

**ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARIES**  
**Consolidated Annual Accounts and Consolidated Directors' Report**  
**for the year ended**  
**31 December 2020**

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### Consolidated directors' report for the year ended 31 December 2020

**ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARIES**  
**Consolidated balance sheet at 31 December 2020**  
(Thousand euro)

<b>ASSETS</b>	<b>Notes</b>	<b>2020</b>	<b>2019</b>
<b>NON-CURRENT ASSETS</b>		<b>84,942</b>	<b>84,808</b>
<b>Intangible assets</b>		<b>32,915</b>	<b>35,477</b>
Consolidation goodwill	6	10,428	12,882
Other intangible assets	7	22,487	22,595
<b>Property, plant and equipment</b>	<b>8</b>	<b>23,421</b>	<b>20,955</b>
Land and buildings		5,750	5,255
Plant and other property, plant and equipment		14,507	11,694
Assets under construction and advanced		3,164	4,006
<b>Investment properties</b>	<b>9</b>	<b>142</b>	<b>163</b>
Land		142	163
<b>Non-current investments in group companies and associates</b>		<b>307</b>	<b>323</b>
Investments accounted for under equity method	10	307	323
<b>Non-current financial investments</b>	<b>11</b>	<b>2,645</b>	<b>2,669</b>
Equity instruments	3.3 and 11	391	351
Loans to third parties	11 and 13	1,478	586
Other financial assets	11 and 13	776	1,732
<b>Non-current payables to public administrations</b>	<b>22</b>	<b>1,230</b>	<b>941</b>
<b>Deferred tax assets</b>	<b>22</b>	<b>24,282</b>	<b>24,280</b>
<b>CURRENT ASSETS</b>		<b>141,355</b>	<b>152,965</b>
<b>Inventories</b>	<b>12</b>	<b>49,976</b>	<b>56,875</b>
Goods for resale		75	105
Raw and sundry materials		18,852	21,073
Work in progress		12,659	17,815
Finished products		16,528	15,522
By-products, residues and materials recovered		286	281
Prepayments to suppliers		1,576	2,079
<b>Trade and other receivables</b>	<b>13</b>	<b>53,093</b>	<b>73,195</b>
Trade receivables for sales and services rendered	11	36,428	48,234
Sundry receivables	11	993	8,779
Personnel	11	45	200
Other receivables from public administrations	22	15,627	15,982
<b>Current financial investments</b>		<b>6,928</b>	<b>3,036</b>
Equity instruments		-	1
Loans to group companies	11 and 13	3,535	736
Derivatives		1,022	283
Other financial assets	11	2,371	2,016
<b>Current accruals</b>		<b>798</b>	<b>588</b>
<b>Cash and other cash equivalents</b>	<b>14</b>	<b>30,560</b>	<b>19,271</b>
<b>TOTAL ASSETS</b>		<b>226,297</b>	<b>237,773</b>

**ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARIES**  
**Consolidated balance sheet at 31 December 2020**  
(Thousand euro)

<b>EQUITY AND LIABILITIES</b>	<b>Notes</b>	<b>2020</b>	<b>2019</b>
<b>EQUITY</b>		<b>26,059</b>	<b>33,054</b>
<b>SHAREHOLDERS' FUNDS</b>		<b>55,690</b>	<b>53,840</b>
<b>Issued capital</b>	<b>15.1</b>	<b>4,948</b>	<b>4,910</b>
Authorized capital		4,948	4,910
<b>Share premium</b>	<b>15.2</b>	<b>20,942</b>	<b>20,942</b>
<b>Reserves</b>	<b>15.3</b>	<b>81,889</b>	<b>96,459</b>
Legal and bylaw reserves		982	701
Other reserves		80,907	95,758
<b>Reserves in consolidated companies</b>	<b>15.3</b>	<b>(53,118)</b>	<b>(40,757)</b>
<b>Prior years results</b>	<b>15.3</b>	<b>-</b>	<b>(28,607)</b>
<b>Profit/(loss) for the year attributed to the parent company</b>	<b>15.5</b>	<b>1,029</b>	<b>893</b>
Consolidated profit and loss		1,874	1,403
Profit and loss attributed to non-controlling shareholders		(845)	(510)
<b>MEASUREMENT ADJUSTMENTS</b>		<b>(36,228)</b>	<b>(26,218)</b>
<b>Exchange differences – Consolidated companies</b>	<b>17.1</b>	<b>(36,665)</b>	<b>(26,409)</b>
<b>Hedging transactions</b>	<b>17.2</b>	<b>437</b>	<b>191</b>
<b>GRANTS, DONATIONS AND BEQUESTS RECEIVED</b>	<b>18</b>	<b>1,541</b>	<b>1,195</b>
Consolidated companies		1,541	1,195
<b>NON-CONTROLLING INTERESTS</b>	<b>19</b>	<b>5,056</b>	<b>4,237</b>
<b>NON-CURRENT LIABILITIES</b>		<b>70,837</b>	<b>46,021</b>
<b>Non-current provisions</b>	<b>20</b>	<b>2,966</b>	<b>2,301</b>
Non-current Social Security obligations		1,000	644
Other provisions		1,966	1,657
<b>Non-current creditors</b>	<b>21</b>	<b>64,972</b>	<b>41,508</b>
Bank borrowings	21.1	40,823	34,079
Derivatives	21.1	435	-
Other financial liabilities	21.2	23,714	7,429
<b>Deferred tax liabilities</b>	<b>22</b>	<b>2,899</b>	<b>2,212</b>
<b>CURRENT LIABILITIES</b>		<b>129,401</b>	<b>158,698</b>
<b>Current provisions</b>	<b>20</b>	<b>2,735</b>	<b>730</b>
<b>Current creditors</b>	<b>21</b>	<b>42,150</b>	<b>62,957</b>
Liabilities and other negotiable securities	21.2	14,000	-
Bank borrowings	21.1	23,545	45,925
Creditors with financial leasing	21.1	437	-
Derivatives	17 and 21.2	131	79
Other financial liabilities	21.2	4,037	16,953
<b>Trade and other payables</b>		<b>84,504</b>	<b>94,972</b>
Suppliers	21	49,714	51,617
Sundry payables	21	13,621	17,852
Personnel (Accrued wages and salaries)	21	3,834	2,651
Current tax liabilities	22	1,631	231
Other payables to public administrations	22	7,539	9,209
Customer advances	21	8,165	13,412
<b>Current accruals</b>		<b>12</b>	<b>39</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>226,297</b>	<b>237,773</b>

**ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARIES**  
**Consolidated income statement for the year ended 31 December 2020**  
(Thousand euro)

	Notes	2020	2019 (*)
<b>CONTINUING OPERATIONS</b>			
<b>Revenues</b>	<b>23.2</b>	<b>264,680</b>	<b>255,033</b>
Sales		256,856	248,093
Rendering of services		7,824	6,940
<b>Changes in inventories of finished products and work in progress</b>		<b>(1,597)</b>	<b>5,395</b>
<b>Work performed by the entity and capitalized</b>	<b>7.1</b>	<b>4,605</b>	<b>4,702</b>
<b>Costs of sales</b>	<b>23.3</b>	<b>(138,769)</b>	<b>(140,099)</b>
Consumption of raw materials, goods for resale and other consumables		(124,500)	(127,304)
Subcontracted work		(13,922)	(12,533)
Impairment of goods purchased for resale, raw materials and other consumables		(347)	(262)
<b>Other operating income</b>		<b>1,115</b>	<b>1,311</b>
Sundry and other income		863	897
Operating grants released to income during the year		252	414
<b>Personnel costs</b>	<b>23.4</b>	<b>(64,233)</b>	<b>(63,031)</b>
Wages, salaries and similar remuneration		(50,458)	(49,028)
Social Security		(13,775)	(14,003)
<b>Other operating expenses</b>		<b>(37,974)</b>	<b>(38,712)</b>
External services	23.5	(36,467)	(37,221)
Taxes		(749)	(1,056)
Losses, impairment and changes in trade provisions	13	(697)	(136)
Other operating expenses		(61)	(299)
<b>Depreciation and amortization</b>	<b>6, 7, 8 and 9</b>	<b>(10,847)</b>	<b>(11,707)</b>
<b>Grants related to non-financial assets other grants</b>	<b>18</b>	<b>338</b>	<b>507</b>
<b>Impairment and results on disposals of assets</b>		<b>-</b>	<b>21</b>
Results on disposals and other items		-	21
<b>Other gains or losses</b>		<b>(151)</b>	<b>(266)</b>
<b>OPERATING PROFIT/(LOSS)</b>		<b>17,167</b>	<b>13,154</b>
<b>Financial income</b>	<b>25</b>	<b>135</b>	<b>78</b>
From equity instruments		135	78
From third parties		135	78
<b>Financial costs</b>	<b>25</b>	<b>(5,296)</b>	<b>(6,114)</b>
Third-party borrowings		(5,105)	(5,980)
On adjustments to provisions		(191)	(134)
<b>Financial expense taken to income</b>		<b>-</b>	<b>(1)</b>
<b>Differences on exchange</b>	<b>25</b>	<b>(2,383)</b>	<b>(1,529)</b>
<b>Impairment and gains or losses on disposals of financial instruments</b>	<b>25</b>	<b>-</b>	<b>(583)</b>
Impairment losses and losses		-	(110)
Gains or losses on disposals and other		-	(473)
<b>FINANCIAL INCOME</b>		<b>(7,544)</b>	<b>(8,149)</b>
<b>Interest in profit/(loss) obtained by equity-consolidated companies</b>	<b>10</b>	<b>-</b>	<b>3</b>
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>			
<b>Corporate income tax</b>	<b>22.1</b>	<b>(2,478)</b>	<b>(1,451)</b>
<b>PROFIT/(LOSS) FOR YEAR FROM CONTINUING OPERATIONS</b>		<b>7,145</b>	<b>3,557</b>
<b>PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS (net of taxes)</b>	<b>26</b>	<b>(5,271)</b>	<b>(2,154)</b>
<b>CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR</b>		<b>1,874</b>	<b>1,403</b>
<b>Profit/(loss) attributed to the parent company</b>	<b>15.4</b>	<b>1,029</b>	<b>893</b>
<b>Profit/(loss) attributable to non-controlling interests</b>	<b>19</b>	<b>845</b>	<b>510</b>

(\*) Information restated (Note 3.2 of the attached annual report)

**ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARIES**  
**Consolidated statement of changes in equity for the year ended 31 December 2020**  
(Thousand euro)

**A) Statement of recognized income and expense for the year ended 31 December 2020**

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
<b>CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR</b>	15.4	<b><u>1,874</u></b>	<b><u>1,403</u></b>
<b>INCOME AND EXPENSE RECOGNISED DIRECTLY TO CONSOLIDATED EQUITY</b>			
Exchange differences	17.1	(10,256)	(1,304)
On cash-flow hedges	17.2	354	811
Grants, donations and bequests received	18	796	414
Tax effect	17 and 18	(300)	(315)
Non-controlling shareholders, net of taxes	19	(62)	78
<b>TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY TO CONSOLIDATED EQUITY</b>		<b><u>(9,468)</u></b>	<b><u>(316)</u></b>
<b>TOTAL TRANSFERS TO THE CONSOLIDATED INCOME STATEMENT</b>			
Grants, donations and bequests received	18	(338)	(507)
Tax effect	18	80	122
<b>TOTAL AMOUNTS TRANSFERRED TO THE CONSOLIDATED INCOME STATEMENT</b>		<b><u>(258)</u></b>	<b><u>(385)</u></b>
<b>TOTAL CONSOLIDATED RECOGNIZED INCOME AND EXPENSE</b>		<b><u>(7,852)</u></b>	<b><u>702</u></b>
<b>Attributed to the parent company</b>		<b>(8,635)</b>	<b>114</b>
<b>Attributed to non-controlling interests</b>		<b>783</b>	<b>588</b>

**ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARIES**  
**Consolidated statement of changes in equity for the year ended 31 December 2020**  
(Thousand euro)

**B) Statement of total changes in consolidated equity for the year ended 31 December 2020**

	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)	Profit/(loss) for the year attributed to the parent company (Note 15.5)	Exchange differences from consolidated companies (Note 17.1)	Hedging transactions (Note 17.2)	Grants, donations and bequests received (Note 18)	Non-controlling interests (Note 19)	TOTAL
<b>CLOSING BALANCE 2018</b>	4,643	17,520	66,275	(38,961)	567	(25,105)	(405)	1,266	3,591	29,391
Impacto de la hiperinflación en Argentina (Nota 2.5)	-	-	-	183	-	-	-	-	-	183
<b>ADJUSTED OPENING BALANCE 2019</b>	4,643	17,520	66,275	(38,778)	567	(25,105)	(405)	1,266	3,591	29,574
<b>Total consolidated recognized income and expense</b>	-	-	-	-	893	(1,304)	596	(71)	588	702
<b>Transactions with shareholders and owners</b>										
Capital increase (Note 15.1)	267	3,422	-	-	-	-	-	-	-	3,689
<b>Other changes in consolidated equity</b>										
Distribution of consolidated profits 2018	-	-	(7,423)	7,990	(567)	-	-	-	-	-
Other transactions	-	-	9,000	(9,969)	-	-	-	-	58	(911)
<b>CLOSING BALANCE 2019</b>	4,910	20,942	67,852	(40,757)	893	(26,409)	191	1,195	4,237	33,054
Impact of hyper-inflation in Argentina (Note 2.5)	-	-	-	840	-	-	-	-	-	840
<b>ADJUSTED OPENING BALANCE 2020</b>	4,910	20,942	67,852	(39,917)	893	(26,409)	191	1,195	4,237	33,894
<b>Total consolidated recognized income and expense</b>	-	-	-	-	1,029	(10,256)	246	346	783	(7,852)
<b>Transactions with shareholders and owners</b>										
Capital increase (Note 15.1)	38	-	(38)	-	-	-	-	-	-	-
<b>Other changes in consolidated equity</b>										
Distribution of consolidated profits 2019	-	-	(2,776)	3,669	(893)	-	-	-	-	-
Other transactions	-	-	16,851	(16,870)	-	-	-	-	36	17
<b>CLOSING BALANCE 2020</b>	4,948	20,942	81,889	(53,118)	1,029	(36,665)	437	1,541	5,056	26,059

**ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARIES**  
**Consolidated cash flow statement for the year ended 31 December 2020**  
(Thousand euro)

	Notes	2020	2019 (*)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) for year from continuing operations before income taxes		<b>9,623</b>	<b>5,008</b>
Profit/(loss) for year from discontinued operations before income taxes	26	<b>(5,271)</b>	<b>(2,154)</b>
<b>Adjustments to results</b>		<b>21,063</b>	<b>18,929</b>
Depreciation and amortization	6, 7, 8 and 9	10,847	11,707
Impairment adjustments		2,108	507
Variation of provisions		2,670	581
Grants released to income	18	(338)	(507)
Profit/(loss) on write-off and disposal of assets		-	(20)
Profit/(loss) on write-off and disposal of financial assets		-	473
Financial revenue	25	(135)	(66)
Financial costs		5,296	5,940
Other income/expense		115	-
Shareholdings in profits of companies consolidated using the equity method	10	500	314
<b>Changes in working capital</b>		<b>709</b>	<b>5,722</b>
Inventories		5,678	(8,005)
Trade and other receivables		17,806	2,474
Other current assets		(210)	189
Trade and other payables		(13,781)	12,328
Other current liabilities		(27)	17
Effect of exchange differences on the working capital of foreign companies		(8,468)	(1,331)
Other non-current assets and liabilities		(289)	50
<b>Other cash flows from operating activities</b>		<b>(5,392)</b>	<b>(5,675)</b>
Interest paid		(5,296)	(5,741)
Interest received		135	66
Income tax receipts (payments)		(231)	-
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>20,732</b>	<b>21,830</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Payments on investments</b>		<b>(12,943)</b>	<b>(11,750)</b>
Intangible assets	7	(5,235)	(5,468)
Property, plant and equipment	8	(6,441)	(6,242)
Other financial assets		(1,267)	(40)
<b>Proceeds from disposals</b>		<b>231</b>	<b>(356)</b>
Property, plant and equipment		92	70
Other financial assets		139	(426)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(12,712)</b>	<b>(12,106)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Proceeds from and payments on equity instruments</b>		<b>796</b>	<b>4,104</b>
Issue of equity instruments	15.1	-	3,689
Grants, donations and bequests received	18	796	415
<b>Proceeds from and payments on financial liability instruments</b>		<b>2,473</b>	<b>(4,860)</b>
Issuance			
Liabilities and other negotiable securities		14,000	-
Bank borrowings		30,157	79,805
Other payables		17,157	3,652
Repayment and redemption of			
Bank borrowings		(45,925)	(88,317)
Other payables		(12,916)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>3,269</b>	<b>(756)</b>
<b>NET INCREASE/(DECREASE) IN CASH OR CASH EQUIVALENTS</b>		<b>11,289</b>	<b>8,968</b>
<b>Cash and cash equivalents at beginning of the year</b>	14	<b>19,271</b>	<b>10,303</b>
<b>Cash and cash equivalents at year end</b>	14	<b>30,560</b>	<b>19,271</b>

(\*) Information restated (Note 3.2 of the attached annual report)



## **ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARIES**

### **Notes to the consolidated annual accounts for the year ended 31 December 2020**

(Thousand euro)

#### **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 object.

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 present consolidated annual accounts for the Group, including its interests in associates. Arteche Group may not carry on any business activity for which the applicable legislation provides for specific conditions or limitations unless it fully meets such conditions.

