223	31	2,889	5,143
Supplies	(119,750)	(16,175)	(25,930)	(161,855)
Other operating income	1,250	89	203	1,542
Personnel costs	(48,439)	(4,342)	(16,216)	(68,997)
Other operating expenses	(30,933)	(2,868)	(6,931)	(40,732)
Depreciation and amortization	(6,773)	(562)	(4,280)	(11,615)
Grant allocations	276	-	38	314
Impairment and results on disposals of assets	165	-	-	165
Other gains or losses	5	(32)	(1)	(28)
Operating profit/(loss)	**4,782**	**(851)**	**8,585**	**12,516**
2020				
Revenues	183,012	35,534	46,134	264,680
Changes in inventories	2,066	(3,620)	(43)	(1,597)
Work performed by the entity and capitalized	1,990	-	2,615	4,605
Supplies	(97,229)	(23,078)	(18,463)	(138,770)
Other operating income	794	84	237	1,115
Personnel costs	(45,709)	(4,064)	(14,461)	(64,234)
Other operating expenses	(29,553)	(3,027)	(5,393)	(37,973)
Depreciation and amortization	(6,051)	(642)	(4,154)	(10,847)
Grant allocations	161	17	161	339
Impairment and results on disposals of assets	-	-	-	-
Other gains or losses	(109)	(16)	(26)	(151)
Operating profit/(loss)	**9,372**	**1,188**	**6,607**	**17,167**

(Thousand euro)

23.2 Revenues

The distribution of the Group's revenues relating to continuing operations by geographic market at December 31, 2021 and 2020 is as follows:

	Thousand euro	
	2021	**2020**
Segmentation by geographical market		
Spain	49,831	43,056
Europe, Africa and Middle East	63,484	50,320
North America	90,960	98,360
Mercosur	43,365	47,222
Asia	34,393	25,722
	282,033	**264,680**

The Group has a broad customer portfolio and there is no single customer in 2021 or 2020 that represents more than 10% of revenues.

23.3 Supplies

Details under this heading as of December 31, 2021 and 2020 are as follows:

	Thousand euro	
	2021	**2020**
Purchases	150,698	132,674
Subcontracted work	15,874	13,922
Impairment of goods purchased for resale, raw materials and others	162	347
Changes in inventories	(4,879)	(8,174)
	161,855	**138,769**

23.4 Personnel costs

Details under the "personnel costs" heading as of December 31, 2021 and 2020 are as follows:

	Thousand euro	
	2021	**2020**
Wages, salaries and similar remuneration		
Wages and salaries	53,484	50,458
Social security		
Social Security	12,828	11,532
Other social expenditure	2,685	2,243
	15,513	13,775
	68,997	**64,233**

(Thousand euro)

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 year			Average number of employees during year
	Men	Women	Total	
2021				
Direct	1,149	315	1,464	1,407
Indirect	745	309	1,054	1,041
	1,894	**624**	**2,518**	**2,448**
2020				
Direct	957	203	1,160	1,056
Indirect	678	265	943	959
	1,635	**468**	**2,103**	**2,015**

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

	2021	2020
Direct	7	6
Indirect	2	3
	9	**9**

As of December 31, 2021 and 2020, the Board of Directors consisted of 6 legal persons (whose natural person representatives were 5 men and 1 woman) and 2 natural persons, male.

23.5 External services

The breakdown of external services as of December 31, 2021 and 2020 is as follows:

	Thousand euro	
	2021	2020
Development costs	2,930	1,923
Leases (Note 8.5)	3,992	4,080
Repairs and maintenance costs	3,132	2,633
Independent professionals' services	7,325	8,566
Transport	10,916	8,839
Insurance premiums	757	641
Bank services	1,175	1,149
Advertising, publicity and public relations	1,254	986
Utilities	1,921	1,740
Other services	5,816	5,910
	39,218	**36,467**

(Thousand euro)

24. FOREIGN CURRENCY TRANSACTIONS

The amounts of the transactions carried out in foreign currencies during 2021 and 2020 are as follows:

	Thousand euro	
	2021	2020
Sales	151,359	166,621
Rendering of services	1,984	1,845
Purchases	(87,063)	(89,666)
Services received	(19,979)	(22,899)
	46,301	55,901

In addition to fair value investments with profit or loss changes, cash (Note 14) and bank borrowings in foreign currencies (Note 21.1), at December 31, 2021 the Group had balances receivable and payable in currencies other than the euro amounting to 40,945 thousand euro and 54,367 thousand euro, respectively (28,355 thousand euro and 44,020 thousand euro, respectively, at December 31, 2020).

25. FINANCIAL INCOME/(EXPENSE)

	Thousand euro	
	2021	2020
Financial income		
From equity instruments	3,760	135
- Third parties	3,760	135
	3,760	135
Financial expense:		
From third parties	(4,002)	(5,105)
On adjustments to provisions	(142)	(191)
	(4,144)	(5,296)
Exchange differences	2,065	(2,383)
Impairment and gains or losses on disposals of financial instruments		
Impairment and losses	(352)	-
		-
	(352)	-
Financial income/(expense)	1,329	(7,544)

(Thousand euro)

The breakdown of financial income and expense is as follows:

	Thousand euro	
	2021	**2020**
Financial income		
- Income from long-term loans made to other companies	-	6
- Income from short-term loans made to other companies	4	2
- Other financial income	3,756	127
	3,760	135
Financial expense:		
- Interest on borrowings from third parties		
. Bank borrowings and credit facilities	(3,535)	(3,209)
. Factoring transactions with/without recourse	(412)	(798)
. Other loans	(48)	(1,084)
. Other financial expenses	(7)	(14)
	(4,002)	(5,105)
- Restatement of provisions		
. Financial expenses due restatement of provisions	(142)	(191)
	(4,144)	(191)
	(384)	**(5,161)**

The "Other financial income" heading corresponds mainly to the effect of the fair value adjustment of the previous interest holding in Smart Digital Optics as a result of its takeover, described in Note 2.4, for a 3,554 thousand euro amount.

Set out below is a breakdown of the exchange difference recognized during the year, by type of financial instrument:

	Thousand euro	
	2021	**2020**
On transactions settled during the year: On		
	1,390	(1,074)
balances outstanding and pending maturity:		
	675	(1,309)
	2,065	(2,383)

(Thousand euro)

26. DISCONTINUED OPERATIONS

The profit/(loss) from discontinued operations by company is set out below:

	Thousand euro	
	2021	2020
Arteche Medición y Tecnología, S.A. de C.V. (liquidated)	-	(741)
Arteche North América, S.A. de C.V.	-	(1,032)
UTE Electroingenieria ICSSA-AIT	-	(261)
Arteche EDC Equipamientos e Sistemas, S.A.	-	(203)
Elmya Arteche Limited	-	(500)
Sale of the Turnkey Solutions segment	-	(2,534)
	-	**(5,271)**

The heading "Result from discontinued operations (net of taxes)" in 2020 includes the result of the Turnkey Solutions segment, whose exit from the Group took place in December 2020 (Note 2.4).

In 2020 the results obtained from the switchgear business of Arteche North America, S.A. de C.V. and Arteche EDC Equipamientos e Sistemas, S.A. were also recognized, corresponding to discontinued operations, together with the transfer of currency translation differences to the income statement of Arteche Medición y Tecnología, S.A. de C.V., settled in 2020, as well as the results obtained in 2020 from the temporary joint venture Electroingeniería ICSSA-AIT.

The cash flows of the transactions carried out by these companies in 2020 were treated in the same way as the rest of the group companies and their amount was not significant.

27. TRANSACTIONS WITH RELATED PARTIES

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

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

The related parties that have carried out transactions with the Group in 2021 and 2020, 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
Managers	Directors
Senior management	Executives

(Thousand euro)

During 2020, the Group disposed of the Turnkey Solutions segment to Lur Zabalondo, S.L. (a company entirely held by the final direct parent of the Arteche Group as of December 31, 2020). Said transaction was performed on an arm's length basis in accordance with the valuation performed by an independent expert. As of December 31, 2021, the credits and receivables for the aforementioned disposal (Note 2.4) have been fully repaid to the Arteche Group.

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

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

27.1 Associated entities

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

	2021	2020
Associated companies		
Trade receivables for sales and services rendered - current (Note 11)	3,982	679
Sundry payables - current (Note 21)	(1,290)	-
Loans to third parties - non-current (Notes 11, 13 and 2.4)	-	895
Loans to companies - current (Notes 11, 13 and 2.4)	-	2,810

During the 2021 normal course of business, the Arteche Group rendered automation, control and protection services to subsidiaries of Lur Zabalondo, S.L. amounting to 1,863 thousand euro.

At December 31, 2021, the Arteche Group provides guarantees to third parties in relation to the activity carried out by subsidiaries of Lur Zabalondo, S.L. amounting to 7,529 thousand euro. Nonetheless, at the time of drafting these consolidated financial statements, Lur Zabalondo, S.L. provides a counter-guarantee to the Arteche Group for 100% of the aforementioned amounts.

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

(Thousand euro)

27.2 Directors and 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:

	Thousand euro	
	2021	2020
Directors		
Salaries	426	351
Per diems	649	625
Senior Management		
Salaries	2,444	2,196
	3,519	3,172

At 31 December 2021 and 2020, 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 matters indicated in Note 27.1, at 31 December 2021 and 2020, there are no prepayments or loans granted to the members of the parent company's Board of Directors.

a) Director conflict of interest situations

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

28. OTHER DISCLOSURES

28.1 Audit fees

The audit fees accrued during the year for audit and other verification services totaled 267 thousand euro and 68 thousand euro (237 thousand euro and 2 thousand euro as of December 31, 2020).

In addition, fees accrued in 2021 for other services totaled 22 thousand euro (16 thousand euro in 2020).

Conversely, the audit fees accrued during the year by other auditors of subsidiaries for audit and other verification services totaled 21 thousand euro (9 thousand euro as of December 31, 2020).

28.2 Information on environmental issues

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

In this regard, expenses derived in 2021 from environmental actions totaled a 186 thousand euro amount (316 thousand euro in 2020). In turn, an income of 189 thousand euro was recorded in the current year from the sale of materials (113 thousand euro as of December 31, 2020).

At the end of 2021 and 2020, there was no significant equipment or facilities recognized under property, plant and equipment whose purpose was to protect and improve the environment.

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

28.3 Guarantees and contingent liabilities

The group companies have provided guarantees as follows at December 31:

- Commercial guarantees relating to contracts totaling 6,844 thousand euro (8,250 thousand euro at December 31, 2020).
- Guarantees provided to secure financing granted by credit institutions totaling 9,576 thousand euro (5,567 thousand euro at December 31, 2020).
- Guarantees provided by the Group as required by the various institutions that have provided grants and refundable prepayments total 655 thousand euro (664 thousand euro at December 31, 2020).
- Letters of financial support provided by the Group in the amount of 32,812 thousand euro (30,174 thousand euro at December 31, 2020) to secure financing granted by credit institutions.
- Guarantees to secure the future payments associated with the lease agreement concluded by the subsidiaries Inversiones Zabalondo, S.L., SAC Maker, S.A.U. and Arteche Gas Insulated Transformers, S.L.U. (Note 4.3) in the amount of 3,054 thousand euro (2,736 thousand euro at December 31, 2020)
- Other guarantees in the amount of 346 thousand euro (176 thousand euro at December 31, 2020).

- In addition, at December 31, 2021, there were guarantees to secure the execution of turnkey projects in the amount of 5,850 thousand euro (5,564 thousand euro at December 31, 2020).

29. EVENTS AFTER THE REPORTING PERIOD

In December 2021, Arteche Gas Insulated Transformers (AGIT) has agreed to incorporate Hitachi Energy into its shareholding, with Arteche retaining 51% ownership while Hitachi Energy holds 49% ownership. Thus, Arteche and Hitachi Energy are joining forces through a joint venture in which both companies will work together in the sustainable gas insulated transformer market. This transaction allows the Arteche Group to improve its commercial position at a global level and entails another step towards the growth foreseen for Arteche's in the 2023 Strategic Plan, which aims to reach a turnover exceeding 325 million euro and to improve the EBITDA margin.

At the time of drafting these consolidated financial statements, this transaction has been notified to the antitrust authorities and is pending approval for its definitive execution.

In addition, in January 2022 the Arteche Group has contracted several derivative instruments to hedge interest rate risk of its main financing (Note 5).

APPENDIX

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

	Net carrying amount	Direct interest percentage	Indirect interest percentage		Reserves/ Losses	Profit/(loss) for the year	Other shareholder contributions and other items	Equity	Other equity items	Total	Address	Business
Electrotécnica Arteche Hermanos, S.L.	-	0.01%	99.99%	2,006	45,851	1,707	-	49,564	346	49,910	Derio Bidea 28 Mungia (Bizkaia)	Manufacture and marketing of all types of electrical devices
Electrotécnica Arteche Smart Grid, S.L.U.	-	-	100.00%	588	12,696	4,178	6,000	23,462	1,212	24,674	Derio Bidea 28 Mungia (Bizkaia)	Manufacture and marketing of all types of electrical devices
Inversiones Zabalondo, S.L.	11,469	99.98%	0.02%	777	12,483	428	-	13,688	-	13,688	Derio Bidea 28 Mungia (Bizkaia)	Purchase, sell, lease, subdivide, develop, segregate and grouped together lots, land and rural properties, as well as manage, operate and administer those real estate properties, and render property management and administration services to third parties.
Arteche Instrument Transformers, S.L.	38,069	99.98%	0.02%	7,271	36,641	1,856	436	46,205	-	46,205	Derio Bidea 28 Mungia (Bizkaia)	Purchase, subscription, swap and sale of all types of securities on its own behalf and without any intermediary activity taking place and, in particular, the management and administration of those securities.
Arteche Smart Grid, S.L.U.	47,984	100%	-	1,317	25,788	632	42,435	70,172	-	70,172	Derio Bidea 28 Mungia (Bizkaia)	Purchase, subscription, swap and sale of all types of securities on its own behalf and without any intermediary activity taking place and, in particular, the management and administration of those securities.