Arteche Group currently operates as a manufacturing group and principal supplier of cutting-edge products, facilities and services in the energy industry, structured in the following business units:

- "Instrument Transformers",
- "APG – Relays, circuit breakers, power quality",
- "Turnkey Solutions",
- Rest of the business units and Corporate

In 2020 the Arteche Group sold the Turnkey Systems business unit (Note 2.4) and redefined its structure in accordance with the following business units:

- "Measurement and Monitoring of systems" - groups together the commercialization of transformers 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.

#### **1.1 Effects of the COVID-19 pandemic on the activity**

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

On March 11, 2020, the World Health Organization declared the public health emergency caused by the corona virus outbreak (COVID-19) an international pandemic. The unfolding events on a domestic and international level represented an unprecedented health crisis which impacted the macroeconomic environment and performance of businesses.

In light of this situation, a series of measures were taken in 2020 to deal with the economic and social impact, which included restricting the mobility of citizens. Specifically, the Spanish government passed a series of measures: it declared a state of alarm through Royal Decree 463/2020, of March 14, which was lifted on July 1, 2020, and approved a series of extraordinary emergency measures to deal with

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(Thousand euro)

the economic and social impact of COVID-19, including those set out in Royal Decree-Law 8/2020, of March 17, amongst others.

In this context, 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 non-financial statement, which forms an integral part of the management report for 2020, includes the main measures adopted by the Group in five main areas:

- Contingency and business continuity measures
- Health and safety at work, work-life balance, and flexibility
- Financial risks
- Cybersecurity
- Purchases and supply chain

At the date of authorization for issue of these financial statements, the state of alarm declared by the Spanish government via Royal Decree 926/2020, of October 25, originally scheduled to run until November 9, 2020, had been extended to May 9, 2021 by Royal Decree 956/2020, of November 3, and was thus still in force.

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.

## **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.

**ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARIES****Notes to the consolidated annual accounts for the year ended 31 December 2020**

(Thousand euro)

**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 2020 and 2019 are as follows:

**2020:**

Once various internal restructuring operations were 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 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 consolidated statement of profit or loss (Note 26).

This purchase-sale contract is linked to the successful execution of the spin-off transaction for the two branches of activity pursued by STK Sistemas do Brasil, Ltda, establishing a creditor opposition period of 90 days. At the date of authorization of the accompanying consolidated financial statements no contingencies whatsoever had arisen in this respect.

**2019:**

The liquidation process for Arteche Medición y Tecnología, S.A. de C.V. which commenced during 2019 was finalized in June 2020 (Note 26).

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**2.5 Effect of considering Argentina a hyper-inflated country in 2020**

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 reviewed its disclosure policies in this regard, as well as its effects on its subsidiaries located there (AIT, S.A. and ZB Inversiones, S.A.).

Regulations stipulate that hyper-inflationary regulations represent the necessity to do the following:

- Adjust 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.
- Reflect the impact of annual hyper-inflation on the net monetary position on the income statement.
- Adjust 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.
- Transform the items on the AIT, S.A. financial statements using the prevailing 2019 exchange rate of 103,16 pesos/euro (67,24 pesos/euro in 2019).

The main effect on the 2020 and 2019 consolidated financial statements of the Arteche Group arising as a result of the abovementioned matters, which in no way can be considered significant, follow (in thousands of euros).

<b>ASSETS</b>	<b>Notes</b>	<b>2020</b>	<b>2019</b>
<b>NON-CURRENT ASSETS</b>		<b>1,011</b>	<b>162</b>
Property, plant and equipment	8	1,011	162
<b>CURRENT ASSETS</b>		<b>63</b>	<b>89</b>
Inventories		63	89
<b>TOTAL ASSETS</b>		<b>1,074</b>	<b>251</b>
<b>EQUITY AND LIABILITIES</b>	<b>Notes</b>	<b>2020</b>	<b>2019</b>
<b>EQUITY</b>		<b>840</b>	<b>183</b>
<b>SHAREHOLDERS' FUNDS</b>		<b>840</b>	<b>183</b>
Reserves in consolidated companies	15.3	840	183
<b>NON-CURRENT LIABILITIES</b>		<b>234</b>	<b>68</b>
Deferred tax liabilities	22	234	68
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,074</b>	<b>251</b>

The equity effects of hyperinflation are shown in the line "Reserves in consolidated companies". In 2020 the total impact on equity amounts to 840 thousand euros (183 thousand euros in 2019).

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Also, as a result of the derecognition of fixed assets in 2020 of the company AIT, S.A., the hyperinflation adjustment in 2019 has decreased by 39 thousand euros, the effect of which has been recorded under "Reserves in consolidated companies".

### **3. Basis of presentation**

#### **3.1 Fair presentation**

The consolidated annual accounts for 2020 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, as amended by Law 16/2007 (4 July) which reforms and adapts accounting legislation for international harmonization based on European Union legislation, Royal Decree 1514/2007 (20 November), which approves the General Accounting Plan and Royal Decree 1159/2010 (17 September) which approves the rules for preparing consolidated annual accounts and subsequent amendments (including Royal Decree 602/3016) 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 29 March 2021, together with those relating to investee companies, and will be presented for the approval of the relevant shareholders. The directors believe that such approval will be obtained without any modification being made.

The 2019 consolidated annual accounts for the Group were approved by the shareholders at the Annual General Meeting of Arteche Lantegi Elkartea, S.A. held on 27 April 2020 and were filed at the Vizcaya Mercantile Registry.

#### **3.2 Comparative information**

In accordance with Spanish mercantile law, for comparative purposes, for each of the headings included in the consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of changes in equity, and the consolidated cash flow statement, in addition to the figures for 2020, 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.

As indicated in Notes 2.4 and 26, during 2020 the Group sold its Turnkey Solutions segment (Turnkey Systems) and discontinued the activity of Elmya Arteche Limited and the switchgear business of Arteche North America, S.A. de C.V. and Arteche EDC Equipamientos e Sistemas, S.A.

The results after taxes for said activities were recognized under "Profit (loss) from discontinued operations (net of taxes)" in the accompanying consolidated statement of profit or loss for 2020 (Note 26). For purposes of facilitating comparison of information and in accordance with accounting regulations, the consolidated statement of profit or loss for 2019 was restated, with income and expenses relating to the Turnkey Solutions segment (Turnkey Systems) and Elmya Arteche Limited reclassified to "Profit (loss) from discontinued operations (net of taxes)," corresponding to a balance of 1,144 thousand euros. These reclassifications had no impact on consolidated equity or consolidated results.

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#### **3.3 Basis of consolidation**

The subsidiaries over which Arteche Lantegi Elkartea, S.A. exercises control were fully consolidated. The Arteche Group considers that it has the capacity to exercise control over a subsidiary when it has sufficient power to govern its financial and operating policies so as to obtain benefits from its activities. Such control is presumed to exist when Arteche Lantegi Elkartea, S.A., or one of 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 (Appendix).

All subsidiaries and associates were included in the 2020 consolidated annual accounts, except for the following subsidiaries and associates that were excluded due to the fact that they are immaterial:

<b>Company</b>	<b>% interest</b>
Arteche Middle East, J.L.T.	100.00%
Smart Grid India PVT	100.00%
Basque Electrical Laboratories Alliance AIE	33.33%

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 holds a 7.65% stake in the company Farsens, S.L.

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

#### **3.4 Grouping of items**

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

#### **3.5 Key aspects of the measurement and estimation of uncertainty**

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

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements 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



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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 verifies annually 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 to recognize income from electric substation and wind plant facilities that meet the requirements established in this connection (Note 4.23). This requires that a reliable estimate must be made of the revenue from each contract and the total contract costs, as well as of the percentage of completion of each facility at the year-end from technical and economic standpoints.

*Provisions and contingent liabilities*

The Group recognizes provisions for risks, in accordance with the accounting policy indicated in Note 4.19 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.

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**4. Recognition and measurement 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 in accordance with 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 4.15). 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, the amount of the cost of the business combination that exceeds the proportional part of the value of the identifiable assets acquired less the liabilities assumed representing the shareholding in the target company's capital is recognized as goodwill. 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 of control in stages**

When control over a subsidiary is obtained through several transactions carried out on different dates, the goodwill (or the negative difference) is calculated as 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 less 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 previously the investment was 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 is 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.



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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 in accordance with 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 of a subsidiary has been obtained, subsequent operations that result in a change in the parent company's shareholding in the subsidiary, without 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.

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

**4.1.5. Loss of control**

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

- a) The recognized profit or loss in the individual annual accounts is adjusted for consolidation purposes.
- b) If the subsidiary is reclassified as a jointly-controlled company or 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), taking into consideration the fair value at the date the interest is excluded from consolidation as the initial value.
- 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 that 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.

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**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'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'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 the 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

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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 there are any indications of the impairment of the cash generating units to which the goodwill has been assigned and, if so, any potential impairment is verified.

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

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**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 it is probable that the project will be a success considering its technological and commercial feasibility, there are sufficient technical and financial resources to complete it, the costs incurred may be reliably measured and a 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.

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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 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 5 years.

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**4.4 Property, plant and equipment**

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

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

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

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

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

	<b>Years of useful life</b>
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 Investment properties**

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.



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(Thousand euro)

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 there are any indications of the impairment of the cash generating units to which the goodwill has been assigned and, if so, any potential 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 direct margins, as well as discount rates.

**4.8 Impairment of non-financial assets**

Assets that have an indefinite useful life, such as Goodwill for example, are not subject to amortization and are tested annually for impairment. Assets subject to amortization are subjected to 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 less the higher of costs to sell and value in use.

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 has 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 present value of the cash flow after taxes relating to the activities affected by this swap are 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 less, and only if it is available.



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(Thousand euro)

**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 instalments 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 total financial charge for the lease is taken to the consolidated income statement in the year in which it accrues, applying the effective interest rate method. The same depreciation, impairment and disposal criteria are applied to the assets as are applied to assets of the same nature.

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

**4.11 Financial assets****a) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included in current assets except for assets maturing in more than 12 months of the balance sheet date, which are classified as non-current assets. Loans and receivables are included in "Loans to group companies" and "Trade and other receivables" in the balance sheet.

Financial assets are initially carried at fair value, including directly attributable transaction costs, and are subsequently measured at amortized cost. Accrued interest is recognized at the effective interest rate, which is the discount rate that brings the instrument's carrying amount into line with all estimated cash flows to maturity. Trade receivables falling due in less than one year are carried at their face value at both initial recognition and subsequent measurement, provided that the effect of not discounting flows is not significant.

At the year-end, at least, the necessary value adjustments are made to account for impairment when there is objective evidence that all receivables will not be collected.

An impairment loss is the difference between the carrying amount for the asset and the present value of future estimated cash flows discounted at the effective interest rate at the time of initial recognition. Measurement adjustments, as well as their reversal, are recognized in the consolidated income statement.

**b) Investments held until maturity**

Held-to-maturity financial assets are securities representing debt with fixed payments or payments that may be determined and have a fixed maturity date, are traded on an active market and with respect to which Group management has the effective intention and capacity to hold to maturity. If the Group sells an amount that is not immaterial of the financial assets held to maturity, the complete category would be reclassified as available for sale. These financial assets include non-current assets, except for those that mature within 12 months as from the date of the balance sheet which are classified as current assets.

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(Thousand euro)

The measurement methods applied to these investments are the same as for loans and receivables.

c) Financial assets held for trading and other financial assets at fair value through changes in profit or loss

Financial assets at fair value through profit or loss are considered to be all those assets held for trading that are acquired with the intention of being sold in the short-term or which form part of an identified securities portfolio that is jointly managed to obtain short-term profits, as well as financial assets designated by the Group at initial recognition to be included under this category as it provides more relevant information. Derivatives are also classified as held for trading provided that they do not consist of a financial guarantee and have not been designated as hedging instruments.

These financial assets are measured, both initially and subsequently, at fair value and any changes affecting this value are taken to the income statement for the year. Transaction costs directly attributable to the acquisition are recognized in the income statement for the year.

d) Available-for-sale financial assets

This category includes debt securities and equity instruments that have not been classified in any of the preceding categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the consolidated balance sheet date.

They are carried at fair value, recording the changes that take place directly under equity, up until the asset is disposed of or becomes impaired, the time at which accumulated profits and losses accumulated in equity are charged against the income statement, provided that it is possible to calculate the aforementioned fair value. If this is not the case, they are stated at cost less impairment losses.

In the case of available-for-sale financial assets, measurement adjustments are made if there is objective evidence of impairment as a result of a reduction or delay in estimated future cash flows in the case of acquired debt instruments or due to the lack of the recovery of the carrying amount of the asset in the case of equity investments. The measurement adjustment is the difference between their cost or amortized cost less, if appropriate, any adjustment previously recognized in the income statement, and their fair value at the time at which measurement takes place.

In the case of equity instruments that are measured at cost when their fair value cannot be calculated, the measurement adjustment is determined as the difference between their carrying amount and their recoverable value, which is understood to be the higher of their fair value less selling costs and the present value of cash flows deriving from the investment. Unless better evidence is available regarding the recoverable amount, when estimating the impairment of these investments, the investee's equity is taken into account, adjusted for any latent capital gains existing at the measurement date. The measurement adjustment and, if appropriate, its reversal, is recorded in the consolidated income statement for the year in which this operation takes place.