	Net carrying amount	Direct interest percentage	Indirect interest percentage		Reserves/ Losses	Profit/(loss) for the year	Other shareholder contributions and other items	Equity	Other equity items	Total	Address	Business
Arteche Turnkey Solutions, S.A.	-	99.99%	0.01%	260	(22,172)	(49)	22,961	1,000	-	1,000	Derio Bidea 28 (Bizkaia)	Promotion and development of companies by acquiring temporary interests in share capital.
Arteche Centro de Tecnología, A.I.E.	90	90%	10%	100	113	-49	-	163	66	229	Derio Bidea 28 Mungia (Bizkaia)	Performance of R&D projects relating to technologies of interest for the energy generation, transmission and distribution sectors and the entry of new technologies into the products and manufacturing processes involved.
Arteche North America, S.A. de C.V.	-	-	100%	22,834	10,847	1,958	-	35,639	(8,249)	27,390	Km. 73,540. Ant. Carretera México-Querétaro Tepejí del Río de Ocampo Estado de Hidalgo (México)	Manufacture and marketing of current transformers, relays and automatic protection devices for high, medium and low voltage facilities.
AIT, S.A.	-	-	100%	14,062	(8,691)	562	6,318	12,251	(9,608)	2,643	Ruta 9, Km 689 Ferreyra Cordoba (Argentina)	Manufacture and marketing of current transformers for high voltage electrical facilities.
Arteche EDC Equipamientos e Sistemas, S.A.	-	-	100%	49,881	(44,705)	277	-	5,453	(2,969)	2,484	Rua Juscelino K. de Oliveira Curitiba Estado de Paraná (Brazil)	Manufacture and marketing of electric components and automatic protection devices for power plants.
Arteche USA, Inc.	-	-	100%	1,541	172	533	-	2,246	(107)	2,139	18503 Pines Blvd. Suite 313 Pembroke Pines (Estados Unidos)	Manufacture and marketing of electrical and computing devices and machinery.
Arteche ACP do Brasil Ltda		0.02%	99.98%	20,144	(10,964)	97		9,277	(9,141)	136	Rua Rodolpho Hatschbach, nº725 Bairro, Cidade Industrial de Curitiba Estado de Paraná (Brasil)	Marketing, import, export and maintenance of machinery, parts and equipment for the generation or cogeneration of electric power, telecommunications, electrical and electronic components.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Share capital	Reserves/ Losses	Profit/(loss) for the year	Other contribution contributions and other items	Equity	Other equity items	Total	Address	Business
Arteche DYH Electric Co., Ltd.	-	-	60%	11,885	(2,210)	529	-	10,204	3,482	13,686	Taiping Industrial Park Pulandian Dailian Liaoning Province (China)	Manufacture and commercialization of current transformers for high voltage electrical facilities.
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)	Manufacture and marketing of products related to the electricity and energy sector.
Arteche Lanteg Elkartea	-	-	100%	5,709	55,179	5,378	-	66,266	-	66,266		
Arteche- Inael, S.L.	-	-	56%	1,786	(151)	-	-	1,635	-	1,635	Derio Bidea 28 Mungia (Bizkaia)	Promoting or fostering companies through temporary participation in their capital, receiving and granting financing to the companies in which it participates.
Smart Digital Optics Pty.	-	-	100%-	5,035	(6,017)	107	-	(875)	(603)	(1,478)	National Innovation Centre,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%	-	2,110	(62)	-	-	2,048	-	2,048	Derio Bidea 28 Mungia (Bizkaia)	Purchase, subscription, exchange and sale of securities, advice to companies and development of activities related to real estate and urban development.
Arteche & Inael Industrial Elétrica Ltda	-	-	56%	711	(1,241)	(5)	-	(535)	191	(344)	Rua Delegado Theolindo Baptista de Siqueira, 85 Almirante Tamandaré Estado de Paraná (Brasil)	Import, export, trade and manufacturing services for machinery and equipment for the measurement, distribution and control of electrical energy.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Share capital	Reserves/ Losses	Profit/(loss) for the year	Other contribution contributions and other items	Equity	Other equity items	Total	Address	Business
SAC Maker, S.A.U.	-	-	100%	560	(5,087)	931	2.200	(1,396)	163	(1,233)	Las Rozas (Madrid)	Development and commercialization of engineering projects related to the automation of control systems, manufacturing and/or assembly of electrical machinery and electronic equipment and their corresponding software, as well as safety-related services.
Arteche Ventures, S.L.	80	99.80%	0.20%	5	(164)	- sell	-	(159)	-	(159)	Derio Bidea 28 Mungia (Bizkaia)	To purchase, subscribe, exchange and all types of securities on its own behalf and without any intermediary activity taking place, and, in particular, to carry out the management and administration of those securities. Likewise, to carry out market studies and prospecting, manage and place its own financial resources and those of the entities in which it has a direct or indirect participation, and entities belonging to the same business group.
Arteche ACP, S.A. de C.V	-	0.01%	99.99%	3,767	(2,384)	(56)	-	1,327	(81)	1,246	Calle 8 nº1-B Fraccionamiento Industrial Alce Blanco Naucalpan de Juaréz (México)	Development, design, manufacturing, production, commercialization, distribution, promotion, financing, execution and rendering of services in all matters related to project management of high, medium and low voltage electrical installations, using all energy sources, including renewable energies.
Arteche Chile, S.p.A	-	-	100%	1,656	(1,497)	(458)	-	(299)	374	75	Derio Bidea 28 Mungia (Bizkaia)	Promoting or fostering companies through temporary participation in their capital, receiving and granting financing to the companies in which it participates.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Share capital	Reserves/ Losses	Profit/(loss) for the year	Other contribution contributions and other items	Equity	Other equity items	Total	Address	Business
ZB Inversiones, S.A.	2,308	97.01%	2.99%	123	678	83	770	1,654	(720)	934	Ruta nacional nº9, km 689, Barrio Ferreyra, Ciudad de Córdoba, Argentina	Real estate activity
Esitaş Elektrik Sanayi ve Ticaret A.Ş	-	-	100%	484	4,624	3,300	-	8,408	(2,396)	6,012	Hilal, Pasakoy Cd. No:31, 34791. Sancaktepe/Istanbul	Manufacture and commercialization of products related to the electric 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.
Arteche Andina, S.A.S.	-	-	100%	29	-	(86)	-	(57)	-	(57)	CL 78 nº9 57 P6 Bogotá D.C. (Colombia)	Promotion of the parent company's business activities and products in the Andean region.
	100,317											

(*) Companies acquired in 2021

The information regarding group and jointly-controlled companies and associates as of Thursday, December 31, 2020 is as follows:

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Share capital	Reserves/ Losses	Profit/(loss) for the year	Other shareholder contributions and other items	Equity	Other equity items	Total	Address	Business
Electrotécnica Arteche Hermanos, S.L.	-	0.01%	99.99%	2,006	44,325	2,179	-	48,510	316	48,826	Derio Bidea 28 Mungia (Bizkaia)	Purchase, sale and manufacture of all kinds of electrical appliances.
Electrotécnica Arteche Smart Grid, S.L.U.	-	-	100.00%	588	10,489	3,153	6,000	20,230	982	21,212	Derio Bidea 28 Mungia (Bizkaia)	Manufacture and marketing of all types of electrical devices
Inversiones Zabalondo, S.L.	11,469	99.98%	0.02%	777	14,063	349	-	15,189	-	15,189	Derio Bidea 28 Mungia (Bizkaia)	Purchase, sell, lease, subdivide, develop, segregate and grouped together lots, land and rural properties, as well as manage, operate and administer those real estate properties, and render property management and administration services to third parties.
Arteche Instrument Transformers, S.L.	38,069	99.98%	0.02%	7,271	40,711	3,081	436	51,499	-	51,499	Derio Bidea 28 Mungia (Bizkaia)	Purchase, subscription, swap and sale of all types of securities on its own behalf and without any intermediary activity taking place and, in particular, the management and administration of those securities.
Arteche Smart Grid, S.L.U.	47,984	100%	-	1,317	27,049	(183)	42,435	70,618	-	70,618	Derio Bidea 28 Mungia (Bizkaia)	Purchase, subscription, swap and sale of all types of securities on its own behalf and without any intermediary activity taking place and, in particular, the management and administration of those securities.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Share capital	Reserves/ Losses	Profit/(loss) for the year	Other shareholder contributions and other items	Equity	Other equity items	Total	Address	Business
Arteche Turnkey Solutions, S.A.	-	99.99%	0.01%	260	(22,801)	629	22,961	1,049	-	1,049	Derio Bidea 28 Mungia (Bizkaia)	Promoting and encouraging companies by means of temporary ownership of interests in their share capital.
Arteche Centro de Tecnología, A.I.E.	90	90%	10%	100	27	86	-	213	100	313	Derio Bidea 28 Mungia (Bizkaia)	R&D projects related to technologies of interest to the energy generation, transmission distribution sector and the incorporation of new technologies in products and manufacturing processes involved.
Arteche North America, S.A. de C.V.	-	-	100%	22,834	10,053	3,335	-	36,222	(10,239)	25,983	Km. 73,540. Ant. Carretera México-Querétaro Tepejí del Río de Ocampo Estado de Hidalgo (México)	Manufacture and marketing of instrument transformers, relays and protection automatisms for high, medium and low voltage electrical installations.
AIT, S.A.	-	-	100%	14,062	(6,324)	374	3,816	11,928	(9,662)	2,266	Ruta 9, Km 689 Ferreyra Córdoba (Argentina)	Manufacture and commercialization of instrument transformers for high voltage electrical installations.
Arteche EDC Equipamientos e Sistemas, S.A.	-	-	100%	48,381	(41,773)	84	-	6,692	(5,472)	1,220	Rua Juscelino K. de Oliveira Curitiba Estado de Paraná (Brasil)	Manufacture and commercialization of electrical equipment and protection automatism for power plants.
Arteche Medición y Tecnología, S.A. de C.V. (**)	-	0.02%	99.98%	-	-	-	-	-	-	-	Industria Mecánica 2173 Desarrollo Zapopan – Jalisco (México)	Manufacture and marketing of electrical and computer equipment and machinery.
Arteche USA, Inc.	-	-	100%	1,541	(340)	604	-	1,805	(339)	1,466	18503 Pines Blvd. Suite 313 Pembroke Pines (Estados Unidos)	Manufacture and marketing of electrical and computer equipment and machinery.
Arteche ACP do Brasil Ltd . (***)	-	0.02%	99.98%	20,144	(10,290)	177	-	10,031	(10,031)	-	Rua Joao Marchesini, nº139 Curitiba Estado de Paraná (Brasil)	Marketing, import, export and maintenance of machinery, parts and equipment for the generation or cogeneration of electric power, telecommunications, electrical and electronic components.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Share capital	Reserves/ Losses	Profit/(loss) for the year	Other shareholder contributions and other items	Equity	Other equity items	Total	Address	Business
Arteche DYH Electric Co., Ltd.	-	-	60%	11,885	(4,172)	2,093	-	9,806	2,215	12,021	Taiping Industrial Park Pulandian Dailian Liaoning Province (China)	Manufacture and marketing of instrument transformers for high voltage electrical installations.
Arteche Gas Insulated Transformers, S.L.U.	-	-	100%	540	(7,281)	(481)	-	(7,222)	41	(7,181)	Gerezpea, 15 Polígono Industrial de Jundiz Vitoria (Álava)	Manufacture and commercialization of products related to the electric and energy sector.
Arteche Chile, S.p.A.	-	-	100%	63	(1,379)	(118)	-	(1,434)	238	(1,196)	Comuna de Estacón Central Región Metropolitana Santiago de Chile (Chile)	Elaboration, manufacture, commercialization, import, export and representation of all kinds of especially those related to electric power quality.
Arteche- Inael, S.L.	-	-	56%	1,786	(151)	-	-	1,635	-	1,635	Derio Bidea 28 Mungia (Bizkaia)	Promoting or fostering companies through temporary participation in their capital, receiving and granting financing to the companies in which it participates.
Smart Digital Optics Pty., Limited	5,758	57.6%	-	2,900	(3,509)	42	-	(567)	(334)	(901)	National Innovation Centre,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%	-	2,110	(62)	-	-	2,048	-	2,048	Derio Bidea 28 Mungia (Bizkaia)	Purchase, subscription, exchange and sale of securities, advice to companies and development of activities related to real estate and urban development.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Share capital	Reserves/ Losses	Profit/(loss) for the year	Other contribution contributions and other items	Equity	Other equity items	Total	Address	Business
Arteche & Inael Industrial Elétrica Ltda	-	-	56%	711	(1,213)	(3)	-	(505)	168	(337)	Rua Delegado Theolindo Baptista de Siqueira, 85 Almirante Tamandaré Estado de Paraná (Brasil)	Import, export, trade and manufacturing services of apparatus and equipment for measurement, distribution and control of electrical energy.
SAC Maker, S.A.U.	-	-	100%	2,869	(5,057)	(960)	4,804	1,656	162	1,818	Las Rozas (Madrid)	Development and commercialization of engineering projects related to the automation of control systems, manufacturing and/or assembly of machinery and electrical and electronic equipment and their corresponding software, as well as safety-related services.
Arteche Ventures, S.L.	80	99.80%	0.20%	5	(164)	-	-	(159)	-	(159)	Derio Bidea 28 Mungia (Bizkaia)	To purchase, subscribe, exchange and sell all kinds of domestic and foreign securities, on its own account and without intermediation activity, and, in particular, to carry out the management and administration of those securities. Likewise, to carry out market studies and prospecting, manage and place its own financial resources and those of the entities in which it has a direct or indirect participation, and entities belonging to the same business group.
Arteche ACP, S.A. de C.V	-	0.01%	99.99%	3,766	(2,210)	(207)	-	1,349	(106)	1,243	Calle 8 nº1-B Fraccionamiento Industrial Alce Blanco Naucalpan de Juaréz (México)	Development, design, manufacturing, production, commercialization, distribution, promotion, financing, execution and rendering of services in all matters related to project management of high, medium and low voltage electrical installations, using all energy sources, including renewable energies.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Share capital	Reserves/ Losses	Profit/(loss) for the year	Other contribution contributions and other items	Equity	Other equity items	Total	Address	Business
Arteche Middle East, D.M.C.C.	-	-	100%	23	196	(3)	-	216	-	216	Office Nº 903-904-16 Level 9 – Reef Tower Cluster O Jumeirah Lake Towers Dubai (UAE)	Commercialization of all types of Arteche brand electrical and electronic components.
ZB Inversiones, S.A.	2,308	97.01%	2.99%	486	1,296	302	723	2,807	(2,142)	665	Ruta nacional nº9, km 689, Barrio Ferreyra, Ciudad de Córdoba, Argentina	Real estate activity
Elmya Arteche Limited	-	-	49.99%	37	(908)	(862)	-	(1,733)	-	(1,733)	17 Grosvenor Gardens London SWS1W0BD	Construction of utility projects for electricity and telecommunications
Smart Grid India PVT (*)	-	-	100%	50	(31)	27	-	46	-	46	No 913, 9th Floor, Raheja Towars East Wing, 26/27 MG Road Bangalore – 560001	Promotion of the company's business activities and products in India
Basque Electrical Laboratories Alliance AIE	-	-	33.33%	360	4	(68)	-	296	-	296	Calle Laida Bidea, Paque Científico y Tecnológico de Bizkaia, Edificio 413. 48170 Zamudio	An economic activity ancillary to that carried out by the partners, which consists of the commercialization and provision of services at international level of tests and electrical equipment to be executed.
Farsens, S.L. (****)	-	-	7.65%	720	(999)	-	-	(279)	1	(278)	Paseo Mikeletegi, 54 20,009 San Sebastian (Guipúzcoa)	Research, development, manufacturing and marketing of wireless sensors and products and services in the field of electronics.
Arteche Andina, S.A.S.	-	-	100%	1	-	-	-	1	-	1	CL 78 nº9 57 P6 Bogotá D.C. (Colombia)	Promotion of the parent company's business activities and products in the Andean region.
	106,075											

(*) Financial statements available as of March 31, 2020.
(**) Liquidated on June 29, 2020.
(***) Company spun-off in 2020.
(****) In the process of liquidation. Latest available financial statements as of December 31, 2019.

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated Management Report for the year 2021

BUSINESS PERFORMANCE

Performance and trends in order intake (orders)

In 2021, the Arteche Group achieved a 3.7% growth with respect to the previous year, fulfilling the contracting plan. The areas driving this growth are Europe, Africa, the Middle East and North America. The Group has declined in Latin America and APAC, since these two regions were hit the hardest by the effects of Covid-19. All businesses are growing, except for reclosers, which has been severely impacted by the pandemic in Brazil, making new installations impossible. However, the market in this country is very strong and a recovery is envisioned for 2022.

EMEA grew by 24.5%, with Spain, the United Kingdom, the Nordic countries and the Middle East—which is solidifying its recovery—acting as driving forces.

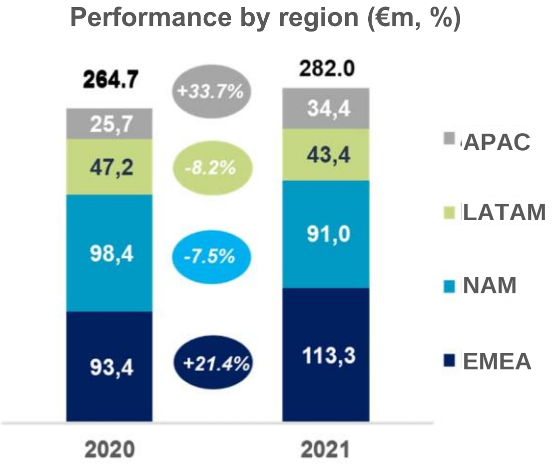
The United States grew by 8.1%, driven by the high and medium voltage transformer business. The first power quality projects are now completed in Canada, where the range of auxiliary relays has been fully approved.

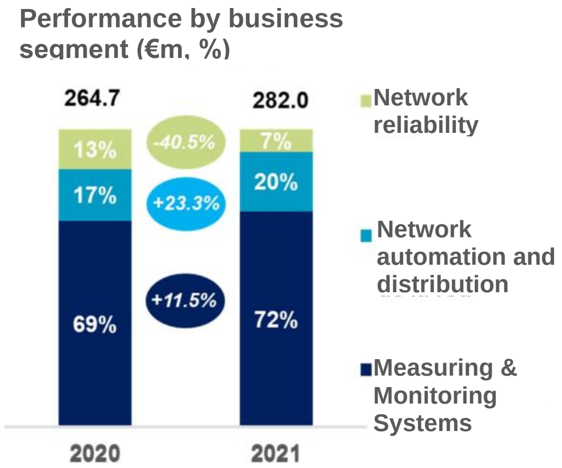
The Andean area is beginning to bear fruit after the commercial implementation in Colombia, with a strong growth in high and medium voltage transformers and auxiliary relays. In Latin America as a whole, there was a 14.6% decline due to the slowdown in the Brazilian market and the poor macroeconomic situation in Argentina. On a more positive note, the control and protection and relay business performed well.

The Asia Pacific region, heavily impacted by Covid-19, declined by 5.4% due to the drop in the High Voltage transformer business in China and Southeast Asia. The relay business performance was very good, driven by the rail segment in China, Korea and India.

2021 has been impacted by the negative situation resulting from Covid-19 in Latam and APAC. Nonetheless, expectations for 2022 are very positive due to the strong investment taking place in renewable generation, transmission networks and grid automation in EMEA and North America and the post-Covid-19 recovery in Latin America and Asia Pacific. In addition, following the integration of Esitas, the Group will advance the inorganic growth phase foreseen in the strategic plan, focusing on growth and strengthening its value propositions.

Turnover performance





There has been a strong increase in the **network automation and distribution** segment **, exceeding the previous year's figures by 23.5%,** both in the relay business and in substation automation. 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.

A growth of 11.5% has been achieved in **measuring and monitoring systems**, driven by the strong EMEA and APAC revenues and the incorporation of Esitas, a company acquired by the Group in July.

The **network reliability** business is decreasing its activity due to lower investments in reclosers in Brazil, a market where recovery is expected in 2022.

Strong increase in turnover in the APAC area.

Reduced business volume in the LATAM area, marked by uncertainty in Argentina, Chile and Brazil.

Result performance

Thousands euro	2021	2020
Revenues	**282,033**	**264,680**
Gross margin	88,807	91,252
Gross margin/Income (%)	**30.6%**	**34.6%**
EBITDA	26,097	29,932
EBITDA/Income (%)	**9.3%**	**11.3%**
Net income	8,543	1,029
Net income/Revenue (%)	**3.0%**	**0.4%**
Profit per share	**€0.16**	**€0.02**

Revenues increased 7% year-on-year, driven by the measurement and network automation businesses.

The **gross margin** decreased by four percentage points, mainly as a result of higher commodity and logistics costs. In the second half of 2021, the new price recovery strategy was launched, consisting of adapting sales prices to this new cost reality through the negotiation of framework agreements, price readjustment clauses and increasing sales prices for new offers. Due to the long term to maturity of some of the Arteche Group's products, such as high voltage transformers, the Group expects the gross margin to recover in the medium term.

EBITDA decreased compared to the previous year, impacted by the direct margin reduction and the downward trend of currencies, which affected the operating profit but not the final result. In order to mitigate these effects, a cost containment policy has been established, which has improved the percentage of fixed costs over turnover compared to the previous year, reducing it to 24.2% vs. 24.6% in 2020.

Strong reduction in financial expenses as a result of the diversification of financing sources and the currency hedging policy. In addition, financial income includes the profit derived from the purchase of the Smart Digital Optics Pty minority shares.

Net income reached 8.5 million euro, over eight times the previous year's figure, thanks to the increase in sales volume and the significant improvement in financial results.

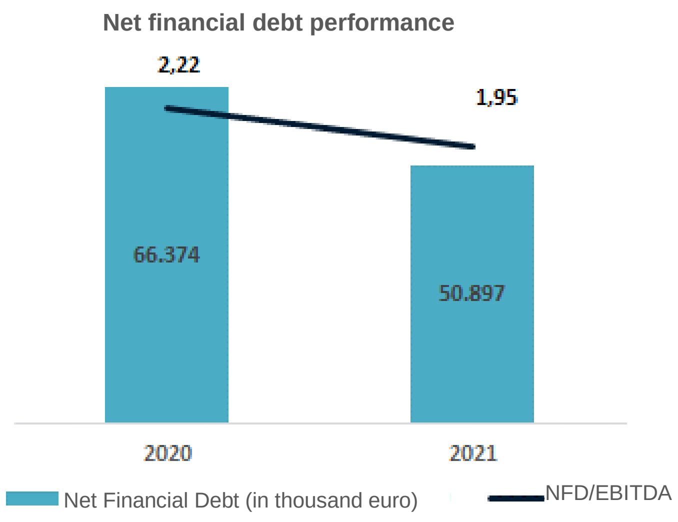
Balance sheet performance

In million euro	2021	2020
Net financial debt	50,897	66,374
Net financial debt /EBITDA	**1.95x**	**2.22x**
Equity	91,571	55,690
Equity	**58,514**	**26,059**

Significant equity strengthening following the capitalization linked to the stock launch in BME Growth.

The cash and cash equivalents position was strengthened by the recent participation of the Arteche Group in the BME Growth.

The Net Financial Debt was reduced by 15.5 million euro, which places the Net Financial Debt over EBITDA by a 1.95 ratio.



OUTLOOK FOR THE GROUP

The basic foundations set out in Arteche's strategic plan are upheld: we are in a growing sector thanks to the trends towards electrification, decarbonization, decentralization and digitalization of the energy system.

These transformational trends are unstoppable, and Arteche plays a relevant role as a supplier of innovative products and solutions.

The goals of doubling electricity demand by 2050 and generating 50% renewable energy by 2035 remain unchanged.

However, since mid-2020, we have encountered numerous external difficulties. The COVID-19 pandemic, inflationary pressures on raw materials, logistical complications and, last but not least, the war in Ukraine are making it difficult to achieve short-term goals.

On the bright side, the market performed well, with trading volumes exceeding planning, generating a significant increase in the portfolio.

However, despite us being a benchmark player in the global electricity market, the external cost pressures resulting from an extraordinary inflationary situation are going to affect our margins in the short term, until the situation stabilizes and our selling prices reflect the cost increase.

In any case, our firm objective for 2022 is to improve on the financial results of 2021 by guaranteeing the timely supply of our products to our customers, thereby aiding in the creation of much more efficient and sustainable electricity system.

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.).

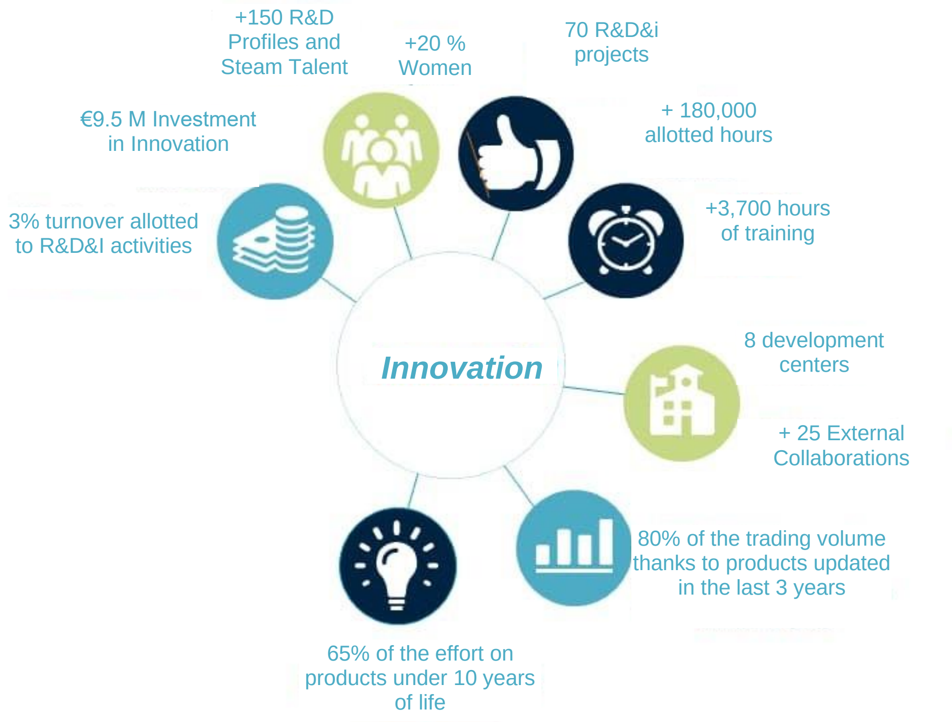
Arteche has been working on innovation since its very beginning, holding a firm conviction that investment in R&D&I is essential in order to maintain a good competitive position in the market, growth and sustainability.

Arteche's R&D&I strategy challenges

Energy, Sustainability, Technological, Innovation and Social Challenges

In order to help kick-start a future with energy in motion, Arteche is aware that there are a number of factors to consider when working on innovation, such as:

- **Electrification**, offering solutions for the efficient mobility and reliable interconnection of renewable energy generation.
- **Decarbonization** as an essential part of the Circular Economy and the use of sustainable materials exclusively in our equipment and infrastructures.
- The **Digitization of the Electricity Grid**, monitored, automated, predictive, secure and intelligent, Smart Grids.
- **Decentralization,** supported by Industry 4.0, in order to provide remote tools and predictive systems that support decision making to the teams and infrastructures operating in the network.
- **Democratization** of knowledge to support the necessary talent and to offer innovative, convenient and functional solutions to our customers.
- **Sustainability**. Use of sustainable materials in our designs.
- **Cost**.