If there is objective evidence of impairment, the Group records accumulated losses previously recognized under equity as a reduction in fair value in the consolidated income statement. Impairment losses on equity instruments recognized in the income statement are not reversed through the income statement.

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(Thousand euro)

The fair values of listed investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using measurement techniques which include the use of recent transactions between knowledgeable willing parties, reference to other instruments which are substantially identical, methods of discounting future cash flows and models for setting option prices by making maximum use of observable market data and relying as little as possible on the Group's subjective considerations.

Financial assets are eliminated from the balance sheet when all risks and rewards inherent to ownership are substantially transferred. In the specific case of accounts receivable, the understanding is that this takes place in general when the risks of insolvency and default have been transferred.

**4.12 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.

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. Swaps are entered into to exchange floating rates for fixed rates.

The Group also enters into contracts to hedge the risks arising from changes in exchange rates.

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.

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(Thousand euro)

**4.13 Inventories**

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

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

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

Cost is determined using the weighted average cost. The cost of finished products and work in progress comprises design costs, raw materials, direct labour, 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, less 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 in the same terms established for assets.

**4.14 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.

**4.15 Financial liabilities****a) Borrowings and payables**

This category includes trade and non-trade payables. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months as from the balance sheet date.

Payables are initially recognized at fair value, adjusted for directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method. The effective interest rate is the discount rate that brings the instrument's carrying amount into line with the expected future flow of payments to the maturity date of the liability.

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(Thousand euro)

However, loans for commercial operations maturing within one year, and which do not have a contractual interest rate, are stated, both at the time of initial recognition as well as subsequently, at their nominal value provided that the effect of not restating flows is not significant.

*b) Hedge derivatives*

They include the derivatives classified as hedging instruments and they are measured in accordance with the matters described in Note 4.12.

*c) Financial liabilities held for trading*

They include financial liabilities issued with the intention of repurchasing them in the short term and derivative instruments that have not been designated as hedging instruments.

These financial liabilities are recognized and valued using the same criteria as financial assets held for trading.

#### **4.16 Cash and other 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 form part of the Company's normal cash management policy.

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

#### **4.17 Grants**

Repayable grants are recognized under liabilities until the conditions are fulfilled for the grants to be treated as non-repayable. Non-repayable grants are recognized directly in equity and are taken 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 and 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 in the same year in which the relevant expenses accrue together with those granted to offset operating deficits during the year granted, except when they are used to offset operating deficits in future years in which case they are attributed to those years.

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(Thousand euro)

#### **4.18 Current and deferred taxes**

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

Additionally, until the year 2019, the companies of the SAC Group were part of a tax group, whose parent company was Grupo Empresarial SAC, S.L. and which was assigned the number 290/14 for administrative purposes. In 2020 the company SAC Maker, S.A.U. has absorbed, with effect from January 1, 2020, the companies Grupo Empresarial SAC, S.L., SAC Servicios Corporativos, S.L., Sistemas Avanzados de Control, S.A., SAC Energy Solutions Corporation and SAC Seguridad, S.L. (Note 2.4), extinguishing SAC Maker, S.A.U. (Note 2.4). (Note 2.4), thereby extinguishing the tax consolidation group.

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

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

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

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

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

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

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

#### **4.19 Provisions and contingencies**

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

Provisions are carried at the present value of the payments that are expected to be necessary to settle the obligation, using a rate before taxes that reflects the evaluation of the current market for the



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(Thousand euro)

temporary value of money and the specific risks relating to the obligation. Adjustments made to update the provision are recognized as a financial expense as they accrue.

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

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

**4.20 Business combinations**

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

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

**4.21 Non-current employee benefit liabilities**

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

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

**4.22 Termination benefits**

The indemnities payable in accordance with the employment legislation in force in each country to employees that, under certain conditions, are dismissed by Arteche Group and which may be reasonably quantified, are recognized as an expense for the year in which there is a valid expectation created with respect to the affected parties.

**4.23 Income recognition**

Revenue is carried at the fair value of the consideration receivable and represents amounts receivable for goods delivered and services rendered in the ordinary course of the Group's activities, less returns, discounts and VAT.

The Group recognizes revenue when the amount may be reliably estimated, it is likely that the future economic benefits will flow to the Group and the specific conditions are fulfilled for each of the activities, as described below. A reliable calculation of the amount of revenue is not deemed possible until all sale-related contingencies have been resolved. The Group bases its estimates on historical results, taking into account the type of customer, the type of transaction and the specific terms of each arrangement.

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(Thousand euro)

a) Sales income

Sales income is recognized when the significant risks and rewards inherent to the ownership of the sold assets are transferred to the buyer, the asset is no longer part of the operating assets of the Company, and effective control is not retained. The indirect taxes levied on transactions and which may be charged to third parties do not form part of revenues.

b) Income 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

Arteche group applies the stage of completion method to measure firm construction and assembly contracts covering electric substations and electrical systems at wind energy plants, as well as the production of automation systems. 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 31 December 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 fulfilment 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.

The partial invoices issued are recorded by crediting the account "Trade and other payables - Customer prepayments" under liabilities on the consolidated balance sheet in those cases in which the amount of costs incurred is less than the amount invoiced and in the amount of the difference between them, taking into account the project's projected margin.



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(Thousand euro)

When the invoices issued correspond to the cost incurred and taking into account the projected margin, the invoiced amount is recognized as income in the heading "Revenue" in the consolidated income statement and no amount whatsoever is recognized in the heading "Inventories" in the consolidated balance sheet. Those projects in which the stage of completion invoiced is less than the stage of completion in terms of incurred costs, the companies recognize the costs paid yet to be invoiced, including the estimated margin for the project in accordance with the stage of completion reached, in the headings "Trade and other receivables" in the consolidated balance sheet and the heading "Revenue" in the consolidated income statement.

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 rate 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 above, if the dividends distributed originate from profits generated prior to the acquisition date they are not recognized as income but rather as lowering the carrying amount of the investment.

#### 4.24 Transactions in foreign currency

a) Functional and presentation currency

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

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

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

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

- Assets and liabilities are translated at the closing exchange rate, which is the average spot rate at that date.
- Equity items, including profit for the year, are translated at the historic exchange rate.
- The difference between net assets and liabilities and equity items is recognized in an equity heading called "Difference on exchange" net of the tax effect, if appropriate, and after having deducted the portion of that difference that relates to minority shareholders, and
- Cash flows are translated at the exchange rate on the date of each transaction or using an

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(Thousand euro)

average weighted exchange rate for the monthly period, provided that there have not been any significant variances.

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

The historic exchange rate is:

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

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

**4.25 Environmental assets**

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

**4.26 Related-party transactions**

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

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

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

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

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(Thousand euro)

**5. Financial risk management**

Arteche Group is exposed to certain financial risks (credit, market and liquidity risk) that it manages by grouping together risk identification, measurement, concentration limitation and oversight systems. Arteche Group's corporate management and business units coordinate the management and limitation of financial risks through the policies approved at the highest executive level, in accordance with the established rules, policies and procedures, which are approved and supervised by the Board of Directors of the parent company. The identification, assessment and hedging of financial risks are the responsibility of each of the businesses.

**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 31 December 2020 and 2019 is as follows:

	<b>Thousand euro</b>	
	<b>2020</b>	<b>2019</b>
Non-current financial investments	2,645	2,669
Trade and other receivables (except balances with Public administrations)	37,466	57,213
Current financial investments	6,928	3,036
	<b>47,039</b>	<b>62,918</b>

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.

The Group has transferred debt claims totalling 13,612 thousand euro (16,832 thousand euro in 2019) to several financial institutions within the framework of this risk minimization policy, and those institutions made payment of the receivables at the time they were assigned. However, in compliance with current accounting legislation, at 31 December 2020 the Group included 1,534 thousand euro (12,231 euro at 31 December 2019) under Receivables that 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.

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,

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subsequent legal claims are made. Customer credit limits are reviewed on a regular basis, primarily those that have shown delays in payment.

The normal payment period granted is 60 days and the average collection period is a few days longer, in accordance with customer payment practices. The contracts for turnkey projects establish interim invoices that are closely related to the stage of completion of the work concerned.

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 analysed 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.

**Investment activities**

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 and other price risks.

**Interest rate risk**

Interest rate risk arises from the possible loss 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 Group manages interest rate risk by distributing financing received between fixed and variable rates. Arteche Group has arranged substantially all of its borrowings at floating rates and uses hedging instruments, where appropriate, to minimize the risk, basically when the financing is non-current. The hedging instruments that are specifically assigned to debt instruments have the same maximum nominal amounts.

Variable rate financing is referenced to the Euribor and the Libor-dollar.

**Exchange 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.

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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 2020 and 2019, the Group carried out net balance sheet transactions and issued orders related to 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.

On an annual basis the Group analyses the advisability of creating a hedge for copper acquisition prices for its production companies, in order to offset possible upward changes in purchasing prices. The actual purchase prices are based on the listed price on the London Metal Exchange. No hedging transactions took place in 2020 or 2019.

Other price risks

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 2020 amounts to 391 thousand euro (351 thousand euro at 31 December 2019).

**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 in this respect, such as maintaining credit facilities in a sufficient amount and flexibility, the diversification of the coverage of financing needs by accessing different markets and geographic areas, and the diversification of maturity dates for issued debt.

On December 27, 2017, a new syndicated loan was signed (Note 21.1). Additionally, in January 2018, it was signed a new framework agreement for working capital lines for three consecutive years. Moreover, as indicated in Note 2.6, a new capital increase was carried out and new loans were signed during 2019 and early 2020. As a consequence of these measures, the Group does not expect any significant liquidity risk during 2020.

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In addition, with respect to the financial situation 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 was carried out for an amount of 7,000 thousand euros in April 2020.

Likewise, in February 2020 a long-term loan was arranged with Cajamar for an amount of 7,000 thousand euros.

Both transactions allowed for the substitution of 10,500 thousand euros of short-term debt owed to Alteralia N+1 with long-term debt, for which Cajamar granted a two-year grace period and three years for amortization while EBI granted a three-year grace period and five years for amortization. In addition, the early cancellation of the loan granted by Alteralia N+1 allows the Group significant savings in financial expenses, having substituted debt repayable at 8% with debt at an average cost of approximately 2.5%.

In November 2020 the Group accessed financial markets for the first time, having registered a commercial paper program on the Spanish alternative fixed income securities market ("MARF" in its Spanish acronym). This new source of financing can be utilized for a balance of up to 50 million euros at very competitive prices below 1% annually and the commercial paper maturities ranging from one to twelve months.

Further, in 2020 the Official Credit Institute ("ICO" from the Spanish "Instituto de Crédito Oficial") guaranteed the R&D&I plan, confirming its compliance with European Union directives in matters of Innovation and Sustainability and granting long-term and flexible financing (6 years) for an amount of 20 million euros, which will allow the Group to implement the plans it has established for coming years. The Group had drawn 1.5 million euros at December 31, 2020.

In addition, new loans were arranged during 2020 to provide the Group with the financial stability necessary for fulfilling its commitments, the most noteworthy of which were the loans from financial entities guaranteed by the ICO for a balance of 13,350 thousand euros at December 31, 2020 maturing in 2025 and 2026.

As a consequence of these measures, the Group does not expect any significant liquidity risk during 2021.

**5.2 Fair value estimation**

The fair value of financial instruments that are sold on active markets (such as securities held for trading and available for sale) is based on market price at the balance sheet date. The listed market price used for financial assets is the ordinary buy price.

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



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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 for 2020 and 2019 are as follows:

	Thousand euro					
	31.12.18	Movements	Others	31.12.19	Movements	31.12.20
Arteche North América, S.A. de C.V.	678	(96)	-	582	(96)	486
Arteche EDC Equipamientos e Sistemas, S.A.	249	(35)	-	214	(35)	179
Arteche Medición y Tecnología, S.A. de C.V. (Nota 2.4 y 26)	97	(14)	(83)	-	-	-
Arteche DYH Electric Co., Ltd.	246	(36)	-	210	(36)	174
SAC Maker, S.A.U.	11,077	(1,847)	-	9,230	(1,847)	7,383
Arteche Chile, S.p.A.	135	(18)	-	117	(18)	99
Smart Digital Optics Pty, Limited	2,952	(423)	-	2,529	(422)	2,107
	<b>15,434</b>	<b>(2,469)</b>	<b>(83)</b>	<b>12,882</b>	<b>(2,454)</b>	<b>10,428</b>

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.

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 8.5% and 9.3% at December 31, 2019) 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% and 3% in fiscal 2019) have been considered.

As for the goodwill allocated to Smart Digital Optics Pty, Limited, a discount rate of 8.77% (8% at December 31, 2019) and a flow growth rate beyond the 5-year period of 2.54% (between 2% and 3% in fiscal 2019) 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.

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**6.1 Description of the main movements**

During the fiscal year 2019, the liquidation process of the company Artech Medición y Tecnología, S.A. de C.V. was initiated (Note 2.4); consequently, in 2019 the Group recorded a valuation adjustment of the goodwill associated with this company in the amount of 83 thousand euros under "Profit from discontinued operations (net of tax)" in the accompanying consolidated income statement.

This liquidation process was completed on June 29, 2020.

**7. Other intangible assets**

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

	Opening balance	Additions and allocations	Disposals	Exchange differences	Closing balance
<b>2020</b>					
Cost					
Development	78,810	4,843	(89)	(680)	82,711
Concessions	554	-	-	92	646
Licenses	1,285	9	-	(34)	1,251
Computer software	11,104	603	-	(272)	11,395
Other intangible assets	7,982	-	-	20	8,002
	99,735	5,455	(89)	(874)	104,005
Accumulated amortization					
Development	(61,746)	(4,042)	-	230	(65,558)
Concessions	(139)	(166)	-	-	(305)
Licenses	(492)	(5)	-	20	(477)
Computer software	(9,921)	(417)	-	235	(10,103)
Other intangible assets	(4,324)	(233)	-	-	(4,557)
	(76,622)	(4,863)	-	485	(81,000)
Impairment (Note 26)	(518)	-	-	-	(518)
<b>Net carrying amount</b>	<b>22,595</b>				<b>22,487</b>



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	Thousand euro				
	Opening balance	Additions and allocations	Disposals	Exchange differences	Closing balance
<b>2019</b>					
Cost					
Development	74,092	4,843	(223)	98	78,810
Concessions	553	-	-	1	554
Licenses	1,485	9	(218)	9	1,285
Computer software	10,496	603	(18)	23	11,104
Other intangible assets	7,982	-	-	-	7,982
	94,608	5,455	(459)	131	99,735
Accumulated amortization					
Development	(57,509)	(4,458)	223	(2)	(61,746)
Concessions	(139)	-	-	-	(139)
Licenses	(695)	(4)	218	(11)	(492)
Computer software	(8,964)	(950)	-	(7)	(9,921)
Other intangible assets	(4,075)	(249)	-	-	(4,324)
	(71,382)	(5,661)	441	(20)	(76,622)
Impairment (Note 26)	(672)	154	-	-	(518)
<b>Net carrying amount</b>	<b>22,554</b>				<b>22,595</b>

**7.1 Significant movements**

Of the total amount of development expenses incurred in 2020 the Group capitalized 4,605 thousand euro (4,702 thousand euro in 2019), 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 at the year-end represented 4,335 thousand euro at 31 December 2020 and, therefore, those projects have not yet started to be amortized (3,337 thousand euro at 31 December 2019).