Approximately 10 new hires, more than 10 university grants (with approximately 20% resulting in hiring), and promotion of indirect hiring through collaboration with technology centers and universities.

R+D+i projects

Organizational, innovation and technological capabilities

Technological Innovation and Products

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

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.

Preparation for the implementation of the IEC 62443 standard

Cybersecurity encompasses not only Information Technology (IT), but also Operations Technology (OT), which is critical to the survival of the business.

Arteche's commitment to cybersecurity is realized through its 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. Therefore, throughout 2021, the preparation and implementation work for systems and operations has been addressed under this standard, with a view to obtaining system certification next 2022.

Technology, Innovation and Talent

Arteche is not only constantly innovating thanks to its internal capabilities and organizational structure, but it also seeks to **forge alliances with agents** in both the local and international **ecosystem**, which has led to incorporating solutions that are now part of the Group's portfolio of products and services. Technology, Innovation and Talent are our great transformers towards a Sustainable Future.

Organizational Innovation and Processes

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

Organizational structure and DIGITAL “5S”

At Arteche, we are aware that Customer Experience starts with Employee Experience.

For this reason, in 2021, we have, among others things, embarked on an innovative and transversal project that is first and foremost a strategy for the innovation plan deployment and to facilitate daily operations in a global context (a benchmark not only because of the markets in which we operate, but also the products we develop and our work team diversity).

Supported by the R&D&I Management's strong leadership and commitment, the deployment of our new functional model provides spaces for and a focus on the design and development of new products and the implementation of improvements. Said spaces and focus are distinct but excellence-driven nonetheless. Thus, our teams are grouped into these two areas and, in turn, each of our products are in each group, containing both visions.

One of the biggest transformation challenges is getting this alignment in the approach to be an effective, efficient and collaborative driver of progress.

To complete this system, we have implemented the **DIGITAL"5S".** The initiative consisted of putting collaborative work in the foreground through a document management system supported by Cloud tools that favors transparency, communication and movement, following the "5S" methodology (regardless of if the workplace is physical and/or digital).

TREASURY STOCK OF THE PARENT COMPANY

On April 23, 2021, the Company acquired 1,346 treasury shares at 267.26 euro each, for a total payment of 360 thousand euro. Subsequently, there have been movements in the purchase and sale of treasury stock under the contract with the Liquidity Facility.

SUSTAINABILITY

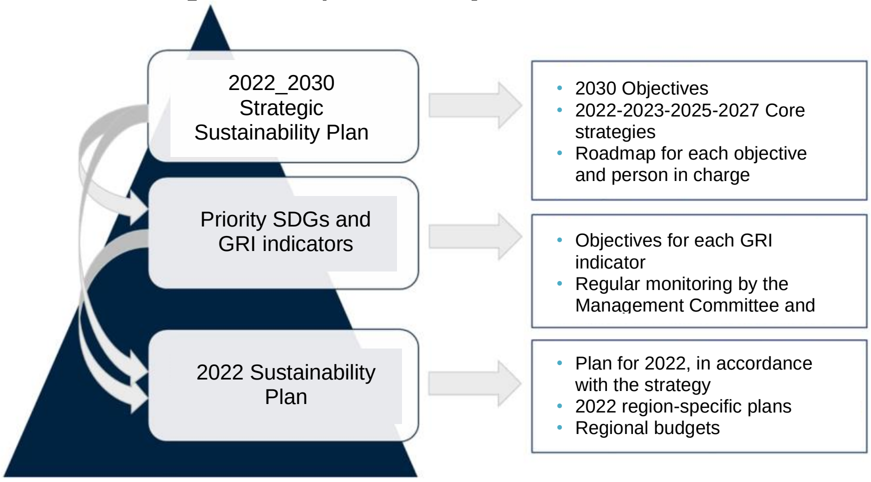
Policy and strategic plan

In 2020, following the strategic reflection process and the stakeholder and materiality analysis, the Arteche Group decided to focus on the Sustainable Development Goals that its activity can impact the most:

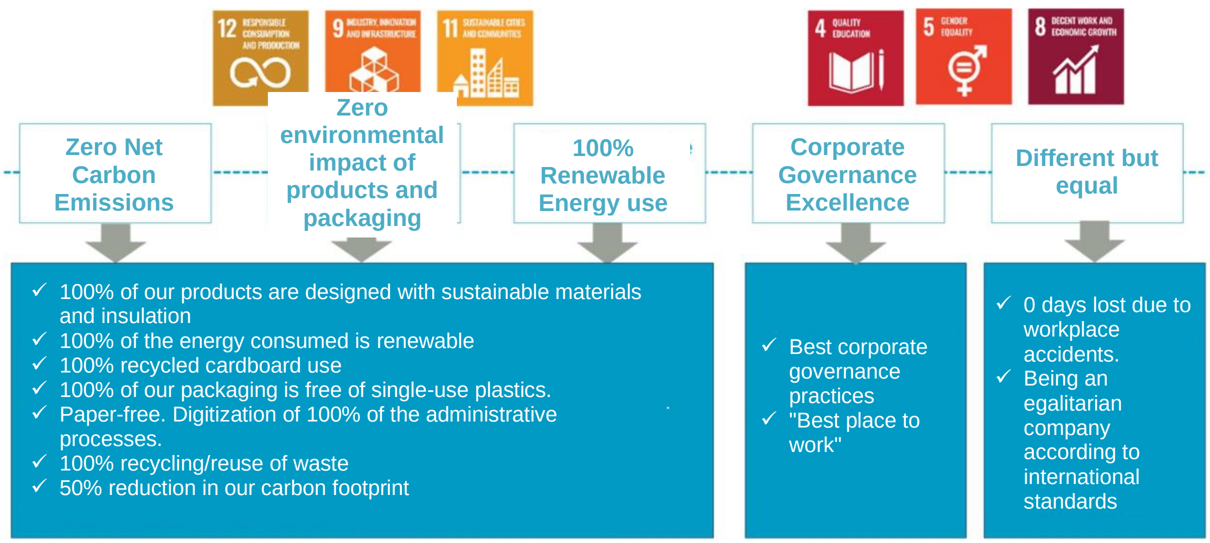
The process of integrating the operating strategy with the ESG (Environment, Social, Governance) strategy continued in 2021, with the approval by Arteche's Board of Directors of the *Sustainability Policy and* the *2022-2030 Strategic Sustainability Plan*, thus demonstrating the commitment of the highest executive body to a comprehensive sustainable strategy.

The *Sustainability Policy* is part of Arteche Group's corporate governance system and establishes the basic principles of action regarding the environment, people, society and good governance.

The *2022-2030 Strategic Sustainability Plan* establishes multi-year measurable objectives based on GRI (Global Reporting Standards) indicators, as well as a roadmap for each core strategy:



The *2022-2030 Strategic Sustainability Plan* defines five core strategies for 2030 from which 11 strategic objectives are derived:



Environmental criteria

With regard to the environmental objectives for the mitigation and adaptation to climate change of the Commission Delegated Regulation (EU) 2021/2139, the economic activities carried out by the Arteche Group are identified as the following:

- 3.1 Manufacture of renewable energy technologies
- 4.9 Electricity transmission and distribution
- 9.2 Research, development and innovation surrounding the market

Following the analysis performed by Arteche, the KPIs % for the environmentally eligible activities according to the criteria is as follows:

Eligible activities of the Arteche Group

Thousand euro	Revenues	Investments (Capex)	Operating expenses (Opex)
Total eligible activities	281,381	14,036	10,202
Arteche Group Total	282,053	14,056	10,242
% of eligible activities	**99.8%**	**99.9%**	**99.6%**
% of non-eligible activities	**0.2%**	**0.1%**	**0.4%**

The 2021 Non-Financial Statement, an integral part of this Management Report, details the performance of the Arteche Group in the main ESG material scope.

INVESTMENTS

Investments in property, plant and equipment (6 million euro) are mainly composed of R&D activations (5.1 million euro) in terms of technology development projects that will lead to improvements in the range of products manufactured by the Group and for which it is expected to obtain positive future profits and results.

Investments in property, plant and equipment from the organic business amounted to 5.5 million euro. This year, the new land and the Mexico warehouse stand out from other items in this figure, together with the usual technical installations and machinery associated with the replacement and improvement of production processes.

Inorganic growth

Acquisition of ESITAS

On July 9, 2021, Arteche announced the acquisition of 100% of the ESITAS Group, with manufacturing plants in Turkey and Indonesia.

This transaction is part of Arteche's inorganic growth strategy, as defined in its 2023 Strategic Plan.

With the acquisition of Esitaş, Arteche strengthens its industrial positioning in Asia and reinforces its leadership in the Measuring and Monitoring business.

Esitaş, founded in 1984, is headquartered in Istanbul, Turkey, with a second plant in Jakarta, Indonesia. Since its foundation, it has devoted its activity to the manufacture of medium and low voltage instrument transformers. It is a solid company with a brand that is highly recognized in the markets in which it operates. With a turnover of 15 million euro and an EBITDA of 2 million euro by the end of 2020, the incorporation of Esitaş into Arteche's scope will lead to a complementarity in markets, as well as production synergies.

For Arteche, the purchase of Esitaş implies progress on its inorganic growth plan, whose business approach is to gain presence in the Asian region and expand our portfolio of both products and customers thanks to the synergies that a company with a history like Esitaş'—with over 35 years of experience in the industry and in the measurement and monitoring market—can provide.

The incorporation of Esitaş to Arteche positions us among the 5 leading European companies in the medium voltage instrument transformer market. The transaction will create synergies in the purchase of materials, manufacturing processes, efficiencies in administration and monitoring functions, as well as new technologies, thanks to the innovation in design and resin technology.

Acquisition of SDO

On December 21, 2021 Arteche completed the acquisition of 100% of the shares of the Australian company Smart Digital Optics (SDO), of which it had already held 57.6% for more than a decade. The company has reached an agreement with the non-controlling shareholders who held the remaining 42.4% in order to formalize the purchase of the entire company.

Founded in 2004, SDO is a spin-off from the University of Sydney that manufactures fiber optic current sensors for the electric power industry. It is one of the first
companies that incorporated this type of optical technology into energy measurement and control systems, thereby allowing electrical currents to be measured more accurately and in a more sustainable manner. In 2010, the Arteche Group invested in SDO and a strategic alliance was formed.

As a result of this action, Arteche is strengthening its technological capabilities for the development of smart grids, direct current transmission and greater sustainability in the design of its products. Furthermore, thanks to this operation, the company intensifies its presence in the Australian market as part of its internationalization strategy, currently offering its services and products in more than 175 countries in Europe, Asia, America and Oceania.

RISKS AND UNCERTAINTIES

COVID-19

The international pandemic, declared as such on March 11, 2020 by the World Health Organization (WHO), led to the unfolding of an unprecedented health crisis which impacted the macroeconomic environment and performance of businesses. Due to this, there have been disruptions in the supply chain, increases in raw materials and energy prices and a shrinkage of the supply of certain components. The pandemic has affected the economy in general as well as the Company's operations, the consequences of which are uncertain for the coming months and will largely depend on the direction the pandemic takes and how far it spreads.

In this context, in 2020, the activities of all the Arteche Group's productive plants were designated as essential suppliers for critical operators given their importance in guaranteeing the delivery of electric energy. This fact helped avoid shutdowns which were not planned for industrial operations (in spite of having suffered minor regulatory shutdowns in the countries in which the Group operates), focusing the attention of Management on guaranteeing the continuity of operational security for the business as a priority and monitoring the impacts on the Group's business and risk exposure (such as the impacts on results, capital and reserves or liquidity).

The governance system pertaining to this risk has been based on a continuous monitoring of the pandemic everywhere the Arteche Group operates by means of its own Contingency Plan, based on several action protocols with both a global and regional perspective, as well as through a weekly pandemic management monitoring led by the Board of Directors in its different areas (health, finance, strategy, business continuity, etc.).

Although COVID-19 was deemed a priority risk in the 2020 Arteche Group corporate risk map insofar as it represented a business continuity risk, in 2021, its impact on social and health care was no longer significant, while its impact on the supply chain and operations became more significant. As a result, we have lowered their relative importance in our risk matrix, proportionally increasing the risks associated with business continuity and cost increases.

In light of the risks identified and under the Contingency Plan, the Group has implemented various measures in different areas, which are described in detail in the 2021 Non-Financial Statement, an integral part of the Management Report:

- Business continuity and operations
- Workplace health and safety
- Work-life balance and flexibility
- Financial Risks
- Cybersecurity
- Purchases and supply chain

The pandemic has affected the economy in general as well as the Group's operations, the consequences of which are uncertain for the coming months and will largely depend on the direction the pandemic takes and how far it spreads.

Based on the information available, the Directors of Arteche Lantegi Elkartea, S.A. consider that business continuity is not at risk given the excellent solvency and liquidity position of the Group.

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.

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 at December 31, 2021 and 2020 is as follows:

	Thousand euro	
	2021	**2020**
Non-current financial investments (except equity instruments)	1,245	2,254
Trade and other receivables (except balances with Public administrations)	39,628	37,466
Short-term financial investments	2,026	6,928
	42,899	**46,648**

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.

Within the framework of this risk minimization policy, at December 31, 2021, the Group has transferred the risks on receivables amounting to 28,767 thousand euro (13,612 thousand euro in 2020) to various financial institutions, which they have paid at the time of their assignment. However, in compliance with current accounting regulations, at December 31, 2021, the Group recorded an amount of 33 thousand euro (1,534 thousand euro at December 31, 2020) under Receivables, which had been assigned with recourse to financial institutions.

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 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.

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 variable interest rate financing is tied to Euribor for loans and credits in euro, to Libor dollars for credits in U.S. dollars and to the TIIE (Tasa de Interés Interbancaria de Equilibrio) for credits in Mexican pesos.

The Arteche Group hedges interest rate risk on cash flows mainly through interest rate derivatives. Under the interest rate call options, Arteche has the right, and the counterparty the obligation, to settle the difference between the variable interest rate and the stipulated rate in the event that it is positive. At December 31, 2021, the Group has taken out an interest rate "CAP" option for the syndicated loan.

Interest rate swaps (IRS) have the economic effect of converting external resources with a variable interest rate cost into a fixed rate cost, thus avoiding the risk of fluctuations in variable interest rates. Under these instruments, the Arteche Group—together with other counterparties, all of accredited financial solvency—undertakes to exchange, at the agreed frequency, the difference between the fixed interest and the variable interest, calculated on the basis of the notional amounts contracted. As of December 31, 2021, the Group has not taken out any interest rate swaps.

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.

In January 2022, several derivative instruments were contracted to hedge the variation risk for the variable interest rate concerning (i) all of the two drawdowns made on the Parent Company's loan with the EIB, i.e. 15,000 thousand euro, and (ii) 50% of the outstanding nominal amount of the syndicated loan at the date the derivative was contracted, i.e. 12,189 thousand euro.

The structure employed was an IRS for the two drawdowns on the EIB, given that this loan's floor clause is not set at 0%, with average fixed swap rates of 0.4919% for an
8.00 thousand euro drawdown and 0.3769% for a 7,000 thousand euro drawdown. The option chosen for interest rate risk hedging in 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.

By taken out these derivatives, Arteche has hedged the interest rate risk of approximately half of its non-current, variable rate debt. If we also take into account the loans already contracted at a fixed rate, Arteche now has interest rate risk coverage for approximately 62% 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 through its ordinary business, and not by speculating in relation to exchange rate fluctuations.

Arteche Group analyses 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 2021 and 2020, 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 shareholders' equity.

Raw material price risk

Fluctuations in the variables that set raw material prices, represented by the variability of global commodity markets, can affect the cost of the production process and can have a greater or lesser impact on business profitability. The Group is exposed to variations in the prices of raw materials listed on regulated markets. In order to mitigate this risk, the Group's companies employ a strategy of geographical market and supplier diversification through constant monitoring of supply and demand and active management of optimum stock levels.

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 profit or loss" is not significant given the low importance of these investments in the context of the Group's total assets and the shareholders' equity.

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

The maximum exposure to equity instrument price risk at 31 December 2021 amounts to 323 thousand euro (391 thousand euro at December 31 2020).

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.