**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	Carrying amount
<b>2020</b>			
Development	5,767	(3,907)	1,860
Concessions	543	(137)	406
Patents, licenses and trademarks	129	(129)	-
Computer software	1,379	(1,151)	228
	<b>7,818</b>	<b>(5,324)</b>	<b>2,494</b>
<b>2019</b>			
Development	6,172	(3,812)	2,360
Concessions	555	(152)	403
Patents, licenses and trademarks	124	(118)	6

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Computer software	2,195	(1,537)	658
	<u>9,046</u>	<u>(5,619)</u>	<u>3,427</u>

**7.3 Fully-amortized intangible assets**

At 31 December 2020 there are fully amortized intangible assets with a carrying amount of 70,667 thousand euro that are still in use (64,242 thousand euro in 2019). This amount mainly relates 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.

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**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 2019 and 2018 are as follows:

	Thousand euro							
	Opening balance	Hyper-inflation effect (Note 2.5)	Additions and allocations	Changes in the scope of consolidation	Disposals	Transfers	Other movements and exchange differences	Closing 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
Assets under construction and advanced	4,006	-	2,654	-	-	(3,316)	(180)	3,164
	89,787	2,568	6,441	(208)	(139)	-	(4,643)	93,806
Accumulated depreciation								
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

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	Thousand euro							
	Opening balance	Hyper-inflation effect (Note 2.5)	Additions and allocations	Changes in the scope of consolidation	Disposals	Transfers	Other movements and exchange differences	Closing balance
2019								
Cost								
Land and buildings	10,266	-	87	-	(22)	66	(30)	10,367
Plant and other PPE	70,049	2,020	2,653	-	(743)	2,755	(1,320)	75,414
Assets under construction and advanced	3,203	-	3,509	-	-	(2,821)	115	4,006
	83,518	2,020	6,249	-	(765)	-	(1,235)	89,787
Accumulated depreciation								
Buildings	(4,663)	-	(421)	-	22	4	(54)	(5,112)
Plant and other PPE	(60,521)	(1,858)	(3,193)	-	693	(4)	1,163	(63,720)
	(65,184)	(1,858)	(3,614)	-	715	-	1,109	(68,832)
Net carrying amount	18,334							20,955

Land had a value of 195 thousand euro at 31 December 2020 (195 thousand euro at 31 December 2019).

### 8.1 Significant movements

Additions of the years 2019 and 2020 were essentially due to the acquisition of plants and machinery associated with the replacement and improvement of production processes.

### 8.2 Fully depreciated assets

At 31 December 2020 the Company recorded buildings with an original cost of 1,085 thousand euro (766 thousand euro in 2019) that are fully depreciated and still in use. The cost of other fully depreciated property, plant and equipment still in use amounts to 41,988 thousand euro (39,836 thousand euro in 2019).

### 8.3 Property, plant and equipment pledged to guarantees

As of December 31, 2020 and 2019, there are no items of property, plant and equipment subject to guarantees.

### 8.4 Rights over leased assets

The carrying amount of property, plant and equipment being acquired under finance lease contracts at 31 December is as follows:

	Thousand euro		
	Cost	Accumulated depreciation	Carrying amount
<b>2020</b>			
Plant and machinery	1,150	(160)	990
Data-processing equipment	304	(143)	161
	<b>1,454</b>	<b>(303)</b>	<b>1,151</b>
<b>2019</b>			
Plant and machinery	12	(9)	3
Data-processing equipment	86	(62)	24
	<b>98</b>	<b>(71)</b>	<b>27</b>

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.

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 Artech group land and buildings located in Mungia. The agreement is for an initial term of 25 years after the date it was signed, and it may be extended for a maximum of two additional five-year periods.

The expenses relating to those agreements amounted to 4,080 thousand euro (3,939 thousand euro in 2019) (Nota 23.5).

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

	Thousand euro	
	2020	2019
Up to one year	3,613	3,290
Between 1 and 5 years	12,562	13,147
Más de cinco años	20,148	22,159
	<b>36,323</b>	<b>38,596</b>

## 8.6 Property, plant and equipment located abroad

Details of the property, plant and equipment located abroad at 31 December are as follows:

	Thousand euro		
	Cost	Accumulated depreciation	Carrying amount
<b>2020</b>			
Land and buildings	8,062	(4,034)	4,028
Plant and other PPE	28,195	(19,753)	8,442
Assets under construction and prepayments	1,960	-	1,960
	<b>38,217</b>	<b>(23,787)</b>	<b>14,430</b>
<b>2019</b>			
Land and buildings	7,328	(3,747)	3,581
Plant and other PPE	27,205	(21,204)	6,001
Assets under construction and prepayments	2,530	-	2,530
	<b>37,063</b>	<b>(24,951)</b>	<b>12,112</b>

## 8.7 Purchase commitments

The Group recognizes commitments to make investments in plant and other assets totaling 614 thousand euro at 31 December 2020 (1,173 thousand euro in 2019).

## 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. Investment properties

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

	Thousand euro				
	Opening balance	Additions and allocations	Losses and reversal of value adjustments for impairment	Exchange differences	Closing balance
<b>2020</b>					
Cost					
Land	163	-	-	(21)	142
Buildings	-	-	-	-	-
	163	-	-	(21)	142
Accumulated depreciation					
Buildings	-	-	-	-	-
	-	-	-	-	-
<b>Net carrying amount</b>	<b>163</b>	<b>-</b>	<b>-</b>	<b>(21)</b>	<b>142</b>
<b>2019</b>					
Cost					
Land	154	-	-	9	163
Buildings	17	-	(17)	-	-
	171	-	(17)	9	163
Accumulated depreciation					
Buildings	(1)	-	1	-	-
	(1)	-	1	-	-
<b>Net carrying amount</b>	<b>170</b>	<b>-</b>	<b>(16)</b>	<b>9</b>	<b>163</b>

At 31 December 2020 and 2019 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 but without control, or if the interest is less, there is influence by related companies. 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.



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

Thousand euro				
	Opening balance	Profit for the year recognised to the parent company (Note 15.4)	Other (Note 20)	Closing balance
<b>2020</b>				
Elmya Artech Limited (Note 2.4 y 26)	-	(500)	500	-
Zizkua Inversiones, S.L.	323	-	(16)	307
	<b>323</b>	<b>(500)</b>	<b>484</b>	<b>307</b>
<b>2019</b>				
UTE Electroingenieria ICSSA-AIT	-	(316)	316	-
Zizkua Inversiones, S.L.	321	2	-	323
	<b>321</b>	<b>(314)</b>	<b>316</b>	<b>323</b>

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	Share capital	Reserves and other equity items	Profit/(loss) for the year	Equity
<b>2020</b>					
Elmya Artech Limited	49.99%	37	(908)	(862)	(1,733)
Zizkua Inversiones, S.L.	15%	2,110	(62)	-	2,048
<b>2019</b>					
Zizkua Inversiones, S.L.	49.99%	37	(271)	(636)	(870)
UTE Electroingenieria ICSSA-AIT.	15%	2,110	24	(86)	2,048

The company Elmya Artech Limited, accounted for by the equity method, includes in the results for 2020 and 2019 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 this company. During the year 2020, the Group has discontinued the activity of this company, and its result for the years 2020 and 2019 is recorded under the heading "Result from discontinued operations (net of taxes)" in the accompanying consolidated income statement.

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 31 December are analysed below:

	Equity instruments		Debt securities (Note 13)		Total	
	2020	2019	2020	2019	2020	2019
Non-current financial assets						
Available-for-sale assets						
Valued at cost	391	351	-	-	391	351
Loans and receivables	-	-	2,254	2,318	2,254	2,318
	391	351	2,254	2,318	2,645	2,669
Current financial assets						
Loans and receivables	-	-	41,001	57,949	41,001	57,949
Held-to-maturity investments	-	-	2,371	2,016	2,371	2,016
Derivatives	-	-	1,022	283	1,022	283
Held-to-negotiate investments						
Derivatives, trading portfolio	-	1	-	-	-	1
	1	-	-	-	60,248	60,249
	<b>391</b>	<b>352</b>	<b>46,648</b>	<b>62,566</b>	<b>47,039</b>	<b>62,918</b>

### a) Held-to-maturity financial assets

The amount recorded in this asset category included under “Other current financial assets” at 31 December 2020 and 2019 relates to euro denominated term deposits totaling 2,371 thousand euro (2,016 thousand euro at 31 December 2019) that have been pledged to secure certain obligations with financial institutions at which the deposits have been made. The interest rates accrued in 2020 has been 0% (0% in 2019).

### b) Available-for-sale financial assets

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 cases in which 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.

## 12. Inventories

The composition of this consolidated balance sheet heading at 31 December 2020 and 2019 is as follows:

	Thousand euro	
	2020	2019
Goods for resale	75	105
Raw and sundry materials	18,852	21,073
Work in progress	12,659	17,815
Finished products	16,528	15,522
By-products, residues and materials recovered	286	281
Prepayments to suppliers	1,576	2,079
	<b>49,976</b>	<b>56,875</b>

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

Movements in impairment adjustments are as follows:

	Thousand euro	
	2020	2019
Opening balance	2,273	2,583
Measurement adjustments during the year	1,221	532
Reversal	(217)	(839)
Exchange differences	(384)	(3)
<b>Closing balance</b>	<b>2,893</b>	<b>2,273</b>

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 31 December 2019 there were firm commitments to acquire raw materials totalling 18,551 thousand euro (19,389 thousand euro at the end of 2019). Firm commitments to sell finished products and the firm order portfolio at 31 December 2020 totalled 108,222 thousand euro (131,574 thousand euro at the end of 2019).

## 13. Loans and receivables

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

	Thousand euro	
	2020	2019
Non-current financial assets		
Loans to third parties	1,478	586
Other financial assets	776	1,732
	<b>2,254</b>	<b>2,318</b>
Current financial assets		
Trade and other receivables (except public entities)	37,466	57,213
Loans to group companies	3,535	736
	<b>41,001</b>	<b>57,949</b>

### Other long-term financial assets

At 31 December 2020 non-current items records 109 thousand euro (208 thousand euro in 2019) 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.

### Third-party loans

At 31 December 2020 the total non-current amount of 303 thousand euro (463 thousand euro in 2019) relates to the deferred receivable on the sale of the shareholding that the parent company held in Brawin, S.A.

### Trade and other receivables

This caption breaks down as follows at 31 December:

	<b>Thousand euro</b>	
	<b>2020</b>	<b>2019</b>
Trade receivables for sales and services rendered	36,428	48,234
Sundry receivables	993	8,779
Personnel	45	200
	<b>37,466</b>	<b>57,213</b>

The account "Trade receivables for sales and services rendered" includes 2,089 thousand euro and 31 December 2020 relating to invoices that have yet to be issued equivalent to the total cost incurred and not yet invoiced plus the margin for the stage of completion reached (7,367 thousand euro at 31 December 2019), as the requirements established by the current legislation described in Note 4.23 are met.

The balance under "Trade receivables for sales and services rendered" is presented net of impairment adjustments. Movements in those adjustments during 2020 and 2019 are analysed below:

	<b>Thousand euro</b>	
	<b>2020</b>	<b>2019</b>
<b>Opening balance</b>	8,802	7,808
Provision for impairment of trade receivables	697	1,321
Bad debts written off	-	7
Reversal of unused amounts	(1,300)	-
Exchange differences	(1,028)	(334)
<b>Closing balance</b>	<b>7,171</b>	<b>8,802</b>

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 "Loans and receivables" are not impaired.

#### 14. Cash and cash equivalents

This caption breaks down as follows at 31 December:

	Thousand euro	
	2020	2019
Cash	59	165
Current accounts	29,576	18,294
Bank deposits	925	812
	<b>30,560</b>	<b>19,271</b>

Current accounts accrue the market interest rate for this type of account. The balance denominated in foreign currency totals 22,586 thousand euro (13,336 thousand euro at 31 December 2019).

The bank deposits maintained in 2020 and 2019 and essentially relate to interbank deposits with daily liquidity. The interest rate was 0%.

The subsidiary Arteché DYH Electric Co. Ltd. presents restricted cash balances totalling 741 thousand euro (755 thousand euro at 31 December 2019). There are no restrictions on the availability of the rest of the balances.

#### 15. Equity – Shareholders' funds

##### 15.1 Authorized 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 (464,277 shares with a par value of 10 euro each at 31 December 2018).

On 17 January 2018 the agreements of the General and Universal Meeting of Shareholders were notarized by a public deed. Following the agreements mentioned above, the net Equity of the Parent Company increased in 2018 by approximately 18.3 million Euros.

A capital increase of 267 thousand euros was agreed upon, to be carried out within one year via the issuing of 26,743 shares and a share premium of 3,422 thousand euros. This option was exercised in 2019 with all the new shares fully subscribed and paid in by ECN Cable Group, S.L.

On May 12, 2020 the agreements reached at the general shareholder 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.

Thus, at December 31, 2020 the Parent company's share capital is represented by 494,798 registered shares at a nominal value of 10 euros each.

The shareholder composition at 31 December 2019 and 2018 is as follows:

	<b>2020</b>	<b>2019</b>
Ziskua Ber, S.L.	61,64%	61,54%
ECN Cable Group	28,11%	27,48%
Basque Fondo de Capital Riesgo	7,30%	7,14%
Other	2,95%	3,84%
	<b>100,00%</b>	<b>100,00%</b>

The parent company's shares are not publicly traded.

## 15.2 Share premium

The share premium account may be used to increase share capital and there is no specific restriction on 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:

	<b>Thousand euro</b>				
	<b>Opening balance</b>	<b>Distribution of profit/(loss) for the year</b>	<b>Treasury share transactions</b>	<b>Other</b>	<b>Closing balance</b>
<b>2020</b>					
Legal reserve	701	281	-	-	982
Other reserves and prior-year results	67,151	(3,057)	(38)	16,851	80,907
	<b>67,852</b>	<b>(2,776)</b>	<b>(38)</b>	<b>16,851</b>	<b>81,889</b>
<b>2019</b>					
Legal reserve	701	-	-	-	701
Other reserves and prior-year results	65,574	(7,423)	-	9,000	67,151
	<b>66,275</b>	<b>(7,423)</b>	<b>-</b>	<b>9,000</b>	<b>67,852</b>

At the end of 2020 and 2019 reserves and prior year results break down as follows:

	<b>Thousand euro</b>	
	<b>2020</b>	<b>2019</b>
Legal reserve	982	701
Voluntary reserves	80,907	95,758
<b>Total parent company reserves</b>	<b>81,889</b>	<b>96,459</b>
Reserves in fully consolidated companies	(47,179)	(36,820)
Reserves in proportionally consolidated companies	(5,240)	(3,553)
Reserves in equity consolidated companies	(699)	(384)
<b>Total reserves in consolidated companies</b>	<b>(53,118)</b>	<b>(40,757)</b>

Parent company prior year losses	-	(28,607)
<b>Total prior-year losses of the parent company</b>		
<b>Parent company</b>	-	(28,607)
<b>Total Reserves</b>	<b>28,771</b>	<b>27,095</b>

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

#### Voluntary reserves

At 31 December 2020 the parent company does not present development expenses under assets (same situation at the end of 2019). 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.

### **15.4 Profit/(loss) for the year recognised 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:

	<b>Thousand euro</b>	
	<b>2020</b>	<b>2019</b>
Benefit of the Parent Company (considering consolidation adjustments)	(4,568)	(2,776)
Benefit/(loss) of subsidiaries		
Electrotécnica Artech Hermanos, S.L.	1,829	3,761
Electrotécnica Artech Smart Grid, S.L.U.	3,153	185
Inversiones Zabalondo, S.L.	349	529
Artech Instrument Transformers, S.L.	(18)	354
Artech Smart Grid, S.L.U.	(435)	(563)
Artech Turnkey Solutions, S.A.	1,785	(35)
Artech Centro de Tecnología, A.I.E.	86	83
Artech North America, S.A. de C.V.	2,356	1,372
AIT, S.A.	374	1,623
Artech EDC Equipamientos e Sistemas, S.A.	50	478
Artech Medición y Tecnología, S.A. de C.V.	(741)	(490)
Artech USA, LLC.	604	8
STK Sistemas do Brasil, Ltda.	175	(385)
Artech DYH Electric Co., Ltd.	2,059	1,553
Artech GAS Insulated Transformers, S.L.U.	(481)	(1,598)
Artech Chile, S.p.A.	(138)	(325)
SAC Maker, S.A.U.	(905)	(505)
Artech-Inael, S.L.	-	(121)
Artech Ventures, S.L.	-	(199)
Artech ACP, S.A. de C.V.	(207)	(606)
Artech México Turnkey Solutions, S.A. de C.V.	(2,963)	(391)
ZB Inversiones, S.A.	272	167
Smart Digital Optics Pty., Ltd	(379)	(351)

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Elmya Artech Ltd  
Naire XXI, S.L.  
Zizkua Inversiones, S.L.

(500)	(318)
111	(50)
6	3
1,874	1,403
(845)	(510)
<b>1,029</b>	<b>893</b>

Recognition of profit/(loss) to non-controlling interests

**Profit/(loss) recognisable to the parent company**

## 16. Profit/(loss) for the year

The distribution of the net profit/(loss) for 2020 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	
	2020	2019
<b>Distribution basis</b>		
Balance in the profit and loss accounts	4,143	5,984
	<b>4,143</b>	<b>5,984</b>
<b>Allocation</b>		
To prior-year losses	-	5,703
To voluntary reserves	4,135	-
To legal reserve	8	281
	<b>4,143</b>	<b>5,984</b>

By virtue of the syndicated loan contract (Note 21.1) there is a limit to the distribution of dividends to shareholders, corresponding to 30% of net consolidated profit, provided that certain financial ratios are fulfilled.

## 17. Measurement adjustments

### 17.1 Exchange differences – Consolidated companies

Movements recorded in 2020 and 2019 in the account “Exchange differences - Consolidated companies” which relate to the translation of the year-end amounts.

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

	Thousand euro	
	2020	2019
Artech North America, S.A. de C.V (previously named Transformadores y Tecnología, S.A. de C.V.)	(10,956)	(7,969)
AIT, S.A.	(9,662)	(8,537)
Artech EDC Equipamientos e Sistemas, S.A.	(5,683)	(4,141)
Artech Medición y Tecnología, S.A. de C.V. (*)	-	(741)
STK Sistemas do Brasil, Ltda.	(9,140)	(4,382)
Artech DYH Electric Co., Ltd.	1,300	1,446
AS Qualitas, S.A.	238	202
Artech Inael Industrial Eléctrica Ltda	94	31
Artech USA, LLC.	(339)	(210)
Artech ACP, S.A. de C.V.	(106)	10
Artech México Turnkey Solutions, S.A. de C.V. (**)	-	19

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ZB Inversiones, S.A.  
Smart Digital Optics Pty. Ltd.

(2,077)	(1,808)
(334)	(329)
<b>(36,665)</b>	<b>(26,409)</b>

(\*) Company liquidated in 2020  
(\*\*) Company sold in 2020 (Note 2.4)

## 17.2 Hedging transactions

The breakdown and movements in hedging transactions are as follows:

	Thousand euro		
	Beginning balance	Variation in value	Ending balance
<b>2020</b>			
Cash flow hedges	248	354	602
Tax effect	(57)	(108)	(165)
	<b>191</b>	<b>246</b>	<b>437</b>
<b>2019</b>			
Cash flow hedges	(563)	811	248
Tax effect	158	(215)	(57)
	<b>(405)</b>	<b>596</b>	<b>191</b>

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

## 18. Equity – Grants received

Movements in the heading “Grants, donations and bequests received” in equity in 2020 and 2019 were as follows:

	Opening balance	Additions	Disposals	Transfers to the income statement	Closing balance
<b>Ejercicio 2020</b>					
Non-repayable grants	1,071	222	-	(260)	1,033
Repayable advance payments (embedded grant)	504	574	-	(78)	1,000
	<b>1,575</b>	<b>796</b>	<b>-</b>	<b>(338)</b>	<b>2,033</b>
Tax effect	(380)	(192)	-	80	(492)
	<b>1,195</b>	<b>604</b>	<b>-</b>	<b>(258)</b>	<b>1,541</b>
<b>Ejercicio 2019</b>					
Non-repayable grants	1,278	184	-	(391)	1,071
Repayable advance payments (embedded grant)	390	230	-	(116)	504
	<b>1,668</b>	<b>414</b>	<b>-</b>	<b>(507)</b>	<b>1,575</b>

Tax effect	(402)	(100)	-	122	(380)
	<b>1,266</b>	<b>314</b>	<b>-</b>	<b>(385)</b>	<b>1,195</b>

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 in this item in 2020 and 2019 are as follows:

	Thousand euro	
	2020	2019
1 January	4,237	3,591
Profit/(loss) for the year	845	510
Exchange differences	(93)	3
Grants	31	75
Other	36	58
<b>31 December</b>	<b>5,056</b>	<b>4,237</b>

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

	Thousand euro						Total
	Share capital	Prior year losses	Profit/(loss) for the year	Hedging operations	Other items	Exchange differences	
<b>2020</b>							
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
	<b>5,555</b>	<b>(2,209)</b>	<b>845</b>	<b>19</b>	<b>(31)</b>	<b>877</b>	<b>5,056</b>
<b>2019</b>							
Arteche DYH Electric Co., Ltd.	4,754	(2,304)	635	(13)	-	964	4,036
Arteche Inael, S.L.	786	(14)	(53)	-	-	-	719
Arteche Inael Industrial Eléctrica, Ltda.	-	(475)	(69)	-	-	25	(519)
ZB Inversiones, S.A.	4	19	(3)	-	-	(19)	1
	<b>5,544</b>	<b>(2,774)</b>	<b>510</b>	<b>(13)</b>	<b>-</b>	<b>970</b>	<b>4,237</b>

## 20. Provisions and contingencies

Details of non-current and current provisions at 31 December 2020 and 2019 are as follows:

	Thousand euro		
	Non-current	Current	Total
<b>2020</b>			
Social Security obligations	1,000	62	1,062
Other provisions	1,966	2,673	4,639
	<b>2,966</b>	<b>2,735</b>	<b>5,701</b>
<b>2019</b>			
Social Security obligations	644	59	703
Other provisions	1,657	671	2,328
	<b>2,301</b>	<b>730</b>	<b>3,031</b>

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

	Opening balance	Appropriations	Applications and payments	Transfers	Exchange differences	Closing balance
<b>2020</b>						
Social Security obligations	644	147	-	-	209	1,000
Provision for contingencies and other risks	1,657	765	-	-	(456)	1,966
	<b>2,301</b>	<b>912</b>	<b>-</b>	<b>-</b>	<b>(247)</b>	<b>2,966</b>
<b>2019</b>						
Social Security obligations	510	138	-	-	(4)	644
Provision for contingencies and other risks	1,065	960	(3)	-	(365)	1,657
	<b>1,575</b>	<b>1,098</b>	<b>(3)</b>	<b>-</b>	<b>(369)</b>	<b>2,301</b>

### 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., Electrotécnica Arteche Power Quality, S.L. (merged into the preceding company in 2015) and Inversiones Zabalongo, 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".

### Provision for contingencies and other risks

The provision for contingencies and other risks makes reference to the 209 thousand euro (309 thousand euro in 2019) provision for employment contingencies at the Brazilian subsidiary Arteche EDC Equipamientos e Sistemas, S.A. This also includes provisions set aside to hedge other risks in AIT, S.A. arising as a result of the temporary joint venture between Electroingeniería ICSSA-AIT and Elmya Arteche Limited in the respective amount of 732 and 937 thousand euro (807 thousand euro and 437 thousand euro respectively in 2019).

### Contingencies

At the end of 2020 and 2019 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 31 December 2020 and 2019 are as follows:

	Thousand euro					
	Bank borrowings		Derivatives and other		Total	
	2020	2019	2020	2019	2020	2019
Non-current financial liabilities						
Borrowings and payables	41,258	34,079	23,714	7,429	64,972	41,508
Hedge derivatives	-	-	-	-	-	-
	41,258	34,079	23,714	7,429	64,972	41,508
Current financial liabilities						
Borrowings and payables	23,982	45,925	93,371	102,485	117,353	148,410
Hedge derivatives	-	-	131	79	131	79
	23,982	45,925	93,502	102,564	117,484	148,489
	<b>65,240</b>	<b>80,004</b>	<b>117,216</b>	<b>109,993</b>	<b>182,456</b>	<b>189,997</b>

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

	Thousand euro					
	Bank borrowings		Derivatives and other		Total	
	2020	2019	2020	2019	2020	2019
Non-current financial liabilities						
Non-current borrowings	40,823	34,079	-	-	40,823	34,079
Derivatives	435	-	-	-	435	-
Other liabilities	-	-	23,714	7,429	23,714	7,429
	41,258	34,079	23,714	7,429	64,972	41,508
Current financial liabilities						
Liabilities and other negotiable securities	-	-	14,000	-	14,000	-
Current payables	23,545	45,925	4,037	16,953	27,582	62,878
Derivatives	-	-	131	79	131	79
Creditors for finance leases	437	-	-	-	437	-
Trade and other payables (except public administrations)	-	-	75,334	85,532	75,334	85,532
	23,982	45,925	93,502	102,564	117,484	148,489
	<b>65,240</b>	<b>80,004</b>	<b>117,216</b>	<b>109,993</b>	<b>182,456</b>	<b>189,997</b>

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## 21.1 Bank borrowings

At 31 December 2020 and 2019 bank borrowings were as follows:

	Thousand euro	
	2020	2019
Non-current		
Bank borrowings and credit facilities	40,823	34,079
Creditors for finance leases	435	-
	41,258	34,079
Current		
Bank borrowings and credit facilities	21,928	33,591
Creditors for finance leases	437	-
Lines of credit, discounting of bills and factoring	1,534	12,230
Accrued interest pending payment	83	104
	23,982	45,925
	<b>65,240</b>	<b>80,004</b>

The total amount of bank borrowings denominated in foreign currency is 11,666 thousand euro (20,131 thousand euro at 31 December 2019), primarily Brazilian real, Mexican pesos and Argentinian pesos.

### Bank borrowings and credit facilities

On 3 February 2015 Arteche Lantegi Elkartea, S.A. obtained a new syndicated loan, which replaced that which was in force at 31 December 2014. This loan is for 68.7 million euro and includes a repayment schedule that will extend to 2020, and requires compliance with certain financial ratios starting in 2015. On December 27, 2017, a new syndicated loan was signed in the amount of 55,567 thousand euro, replacing the abovementioned; it became effective in January 2018, thereby extended the repayment schedule another 6 years.

In January 2018, 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 commitments.

The amount drawn down from the syndicated loan amounts to 29,209 thousand euro (amortized cost of 26,101 thousand euro) at 31 December 2019 (34,722 thousand euro at 31 December 2018), of which 8,662 thousand euro (8,621 thousand euro in 2019) 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. and Arteche EDC Equipamientos e Sistemas, 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 parent company has obtained several interest-rate swaps (Note 21.2). The average interest rate over the course of the year was approximately 2,25% (approximately 3% in 2019). The financial expense accrued during the year amounts to 880 thousand euro (1,656 thousand euro in 2019).

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 during 2020.

Details by due date of the items recognized under Non-current bank borrowings at the end of 2020 are as follows:

	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025 and afterwards</b>	<b>Total</b>
Bank borrowings	19,601	14,091	5,768	1,798	41,258
	<b>19,601</b>	<b>14,091</b>	<b>5,768</b>	<b>1,798</b>	<b>41,258</b>

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

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

Further, new loans were arranged during 2020 to provide the Group with the financial stability necessary for fulfilling its commitments, the most noteworthy of which were the loans from financial entities guaranteed by the ICO for a balance of 14,214 thousand euros at December 31, 2020 maturing in 2025 and 2026.

#### Lines of credit and discounting of bills

At the end of the year the Group maintained lines of credit and discounting facilities that were still available in the amount of 13,090 thousand euro (4,887 thousand euro at the end of 2019) and 31,439 thousand euro (8,395 thousand euro at the end of 2019), 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 cancelled and a financial liability in the same amount is recognized. The factorized balance at 31 December 2020 total 13,612 thousand euro (16,832 thousand euro at 31 December 2019).



## 21.2 Derivative financial instruments and other

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

	Thousand euro	
	2020	2019
Non-current		
Other financial liabilities		
Repayable advances	2,265	2,800
Loans	21,449	4,447
Other payables	-	182
	<b>23,714</b>	<b>7,429</b>
Current		
Liabilities and other negotiable securities	14,000	-
Hedging derivatives (Note 17.2)	131	79
Other financial liabilities		
Repayable advances	620	1,397
Loans	678	11,171
Asset suppliers	2,067	3,160
Other payables	672	1,225
Trade and other payables (except public administrations)	75,334	85,532
	<b>93,502</b>	<b>102,564</b>

### Derivatives

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

	Thousand euro			
	Notional		Fair value	
	2020	2019	2020	2019
Syndicated loan interest rate swaps (Cash flow hedge)	-	2,762	-	(14)
Syndicated loan interest rate hedges (cash flow hedges)	7,059	9,060	-	-
Exchange hedges for dollar denominated receivables (Hed to negotiate)	26,265	14,677	978	218
Exchange hedges for euros denominated receivables	1,584	-	(71)	-
	<b>30,611</b>	<b>17,439</b>	<b>907</b>	<b>204</b>

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	
	2020	2019
Non-current borrowings - Derivatives	1,022	283
Current borrowings - Derivatives	(131)	(79)
	<b>891</b>	<b>204</b>

In accordance with the financial swap conditions, the parent company pays a fixed half-yearly interest rate of between 0.35% and 1.80%, and it receives a variable interest rate based on the 6-month Euribor. The aforementioned financial swaps have been designated as cash flow hedges due to the syndicated loan interest rate risk indicated in Note 21.1. The conditions for the hedge instrument and the hedged instrument coincided at 31 December 2020 and 2019 and therefore the hedge was effective.

The parent company regularly obtains hedges to cover the amount of receivables in dollars (Note 5.b).