	Million euro	
	2021	**2020**
Gross financial debt	**111.3**	**101.8**
Bank borrowings (including finance leases)	**53.7**	**65.2**
Syndicated loan	24.4	26.3
Other financial institutions	29.3	38.9
Other financial liabilities	**57.6**	**36.6**
Alternative Fixed-Income Market (MARF)	27.5	14.0
European Investment Bank (EIB)	15.0	15.0
Instituto de Crédito Oficial (ICO)	6.5	1.5
Cofides	6.6	3.0
Other (excluding free financing)	2	3.1
Liquid assets	**(60.4)**	**(35.4)**
Cash and cash equivalents	(58.7)	(30.6)
Other cash equivalents	(1.7)	(4.8)
Net financial debt	**50.9**	**66.4**
Unused lines of credit and discounting bills	40.0	44.0
Undrawn portion of syndicated loan	5.0	0.0
Undrawn portion of EIB and ICO	25.5	30.5
Undrawn MARF Commercial Paper programs	22.5	36.0
Availabilities	**93.0**	**110.5**

In addition, the following table details the working capital presented in the Group's consolidated balance sheet as of December 31, 2021 and 2020:

	Notes	Million euro 2021	Million euro 2020
Current asset		**183.6**	**141.4**
Current operating asset		**122.2**	**103.0**
Inventory	12	61.8	49.9
Trade and other receivables	13	60.4	53.1
Current non-operating asset		**61.4**	**38.4**
Short-term financial investments		2.0	6.9
Short-term accruals		0.7	0.8
Cash and cash equivalents	14	58.7	30.7
Current liabilities		**(151.4)**	**(129.4)**
Current operating liability		**(93.8)**	**(84.5)**
Trade and other payables		(93.8)	(84.5)
Non-current operating liability		**(57.6)**	**(44.9)**
Current creditors	21	(56.3)	(42.2)
Current provisions	20	(1.3)	(2.7)
Working capital		**32.2**	**12.0**

Although working capital in isolation is not a key parameter for understanding the Group's financial statements, Arteche actively manages its operating 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 2022.

Debt and solvency risk

At December 31, 2021, the Arteche Group recorded a consolidated net financial debt of 50.9 million euro, a 23.3% reduction when compared to the end of the previous year.

As a result, the financial solvency indicators at the end of 2021 reflect a debt equivalent to 1.95 times the EBITDA operating result for the last twelve months (compared to 2.22 times in 2020), 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 2021, these commitments have been fulfilled. Management monitors changes in debt based on several indicators:

- Net Financial Debt / EBITDA: 1.95x
- Net Financial Debt / Equity - Shareholders' Funds: 55.6%
- EBITDA / financial expenses: 6.5x

At year-end, it is important to highlight that undrawn credit lines and trade discount facilities amount to 21 million and 19 million euro, respectively (13 million and 31 million euro at the end of 2020, respectively).

INFORMATION REPORTED TO BME GROWTH

Date	Type of information	Information reported
7/9/2021	Privileged	Purchase of Esitas Turkey
8/27/2021	Privileged	Acquisition of Esitas Indonesia and formalization Esitas Turkey
10/29/2021	Relevant	Incorporation into MARF of the Arteche 2021 commercial paper program
12/20/2021	Relevant	Arteche- Hitachi Energy joint venture
12/21/2021	Relevant	Acquisition of up to 100% of Smart Digital Optics. Strengthening the digital network positioning
3/7/2022	Relevant	Liquidity facility switchover, from Banco Santander, S.A. to Norbolsa, S.V., S.A.
3/15/2022	Relevant	Publication of FY2021 results agenda

AVERAGE PAYMENT PERIOD FOR SUPPLIERS

During 2021, the average payment period of the Group's companies located in Spain was 119 days, as indicated in note 21.2 of the notes to the consolidated annual accounts.

STOCK INFORMATION

One of the Company's most significant 2021 milestones was its **stock launch in the BME MTF Equity BME Growth trading segment**. The purpose of this operation is to continue to boost growth and improve Arteche's market positioning, in line with its mission to be an international benchmark in the electricity sector, with a vocation to help its customers provide maximum value in order to grow together in the development of the electricity grid of the future.

Arteche's shares began trading on June 11, 2021, with an initial public offering price of 3.94 euro per share, equal to a market capitalization of 225 million euro. Since that date and until December 31, 2021, the share has suffered a drop of -8.61%. Regarding the share's liquidity, 3.0 million shares were traded on BME Growth during the year, a cash total amounting to 11.6 million euro.

In addition, since September 20, 2021, Arteche has been part of the **IBEX Growth Market All Share**, which is composed of those securities listed in the BME Growth segment of the BME MTF Equity Market—with the exception of SOCIMIs—and whose objective is to provide visibility to BME Growth companies and measure their market performance. It therefore does not have a specific number of components.

EVENTS AFTER YEAR-END CLOSING

In December 2021, Arteche Gas Insulated Transformers (AGIT) incorporates Hitachi Energy into its shareholding, with Arteche retaining 51% ownership while Hitachi Energy holds 49% ownership. Thus, Arteche and Hitachi Energy are joining forces through a joint venture in which both companies will work together in the sustainable gas insulated transformer market. This transaction allows the Arteche Group to improve its commercial position at a global level and entails another step towards the growth foreseen for Arteche's in the 2023 Strategic Plan, which aims to reach a turnover exceeding 325 million euro and to improve the EBITDA margin.

At the time of drafting this management report, this transaction has been notified to the antitrust authorities and is pending approval for its definitive execution.

In addition, in January 2022 the Arteche Group has contracted several derivative instruments to hedge interest rate risk of its main financing (Note 5)

NON-FINANCIAL STATEMENT

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 2021 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	2021	2020	Usefulness
Gross operating profit/(loss) (EBITDA)	Thousand euro	Operating profit/(loss) + Depreciation and amortization + Impairment of trade operations + Impairment of goods for sale + Work in progress and finished product impairment	26,097 Thousand euro = 12,515 + 11,615 + 654 + 162 + 1,150	29,932 Thousands euro = 17,167 + 10,847 + 697 + 347 + 874	APM of operating profitability excluding interest, taxes, depreciation and amortization. Used by Management to assess the generation capacity of cash operating results of the operating segments.
% EBITDA	%	EBITDA / Net business turnover	9.25% = 26,097 / 282,033	11.31% = 29,932 / 264,680	APM of % operating profitability excluding interest, taxes, depreciation and amortization.
Direct costs	Thousand euro	Supplies (excluding depreciation and extraordinary costs) + Direct personnel costs + Other direct operating costs	201,735 Thousands euro = 161,693 + 23,712 + 16,330	172,843 Thousands euro = 137,262 + 21,586 + 13,995	APM used by Management to measure operating expenses directly attributable to each operating segment.
Revenue at selling price	Thousand euro	Revenues – changes in inventories at selling price	290,542 Thousand euro = 282,033+ 8,509	264,095 Thousands euro = 264,680 - 585	APM used to measure production and other revenue at selling price
Gross margin	Thousand euro	Revenue at selling price - direct costs	88,807 Thousand euro = 290,542 – 201,735	91,252 Thousand euro = 264,095 - 172,843	APM of operating profitability used to assess the generation of profit/(loss) at selling price excluding those expenses that are not directly attributable to the operating segments.
% gross margin	%	Gross margin / Revenue at selling price	30.6% = 88,807 / 290,542	34.6% = 91,252 / 264,095	APM of % operating profitability to assess the generation of profit/(loss) at selling cost without indirect costs
Gross Financial Debt (GFD)	Thousand euro	Bank borrowings + Other financial liabilities + Finance lease creditors + Bonds and other marketable debt securities (current and non-current) - free financing	111,300 Thousand euro = 53,497 + 43,104 +999 +27,500 -13,800	101,837 Thousands euro = 40,823 + 23,545 +23,714 + 4,037 + 435 + 437 + 14,000 - 5,154	APM used by Management to assess the gross debt level, considering financing with costs only
Net Financial Debt (NFD)	Thousand euro	GFD - Short-term financial investments - loans to companies (outside the-group) - cash and other cash equivalents	50,897 Thousand euro = 111,300 – 58,709.-1,694	66,374 Thousand euro = 101,837 - 2,371 - 2,438 - 30,560 - 94	APM used by management to assess the level of net debt
Net Financial Debt / EBITDA	X times	NFD / EBITDA	1.95x = 50,897 / 26,097	2.22x = 66,374 / 29,932	APM, the purpose of which is to show the Group's degree of leverage, based on the NFD operational flow payment capacity.
Profit per share (basic and diluted)	€/share	Profit/(loss) attributed to the parent company / (weighted average of number of shares issued - weighted average of treasury stock)	0.16 euro = 8,543 / (53,714,110 – 74,972)	0.02 euro = 1,029 / (49,478,800 – 0)	Income attributable to holders of ordinary instruments of the Company. Arteche's basic and diluted shares Arteche do not differ, given that only common shares are issued.