The years in which the cash flows from the swap are expected to occur (since they are settled monthly) and affect the profit and loss account are as follows:

	<u>2020</u>	<u>2019</u>
2020	-	204
2021	891	-
	<u><b>891</b></u>	<u><b>204</b></u>

#### Bonds and other marketable debt 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, of which 14 million euros were pending maturity at December 31, 2020, recognized under "Bonds and other marketable debt securities" and maturing between January and September 2021.

Based on the above conditions, the Company expects to meet the maturities of these issues in 2021 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 2020 year end 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 4.17, those prepayments are presented net of the embedded grants equivalent to the difference between the fair value of the prepayment and its restated value calculated at the effective cost of outside borrowings on the date on which it is received.

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

	<u>Thousand euro</u>
	<u>2020</u>
	<u>2019</u>

2021  
2022  
2023  
2024  
2025 and afterwards

-	767
507	645
559	586
557	515
642	287
<b>2,265</b>	<b>2,800</b>

Other financial liabilities – Loans

	Thousand euro	
	2020	2019
Alteralia S.C.A., SICAR	-	10,500
Banco Europeo de Inversiones (BEI)	15,000	-
Cofides	3,000	-
Instituto de Crédito Oficial (ICO)	1,500	-
Other	2,600	5,100
	<b>22,100</b>	<b>15,600</b>

The parent company obtained a loan from Alteralia S.C.A., SICAR on 11 December 2015 for a maximum of up to 14,000 thousand euro, which falls due in 2020 and accrues interest at a rate of between 7.25% and 7.50%. The loan was granted to finance the deferred payment relating to the purchase of the interest in SAC Group by the subsidiary Electrotécnica Artech Smart Grid, S.L. (10,500 thousand euro) and to finance CAPEX and general cash needs up to a maximum of 3,500 thousand euro. The Artech Group companies Electrotécnica Artech Hermanos, S.L., Electrotécnica Artech Smart Grid, S.L., Electrotécnica Artech Power Quality, S.L. (merged with the preceding company in 2016), Inversiones Zaballondo, S.L., Artech North America, S.A. de C.V., Artech EDC Equipamientos e Sistemas, S.A., and STK Sistemas do Brasil Ltda., are guarantors for that transaction. The parent must at all times comply with established ratios calculated based on the Group's consolidated annual consolidated financial statements. The loan can be called ahead of maturity in the event of failure to meet the ratios.

The amount drawn down at 31 December 2019 totals 10,500 thousand euro and the amortized cost is 10,466 thousand euro. In February 2020 this loan was fully repaid (Note 21.1).

The Basque Finance Institute, which forms part of the Basque Government, granted the subsidiary Artech Nissin, S.L. (currently named Artech Gas Insulated Transformers, S.L.U.) a maximum loan of 2,202 thousand euro on 20 December 2011, as the investments totalling 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 instalments and the first instalment will be paid on 2 January 2016. The amount received at 31 December 2011 after justifying the investments totalled 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 4.17, this loan is 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, and 872 thousand euro is recognized as non-current and 233 thousand euro is recognized as current at 31 December 2020 (1,050 thousand euro and 236 thousand euro at 31 December 2019, respectively).

On 30 April 2013 the subsidiary Arteché Nissin, S.L. (currently named Arteché Gas Insulated Transformers, S.L.U.) obtained a 280 thousand euro participating loan from its non-controlling shareholder which falls due in 2017. That participating loan accrues fixed interest at an annual rate of 5% and a variable portion based on compliance with EBITDA in accordance with operating income each year. The average interest rate accrued during the year was 5%. During 2016 the due date for this loan was extended for a further three years and it now falls due in 2020.

On November 6, 2019 the Group signed a loan contract with LB Structure Lease, S.A. for an amount of 1,888 thousand euros, maturing in August 2024. The balance at December 31, 2020 totalled 1,446 thousand euros (1,781 thousand euro in 2019).

On September 10, 2019 the Group signed a loan contract with the Ministry of Industry, Commerce, and Tourism for an amount of 1,973 thousand euros, maturing in 2029. The first installment of the amortization schedule falls due in September 2023.

In addition, with respect to the financial situation 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 was carried out for an amount of 7,000 thousand euros in April 2020.

Likewise, in February 2020 a long-term loan was arranged with Cajamar for an amount of 7,000 thousand euros.

Both transactions allowed for the substitution of 10,500 thousand euros of short-term debt owed to Alteralia N+1 with long-term debt, for which Cajamar granted a two-year grace period and three years for amortization while EBI granted a three-year grace period and five years for amortization. In addition, the early cancellation of the loan granted by Alteralia N+1 allows the Group significant savings in financial expenses, having substituted debt repayable at 8% with debt at an average cost of approximately 2.5%.

Further, in 2020 the ICO guaranteed our R&D&I plan, confirming its compliance with European Union directives in matters of Innovation and Sustainability and granting us long-term and flexible financing (6 years) for an amount of 20 million euros, which will permit the Arteché Group to implement the plans it has established for coming years. At December 31, 2020 a balance of 1.5 million euros had been drawn on this facility.

Finally, in 2020 a loan was arranged with Cofides for an amount of 3 million euros with a one-year grace period and four years for amortization (counting from 2021), the purpose of which was to expand the medium voltage plant at Tepeji del Río (Arteché North America, S.A. de C.V.).

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

	Thousand euro	
	2020	2019
2021	-	620
2022	895	552
2023	3,419	854
2024	3,349	2,421
2025 and afterwards	13,786	-
	<b>21,449</b>	<b>4,447</b>

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.

Trade and other payables (except public entities)

This caption breaks down as follows at 31 December:

	Thousand euro	
	2020	2019
Suppliers	49,714	51,617
Sundry payables	13,621	17,852
Personnel (Accrued wages and salaries)	3,834	2,651
Prepayments from customers	8,165	13,412
	<b>75,334</b>	<b>85,532</b>

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

In compliance with current legislation, the annual accounts at 31 December 2019 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	
	2020	2019
Average payment period for suppliers	121	109
Ratio of transactions paid	113	113
Ratio of transactions pending payment	145	96

	Thousand euro	
	2020	2019
Total payments made	95,619	107,596
Total payments pending	35,163	39,296

## 22. Fiscal situation

### 22.1 Corporate tax calculation

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

	Thousand euro	
	2020	2019
<u>Tax receivables</u>		
Non-current taxes and social security repayable	1,230	941
Deferred tax assets	24,282	24,280
Other credits with public administrations	15,627	15,982
Withholdings and interim payments	1,191	1,369
VAT	12,009	12,428
Social Security	2,427	2,185
	<b>41,139</b>	<b>41,203</b>
<u>Tax payables</u>		
Deferred tax liabilities	(2,899)	(2,212)
Current tax liabilities	(1,631)	(231)
Other payables to public administrations	(7,539)	(9,209)
Personal income tax withholdings	(1,510)	(1,549)
Social Security	(1,257)	(1,425)
VAT	(4,772)	(6,235)
	<b>(12,069)</b>	<b>(11,652)</b>

### 22.2 Corporate tax calculation

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

The SAC Group companies form part of the tax group headed by Grupo Empresarial SAC, S.L. (Note 4.18).

The rest of the domestic investee companies and foreign companies file individual tax returns in accordance with their respective tax obligations.

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

Corporate income tax expense/(income) from continuing operations breaks down as follows:

	Thousand euro			
	Consolidated income statement		Directly recognised to equity	
	2020	2019	2020	2019
Current year tax	2,550	978	-	-
Change in deferred taxes	(608)	25	(220)	(194)
Adjustment to corporate income tax expense for the preceding year, unrecoverable withholdings and other	536	448	-	-
<b>Tax expense from continuing operations</b>	<b>2,478</b>	<b>1,451</b>	<b>(220)</b>	<b>(194)</b>
Current year tax	20	-	-	-
Change in deferred taxes	(155)	-	-	-

Tax expense from discontinued operations	(135)	-	-	-
Total tax expense	2.343	1.451	(220)	(194)

### 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:

	Miles de euros	
	2020	2019
<b>Consolidated income before taxes</b>	<b>4,217</b>	<b>3,861</b>
Consolidated income before taxes from continuing operations	9,623	5,008
Consolidated income before taxes from discontinued operations	(5,406)	(1,157)
Permanent differences	(19,638)	(2,552)
Temporary differences		
Originating in the fiscal year	7,724	2,547
Arising from prior years	(929)	
Offset of capitalized tax loss carryforwards from prior periods	(3,935)	(2,360)
Offsetting of unused tax loss carryforwards from prior years	(1,978)	(91)
Consolidation adjustments	(4,909)	(7,489)
<b>Taxable income</b>	<b>(19,448)</b>	<b>(6,084)</b>
Tax consolidation eliminations portfolio impairment	6,188	-
Elimination of tax consolidation dividends	20,201	9,000
Other tax consolidation adjustments	(1,333)	(3,911)
<b>Adjusted taxable income</b>	<b>5,608</b>	<b>(995)</b>

The permanent differences in 2020 and 2019 mainly relate to dividends distributed by the Group's subsidiaries and income from industrial property. Temporary differences in 2020 and 2019 mainly relate to non-deductible provisions.

### 22.4 Reconciliation between accounting income and 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 2020 and 2019 is presented below:

	Miles de euros	
	2020	2019
<b>Consolidated income before taxes</b>	<b>4,217</b>	<b>3,861</b>
Tax expense at the parent company's tax rate	1,012	927
Net permanent differences and tax consolidation adjustments	(4,713)	(613)
Effect of consolidation differences	(1,178)	363
Effect of the application of different tax rates	4,825	31
Adjustments to prior years' taxes	(33)	-
Other adjustments (tax paid abroad)	470	426
Deductions and tax loss carryforwards and others	1,960	314
<b>Income tax expense</b>	<b>2,343</b>	<b>1,448</b>
<b>Income tax from discontinued operations</b>	<b>(135)</b>	<b>-</b>
<b>Gasto / (ingreso) por impuesto sobre beneficios operaciones continuadas</b>	<b>2.478</b>	<b>1.448</b>



The calculation of corporate income tax (refundable)/payable for the various group companies is as follows:

	Thousand euro					
	Receivable		Payable		Total	
	2020	2019	2020	2019	2020	2019
Current year tax	-	-	(2,534)	(976)	(2,534)	(976)
Withholdings and interim payments	903	745	-	-	903	745
<b>Corporate income tax (receivable) / payable</b>	<b>903</b>	<b>745</b>	<b>(2,534)</b>	<b>(976)</b>	<b>(1,631)</b>	<b>(231)</b>

## 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	Discontinued operations	Exchange differences	Closing balance
2020								
Deferred tax assets								
Tax deductions	15,494	-	-	-	-	-	-	15,494
Tax losses carried forward	2,842	-	(1,181)	-	-	-	(186)	1,475
Net assets	94	-	-	-	(94)	-	-	-
						-		
Cash flow hedges	(58)	-	-	-	62	-	-	4
Other	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						
Changes recognized in						
Opening balance	Hyper-inflation effect (Note 2.5)	Consolidated income statement	Consolidated equity	Other	Exchange differences	Closing balance
<b>2019</b>						
Deferred tax assets						
Tax deductions	15,494	-	-	-	-	15,494
Tax losses carried forward	3,798	-	(708)	-	107	2,842
Net assets	94	-	-	-	-	94
Cash flow hedges	158	-	(216)	-	-	(58)
Other	5,272	-	286	356	(6)	5,908
	24,816	-	(216)	1	101	24,280
Deferred tax liabilities						
On business combinations	(1,158)	-	55	220	-	(883)
Grants	(402)	-	-	-	-	(380)
Other	(1,160)	(68)	342	(220)	157	(949)
	(2,720)	(68)	22	-	157	(2,212)
	<b>22,096</b>	<b>(68)</b>	<b>(194)</b>	<b>1</b>	<b>258</b>	<b>22,068</b>

The Group records deductions that have yet to be applied at 31 December 2020 in the amount of 15,491 thousand euro (15,494 thousand euro at 31 December 2019). It has recognized the relevant deferred tax asset in this respect. These deductions break down as follows:

Year arising	Thousand euro	
	2020	2019
1999	581	581
2000	753	753
2001	952	952
2002	687	687
2003	786	786
2004	1,070	1,070
2005	1,236	1,236
2006	860	860
2007	527	527
2008	1,611	1,611
2009	1,929	1,929
2010	1,791	1,791
2011	2,673	2,673
2012	38	38
	<b>15,494</b>	<b>15,494</b>

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. All of the deductions relate to tax credits generated by companies subject to regional corporate income tax legislation.

The Group also records deductions yet to be applied totalling 11,025 thousand euro (10,435 thousand euro at 31 December 2019) for which it has not recognized the relevant deferred tax asset. These deductions break down as follows:

Year arising	Thousand euro	
	Total deductions	
	2020	2019
2012	2,291	2,291
2013	2,188	2,188
2014	2,049	2,049
2015	742	742
2016	1,106	1,106
2017	1,338	1,338
2018	721	721
2019	590	-
	<b>11,025</b>	<b>10,435</b>

The Group had unused tax losses which, taking future forecasts into account, with tax assets recorded in the amount of 1,475 thousand euro during the year (2,842 thousand euro during year 2019). The breakdown of total tax credits is as follows:

Year arising	Deadline for application	Thousand euro	
		Tax credit	
		2020	2019
2010	30 years	376	376
2011	30 years	307	307
2011	No limit	329	462
2012	30 years	926	926
2012	No limit	628	863
2013	30 years	2,953	2,953
2013	No limit	1,863	2,743
2013	2023	-	-
2014	30 years	1,973	1,973
2014	No limit	2,973	3,994
2014	2024	-	-
2015	30 years	107	107
2015	No limit	2,036	2,743
2015	2025	-	794
2016	30 years	2,281	2,281
2016	No limit	1,923	1,920
2016	2026	169	792
2017	30 years	890	890
2017	No limit	506	789
2017	2027	113	366
2018	30 years	6,091	6,091
2018	No limit	496	531
2018	2028	69	120
2019	30 years	588	588
2019	No limit	272	140
2019	2029	200	229
2020	30 years	32	-
2020	No limit	735	-
		<b>28,836</b>	<b>32,976</b>

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 analysed 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.

## 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 expense

### 23.1 Operating profit/(loss) by business segment

Details of consolidated profit/(loss) in 2020 and 2019 for each of the business units into which the Group's business is organized are as follows:

	<b>Systems Measurement and Monitoring</b>	<b>Network reliability</b>	<b>Transformation and distribution</b>	<b>Total</b>
<b>2020</b>				
Revenue	183,012	35,534	46,134	264,680
Change in inventories	2,066	(3,620)	(43)	(1,597)
Work performed on the Group's own assets	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)
Allocation of grants	161	17	161	339
Impairment and gains/(losses) on disposals of assets	-	-	-	-
Other gains or losses	(109)	(16)	(26)	(151)
<b>Operating profit/(loss)</b>	<b>9,372</b>	<b>1,188</b>	<b>6,607</b>	<b>17,167</b>
<b>2019</b>				
Revenue	182,567	31,801	40,665	255,033
Change in inventories	3,673	2,443	(720)	5,396
Work performed on the Group's own assets	1,915	477	2,311	4,703
Supplies	(99,879)	(25,282)	(14,939)	(140,100)
Other operating income	842	132	337	1,311
Personnel costs	(45,014)	(4,177)	(13,841)	(63,032)
Other operating expenses	(29,627)	(3,788)	(5,298)	(38,713)
Depreciation and amortization	(6,631)	(702)	(4,375)	(11,708)
Allocation of grants	242	25	241	508
Impairment and gains/(losses) on disposals of assets	15	3	4	22
Other gains or losses	(191)	(33)	(42)	(266)
<b>Operating profit/(loss)</b>	<b>7,912</b>	<b>899</b>	<b>4,343</b>	<b>13,154</b>

## 23.2 Revenue

The distribution of the Group's revenues relating to continuing operations by geographic market at 31 December 2020 and 2019 is as follows:

	Thousand euro	
	2020	2019
<b>Segmentation by geographical market</b>		
Spain	43,056	45,222
Europe, Africa and Middle East	50,320	54,501
North America	98,360	87,119
Mercosur	47,222	43,748
Asia	25,722	24,443
	<b>264,680</b>	<b>255,033</b>

The Group has a broad customer portfolio and there is no single customer in 2020 or 2019 that represents more than 10% of revenues.

## 23.3 Raw and sundry materials

This heading is analysed below at 31 December 2020 and 2019:

	Thousand euro	
	2020	2019
Purchases	132,674	140,288
Rendering of services	13,922	12,533
Impairment of goods purchased for resale, raw materials and other supplies	347	262
Change in inventories	(8,174)	(12,984)
	<b>138,769</b>	<b>140,099</b>

## 23.4 Personnel costs

At 31 December 2020 and 2019 personnel expenses break down as follows:

	Thousand euro	
	2020	2019
Wages, salaries and similar remuneration		
Wages and salaries	50,458	49,028
Employee benefit costs		
Social Security	11,532	11,730
Other benefit charges	2,243	2,273
	<b>13,775</b>	<b>14,003</b>
	<b>64,233</b>	<b>63,031</b>

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 the year
	Male	Female	Total	
<b>2020</b>				
Direct	957	203	1,160	1,056
Indirect	678	265	943	959
	<b>1,635</b>	<b>468</b>	<b>2,103</b>	<b>2,015</b>
<b>2019</b>				
Direct	805	180	985	922
Indirect	647	256	903	1,016
	<b>1,452</b>	<b>436</b>	<b>1,888</b>	<b>1,938</b>

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

	2020	2019
Direct	6	5
Indirect	3	1
	<b>9</b>	<b>6</b>

At 31 December 2020 and 2019 the parent company's Board of Directors consists of six legal persons (whose natural person representatives were 5 males and 1 female) and two natural persons, all males.

### 23.5 External services

The breakdown of external services at 31 December 2020 and 2019 is as follows:

	Thousand euro	
	2020	2020
Development costs	1,923	2,278
Leases (Note 8.5)	4,080	3,939
Repairs and maintenance costs	2,633	2,438
Independent professionals' services	8,566	7,339
Vehicles	8,839	8,697
Insurance premiums	641	742
Bank services	1,149	1,176
Advertising and public relations	986	1,462
Utilities	1,740	1,960
Other services	5,910	7,190
	<b>36,467</b>	<b>37,221</b>

## 24. Transactions in foreign currency

The amounts of the transactions carried out in foreign currency in 2020 and 2019 are as follows:

	Thousand euro	
	2020	2019
Sales	166,621	146,403
Rendering of services	1,845	1,091
Purchases	(89,666)	(82,085)
Services received	(22,899)	(20,602)
	<b>55,901</b>	<b>44,807</b>

In addition to held-to-maturity investments (Note 11.a), cash (Note 14) and bank borrowings in foreign currencies (Note 21.1), at December 31, 2020 the Group had balances receivable and payable in currencies other than the euro amounting to €28,355 thousand and €44,020 thousand, respectively (€42,209 thousand and €45,870 thousand, respectively, at December 31, 2019).

## 25. Financial income/(expense)

	Thousand euro	
	2020	2019
<b>Financial income:</b>		
Shares in equity instruments	135	78
- Third parties	135	78
	135	78
<b>Financial expenses:</b>		
Debt with third parties	(5,105)	(5,980)
On adjustments to provisions	(191)	(134)
	(5,296)	(6,114)
<b>Financial expense taken to income</b>	-	(1)
<b>Exchange differences</b>	(2,383)	(1,529)
<b>Impairment and gains or losses on disposals of financial instruments</b>		
Impairment and losses	-	(110)
Results a disposals and other items	-	(473)
	-	(583)
<b>Financial income/(expense)</b>	<b>(7,544)</b>	<b>(8,149)</b>

The breakdown of financial income and expense is as follows:

	Thousand euro	
	2020	2019
<b>Financial income:</b>		
- Credit income to other companies non current	6	-
- Credit income to other companies current	2	5
- Other financial income	127	73
	135	78
<b>Financial expense:</b>		
- Interest on borrowings from third parties		

. Bank borrowings and credit facilities	(3,209)	(3,728)
. Factoring transactions with/without recourse	(798)	(987)
. Other loans	(1,084)	(1,413)
. Other financial expenses	(14)	148
	<u>(5,105)</u>	<u>(5,980)</u>
- On adjustments to provisions		
. Financial expenses an adjustments to provisions	(191)	(134)
	<u>(191)</u>	<u>(134)</u>
	<b><u>(5,161)</u></b>	<b><u>(5,970)</u></b>

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

	Thousand euro	
	2020	2019
<b>On transactions settled during the year:</b>		
- Debt securities	(1,074)	(2,128)
	<b><u>(1,074)</u></b>	<b><u>(2,128)</u></b>
<b>On balances outstanding and pending maturity:</b>		
- Loans, derivatives and other	(1,309)	599
	<b><u>(2,383)</u></b>	<b><u>(1,529)</u></b>

## 26. Discontinued operations

The distribution by company is set out below:

	Thousand euro	
	2020	2019
Arteche Medición y Tecnología, S.A. de C.V.	(741)	(491)
Arteche North América, S.A. de C.V.	(1,032)	-
UTE Electroingeniería ICSSA-AIT	(261)	(400)
Arteche & Inael Industrial Eléctrica, Ltda	-	(119)
Arteche EDC Equipamientos e Sistemas, S.A.	(203)	-
Elmya Arteche Limited	(500)	-
Venta del segmento Turnkey Solutions	(2,534)	(1,144)
	<b><u>(5,271)</u></b>	<b><u>(2,154)</u></b>

The heading "Result from discontinued operations (net of taxes)" in 2020 and 2019 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.



In 2019, the items recognized as discontinued operations also corresponded to the negative result in 2019 of the company Arteche Medición y Tecnología S.A. de C.V., in the process of liquidation, the impairment of the associated goodwill (Note 6.1), the result for 2019 of the UTE Electroingeniería ICSSA-AIT and the impairment of trade receivables of Arteche & Inael Industrial Eléctrica Ltda with Arteche Inael, S.L. corresponding to the switchgear business.

The cash flows of the transactions carried out by these companies in 2020 and 2019 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.

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 at December 31, 2020). Said transaction was performed on an arm's length basis in accordance with the valuation performed by an independent expert.

Except as mentioned in the previous paragraph, as of December 31, 2020 and 2019, there were no significant balances or transactions carried out with associates or non-consolidated Group companies in these financial statements.

Transactions carried out with related entities correspond mainly to services received and the operating lease of certain properties and are carried out at market prices, which are similar to those applied to non-related entities.

### 27.1 Related parties

During 2020 and 2019 there have not been any transaction with related parties.

### 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	
	2020	2019
Directors		
Salaries	351	351
Per diems	625	593
Senior management		
Salaries	2,196	2,006
	<b>3,172</b>	<b>2,950</b>

At 31 December 2020 and 2019, 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 2020 and 2019, 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 2010. 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 totalled 237 and 2 thousand euro, respectively (258 and 2 thousand euro at December 2019).

In addition, fees paid during the year for other verification services amounted to 16 thousand euro. The accrued fees by other companies during 2019 amounted to 14 thousand euro.

The audit fees accrued during the year by other auditors of subsidiaries for audit and other verification services totalled 9 thousand euro (9 thousand at December 2019).

### **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.

Environmental expenses totalling 316 thousand euro were incurred in 2019 (292 thousand euro in 2019), of which waste management expenses are notable. In turn, this year income totalling 113 thousand euro was obtained on the sale of materials (107 thousand euro at 31 December 2019).

At the end of 2020 and 2019 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 31 December:

- Commercial guarantees relating to contracts totalling 9,890 thousand euro (10,156 thousand euro at 31 December 2019).
- Guarantees provided to secure financing granted by credit institutions totalling 5,567 thousand euro (3,942 thousand euro at 31 December 2019).

- Guarantees provided by the Group as required by the various institutions that have provided grants and refundable prepayments total 664 thousand euro (725 thousand euro at 31 December 2019).
- Letters of financial support provided by the Group in the amount of 34,676 thousand euro (28,350 thousand euro at 31 December 2019) to secure financing granted by credit institutions.
- Guarantees to secure the future payments associated with the lease agreement concluded by the subsidiary Inversiones Zabalondo, S.L. (Note 4.3) in the amount of 2,736 thousand euro (2,685 thousand euro at 31 December 2019).
- Other guarantees in the amount of 176 thousand euro (1,118 thousand euro at 31 December 2019).
- In addition, at 31 December 2020 there were guarantees to secure the execution of turnkey projects in the amount of 1,505 thousand euro (2,630 thousand euro at 31 December 2019).

## 29. Events after the reporting period

On January 29, 2021 a novation agreement was arranged for the syndicated loan held by the Group, increasing the available amount on the tranche existing since 2017 up to 55,567 thousand euros and extending the maturity to 2026. In addition, a new revolving credit line was arranged for an amount of 5,000 thousand euros maturing in 2023. The Group had not made use of this second tranche at the date of authorizing the accompanying consolidated financial statements for issue. Likewise, the limits granted under the bank guarantees were increased to a maximum amount of 7 million euros.

The breakdown of maturities for the balances comprising bank borrowings at 2020 year end would approximately correspond to the following subsequent to the novation:

	2021	2022	2023	2024	2025 and afterwards	Total
Debts with credit institutions	17,174	15,585	10,068	10,525	11,429	64,781
	<b>17,174</b>	<b>15,585</b>	<b>10,068</b>	<b>10,525</b>	<b>11,429</b>	<b>64,781</b>

# APPENDIX

**ARTECHE LANTEGI ELKARTEA, S.A. and subsidiaries**  
**Notes to the consolidated financial statements for the year ended December 31, 2020**  
(Thousand euro)

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

Thousand euro												
	Carrying amount	Direct interest	Indirect interest	Share capital	Reserves/ Losses	Profit/(Loss) for the year	Other shareholder contributions and other items	Capital and reserves	Other equity items	Equity	Address	Business
Electrotécnica Artech Hermanos, S.L.	-	0.01%	99.99%	2,006	44,325	2,179	-	48.510	316	48.826	Derio Bidea 28 Mungia (Bizkaia)	Manufacture and marketing of all types of electrical devices
Electrotécnica Artech 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.
Artech 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.
Artech 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.

**ARTECHE LANTEGI ELKARTEA, S.A. and subsidiaries**  
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	Carrying amount	Direct interest	Indirect Interest	Share capital	Reserves/ Losses	Profit/(Loss) for the year	Other shareholder contributions and other items	Capital and reserves	Other equity items	Equity	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)	Promotion and development of companies by acquiring temporary interests in share capital.
Arteche Centro de Tecnología, A.I.E.	90	90%	10%	100	27	86	-	213	100	313	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	10,053	3,335	-	36,222	(10,239)	25,983	Km. 73.540. Ant. Carretera México-Querétaro Tepeji del Río de Ocampo Estado de Hidalgo (México)	Manufacture and marketing of current transformers, relays an automatic protection devices for high, medium and low voltage facilities.
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 marketing of current transformers for high voltage electrical facilities.
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 marketing of electric components and automatic protection devices 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 computing devices and machinery.
STK Sistemas do Brasil, Ltda. (***)	-	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.
Arteche DYH Electric Co., Ltd.	-	-	60%	11,886	(4,172)	2,093	-	9,806	2,215	12,021	Taiping Industrial Park Pulandian Dailian Liaoning Province (China)	Manufacture and commercialization of products related to the electric and energy sector.

**ARTECHE LANTEGI ELKARTEA, S.A. and subsidiaries**  
**Notes to the consolidated financial statements for the year ended December 31, 2020**  
(Thousand euro)

	Carrying amount	Direct interest	Indirect Interest	Share capital	Reserves/ Losses	Profit/(Loss) for the year	Other shareholder contributions and other items	Capital and reserves	Other equity items	Equity	Address	Business
Arteche Gas Insulated Transformers, S.L.U. (anteriormente denominada Arteche Nissin, S.L.)	-	-	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 Estación Central Región Metropolitana Santiago de Chile (Chile)	Elaboration, manufacture, commercialization, import, export and representation of all kinds of electric elements, 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.	315	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	(1,213)	(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.

**ARTECHE LANTEGI ELKARTEA, S.A. and subsidiaries**  
**Notes to the consolidated financial statements for the year ended December 31, 2020**  
(Thousand euro)

	Carrying amount	Direct interest	Indirect Interest	Share capital	Reserves/ Losses	Profit/(Loss) for the year	Other shareholder contributions and other items	Capital and reserves	Other equity items	Equity	Address	Business
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 such 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 Juárez (México)	Development, design, manufacturing, fabrication, commercialization, distribution, promotion, financing, execution and rendering of services in all matters related to project management of high, medium and low voltage electrical installations, using all energy sources, including renewable energies.
Arteche Middle East, D.M.C.C.	-	-	100%	23	196	(3)	-	216	-	216	Office N° 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



**ARTECHE LANTEGI ELKARTEA, S.A. and subsidiaries**  
**Notes to the consolidated financial statements for the year ended December 31, 2020**  
(Thousand euro)

	Carrying amount	Direct interest	Indirect Interest	Share capital	Reserves/ Losses	Profit/(Loss) for the year	Other shareholder contributions and other items	Capital and reserves	Other equity items	Equity	Address	Business
Elmya Artech 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 Towards East Wing, 26/27 MG Road Bangalore – 560001	Promotion of the parent 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 matrix's commercial activities and products in the Andean region.
	<b>106,075</b>											

(\*) Financial statements as of March 31,2020

(\*\*) In liquidation process

(\*\*\*) Companies sold in 2020

(\*\*\*\*) Company spun off in 2020

**ARTECHE LANTEGI ELKARTEA, S.A. and subsidiaries**  
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(Thousand euro)

The information regarding group, jointly-controlled and associates at 31 December 2019 is as follows:

	Carrying amount	Direct interest	Indirect interest	Share capital	Reserves/ Losses	Profit/(Loss) for the year	Other shareholder contributions and other items	Capital and reserves	Other equity items	Equity	Address	Business
Electrotécnica Artech Hermanos, S.L.	-	0.01%	99.99%	2,006	41,664	3,761	-	47,431	194	47,625	Derio Bidea 28 Mungia (Bizkaia)	Purchase, sale and manufacture of all kinds of electrical appliances.
Electrotécnica Artech Smart Grid, S.L.U.	-	-	100.00%	588	10,304	185	6,000	17,077	696	17,773	Derio Bidea 28 Mungia (Bizkaia)	Purchase, sale and manufacture of all kinds of electrical appliances.
Inversiones Zabalondo, S.L.	11,469	99.98%	0.02%	776	13,354	529	-	14,839	-	14,839	Derio Bidea 28 Mungia (Bizkaia)	To buy, sell, rent, parcel, urbanize, segregate and group plots, lands and estates, as well as to manage, exploit and administer such real estate properties and to provide real estate management and administration services to third parties.
Artech Instrument Transformers, S.L.	38,069	99.98%	0.02%	7,271	57,208	354	436	65,269	-	65,269	Derio Bidea 28 Mungia (Bizkaia)	To buy, subscribe, exchange and sell all kinds of securities, for its own account and without intermediation activity and, in particular, to carry out the activity of management and administration thereof.
Artech Smart Grid, S.L.U.	47,985	100.00%	-	1,317	28,415	(1,366)	42,435	70,801	-	70,801	Derio Bidea 28 Mungia (Bizkaia)	To buy, subscribe, exchange and sell all kinds of securities, for its own account and without intermediation activity and, in particular, to carry out the activity of management and administration thereof.
Artech Turnkey Solutions, S.A.	13,287	99.99%	0.01%	260	(22,766)	(35)	22,960	419	-	419	Derio Bidea 28 Mungia (Bizkaia)	Promotion and development of companies through temporary participation in their capital.
Artech Centro de Tecnología, A.I.E.	90	90%	10%	100	(56)	83	-	127	134	261	Derio Bidea 28 Mungia (Bizkaia)	R&D projects related to technologies of interest to the energy generation, transmission and distribution sector and the incorporation of new

**ARTECHE LANTEGI ELKARTEA, S.A. and subsidiaries**  
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(Thousand euro)

	Carrying amount	Direct interest	Indirect interest	Share capital	Reserves/ Losses	Profit/(Loss) for the year	Other shareholder contributions and other items	Capital and reserves	Other equity items	Equity	Address	Business
												technologies in products and manufacturing processes involved.
Arteche North America, S.A. de C.V. (anteriormente Transformadores y Tecnología, S.A. de C.V.)	-	-	100%	22,833	9,229	969	-	33,031	(5,385)	27,647	Km. 73.540. Ant. Carretera México-Querétaro Tepej del Río de Ocampo Estado de Hidalgo (México)	Manufacture and commercialization of instrument transformers, relays and protection automatism for high, medium and low voltage electrical installations.
AIT, S.A.	-	-	100%	14,062	(8,111)	1,623	3,816	11,390	(8,537)	2,853	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%	47,242	(45,179)	514	-	2,577	(937)	1,640	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%	1,155	(22)	(393)	-	740	(740)	-	Industria Mecánica 2173 Desarrollo Zapopan – Jalisco (México)	Manufacture and marketing of electrical and computer equipment and machinery.
Arteche USA, LLC.	-	-	100%	1,541	(436)	8	-	1,113	(122)	991	18503 Pines Blvd. Suite 313 Pembroke Pines (Estados Unidos)	Electronic and electrical equipment trading company.
STK Sistemas do Brasil, Ltda.	-	-	50%	20,144	(12,542)	(488)	-	7,114	(1,574)	5,540	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.
Arteche DYH Electric Co., Ltd.	-	-	60%	11,886	(5,760)	1,588	-	7,714	2,377	10,091	Taiping Industrial Park Pulandian Dailian Liaoning Province (China)	Manufacture and commercialization of instrument transformers for high voltage electrical installations.
Arteche Gas Insulated Transformers, S.L.U.	-	-	100%	540	(5,683)	(1,598)	-	(6,741)	73	(6,668)	Gerezpea, 15 Polígono Industrial de Jundiz Vitoria	Manufacture and commercialization of products related to the electric and energy sector.

**ARTECHE LANTEGI ELKARTEA, S.A. and subsidiaries**  
**Notes to the consolidated financial statements for the year ended December 31, 2020**  
(Thousand euro)

	Carrying amount	Direct interest	Indirect interest	Share capital	Reserves/ Losses	Profit/(Loss) for the year	Other shareholder contributions and other items	Capital and reserves	Other equity items	Equity	Address	Business
(anteriormente denominada Arteche Nissin, S.L.)											(Álava)	
Arteche Chile, S.p.A.	-	-	100%	63	(1,073)	(306)	-	(1,316)	202	(1,114)	Comuna de Estación Central Región Metropolitana Santiago de Chile (Chile)	Elaboration, manufacture, commercialization, import, export and representation of all kinds of electric elements, especially those related to electric power quality.
Arteche- Inael, S.L.	-	-	56%	1,786	(31)	(119)	-	1,636	-	1,636	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	(3,580)	71	-	(609)	(329)	(938)	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.	315	15%	-	2,110	24	22	-	2,156	-	2,156	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	(1,081)	(158)	-	(528)	57	(471)	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.
Grupo SAC	-	-	100%	2,869	(4,497)	(560)	4,804	2,616	98	2,714	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

**ARTECHE LANTEGI ELKARTEA, S.A. and subsidiaries**  
**Notes to the consolidated financial statements for the year ended December 31, 2020**  
(Thousand euro)

	Carrying amount	Direct interest	Indirect interest	Share capital	Reserves/ Losses	Profit/(Loss) for the year	Other shareholder contributions and other items	Capital and reserves	Other equity items	Equity	Address	Business
												electronic equipment and their corresponding software, as well as safety-related services.
Arteche Ventures, S.L.	80	99.80%	0.20%	5	35	(199)	-	(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 such 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%	2,767	(1,605)	(606)	-	556	10	566	Calle 8 nº1-B Fraccionamiento Industrial Alce Blanco Naucalpan de Juárez (México)	Development, design, manufacturing, fabrication, commercialization, distribution, promotion, financing, execution and rendering of services in all matters related to project management of high, medium and low voltage electrical installations, using all energy sources, including renewable energies.
Arteche México Turnkey Solutions, S.A. de C.V. (***)	-	-	50%	592	(871)	(391)	-	(670)	19	(651)	Calle 8 nº1-B Fraccionamiento Industrial Alce Blanco Naucalpan de Juárez (México)	Desarrollo, diseño, fabricación, manufactura, comercialización, distribución, promoción, financiamiento, ejecución y prestación de servicios en todo lo referente a gestión de proyectos de instalaciones eléctricas de alta, media y baja tensión, utilizando toda fuente de energía incluyendo las de energías renovables.

**ARTECHE LANTEGI ELKARTEA, S.A. and subsidiaries**  
**Notes to the consolidated financial statements for the year ended December 31, 2020**  
(Thousand euro)

	Carrying amount	Direct interest	Indirect interest	Share capital	Reserves/ Losses	Profit/(Loss) for the year	Other shareholder contributions and other items	Capital and reserves	Other equity items	Equity	Address	Business
Arteche Middle East, J.L.T.	-	-	100%	23	208	(12)	-	219	-	219	Office Nº 903-904-16 Level 9- Reef Tower Cluster of Jumeirah Lake Towers Dubai (UAE)	Commercialization of all types of Arteche brand electrical and electronic components.
ZB Inversiones, S.A.	2,308	97.01%	-	122	(286)	(115)	923	644	(634)	10	Ruta nacional nº9 , km 689, Barrio Ferreyra, Ciudad de Córdoba, Argentina	Real estate activity
Elmya Artech Limited	-	-	49.99%	36	(270)	(2)	-	(236)	-	(236)	17 Grosvenor Gardens London SWS1W0BD	Construction of utility projects for electricity and telecommunications
Smart Grid India PVT (*)	-	-	100%	50	(32)	1	-	19	-	19	No 913, 9th Floor, Raheja Towards East Wing, 26/27 MG Road Bangalore – 560001	Promotion of the parent company's business activities and products in India
Naire XXI (***)	-	-	50%	24	151	(50)	-	125	-	125	Derio Bidea 28, Mungia (Bizkaia)	Promotion of companies
Basque Electrical Laboratories Alliance AIE	-	-	33.3%	210	127	(30)	-	307	-	307	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.
	<b>119,361</b>											

**ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARIES**  
**Consolidated directors' report for the year ended 31 December 2020**

**1. BUSINESS PERFORMANCE**

- Performance and trends:

In 2020 the Arteche Group managed to grow by 3% with respect to the previous year, fulfilling the contract volume and margin plan in spite of the great uncertainty generated by the pandemic. This growth was boosted most in Europe, Africa and the Middle East, and the Asia-Pacific zone. The Group's performance worsened in North America and Latin America, with these two areas the most adversely impacted by the effects of COVID-19.

Growth of 7% was obtained in Europe, Africa and the Middle East, with the greatest boost generated in Spain (the second market of the Group in terms of volume), France, the UK, Belgium, and the Scandinavian countries for all product lines, including the new businesses, which grew with respect to 2020. The Middle East area has still not started recovering.

After a historic year in terms of contracts obtained in 2019, the North America zone decreased by 5%, though this still represented a better result than the business plan anticipated. Mexico grew by 3% and once again positions itself as the Group's first market in terms of volume. The slowdown of the high voltage business was compensated by the good performance of the medium voltage and control and protection businesses boosted by CFE. After the historic maximums seen in 2019 the USA decreased by 15% though it closed the year at levels much higher than in 2018, with the main businesses performing as planned.

The Latin America zone decreased by 4%. Brazil, the only market with significant growth, which came in at 15%, did not offset the pronounced drop in the remaining regions which were impacted by the poor macroeconomic situation of Argentina and the impact of Covid in the southern and Andean zones. In terms of businesses, growth was only seen in the Reclosers segment, boosted by the good performance achieved in Brazil.

The Asia-Pacific zone saw growth of 35%, boosted by Southeast Asia, China, and Oceania. All businesses saw growth, with good performance in the High Voltage and Relay areas in the Power and Railway segments representing the most noteworthy.

The expectations for 2021 remain positive, with growth to be maintained at 4%, boosted by the Asia Pacific and Latam zones, and with business volume expected to be maintained at the prior levels seen in Europe, Africa, the Middle East, and North America. All business lines are expected to see growth, except for the Reclosers and Control and Protection areas in a year of consolidation for both businesses.

The main business drivers remained in place, with significant investments in renewable energies (wind energy and photovoltaic energy), the automation trend in distribution networks, and investments in transmission. Moreover, the Group will initiate the inorganic growth phase foreseen in its strategic plan, focused on growth and strengthening our value proposals.

**ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARIES**  
**Consolidated directors' report for the year ended 31 December 2020**

- Financial economic environment:

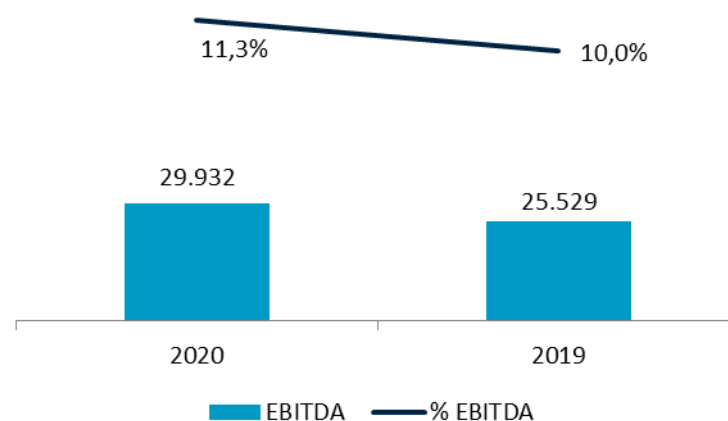
Las principales magnitudes de la cuentas de resultados consolidada son los siguientes:

Principales magnitudes (miles de euros)	2020	2019	Var (%)
Revenues	264,680	255,033	+3.8%
Gross margin	91,252	82,751	+10.3%
Operating income	17,167	13,154	+30.5%
EBITDA	29,932	25,529	+17.2%
Profit before taxes	9,623	5,008	+92.2%
Profit attributable to the parent company	1,029	893	+15.2%

Consolidated income from continuing operations in 2020 amounted to 265 million euros, 3.8% higher than at 2019 year end, mainly as a consequence of the positive performance of the business lines comprising automation of the transport and distribution networks and network reliability. The business presented positive performance in spite of the impact of COVID-19 on a global level.

The consolidated operating results for the year amounted to 17.2 million euros, improving 30.5% with respect to the previous year. In general, the following could be observed:

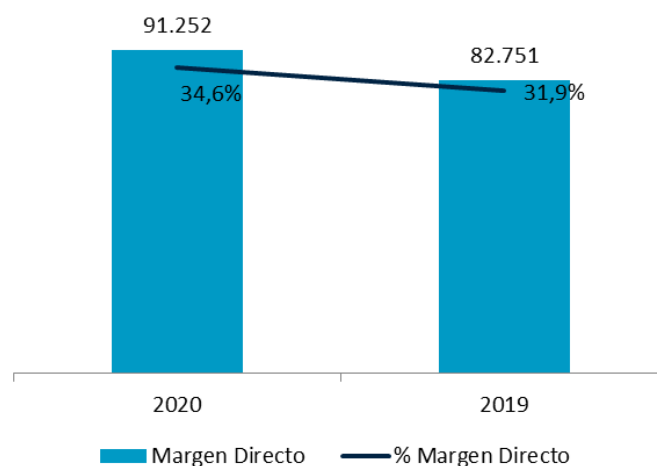
- Improvement of 1.1% for the **EBITDA-to-sales ratio**, which closed 2020 at 11.3%.



- The improvement of EBITDA was mainly a consequence of the significant improvement to the **direct margin**, which increased by 270 basis points with respect to 2019 thanks to the initiatives developed in the different business areas, all of them focused on reducing costs.



**ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARIES**  
**Consolidated directors' report for the year ended 31 December 2020**

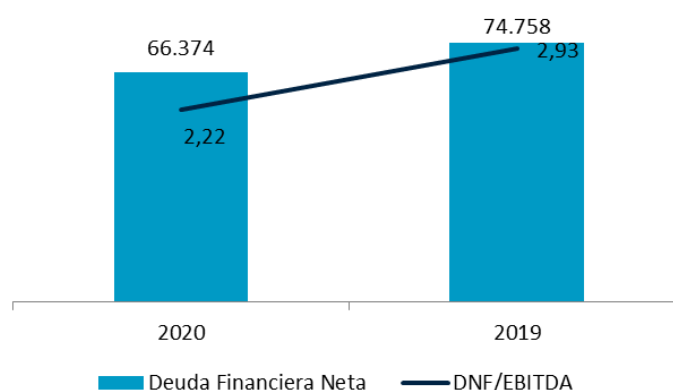


- We obtained excellent results via the control of contract margins, redesigning equipment and opting for more compact new equipment, utilization of new technologies, reduction of purchase prices for materials and logistics costs by negotiating with current and new suppliers, and via improved productivity and efficiency in operations.
- **Employee expenses** amounted to 64,233 thousand euros at December 31, 2020. These costs increased with respect to 2019 as a consequence of an increase in the average headcount.
- **Other operating expenses** amounted to 37,974 thousand euros at December 31, 2020, representing a 2% decrease with respect to the prior year.
- **Amortization of intangible assets** amounted to 4,863 thousand euros at December 31, 2020, while **amortization of goodwill** amounted to 2,454 thousand euros and **depreciation of PP&E** amounted to 3,530 thousand euros at said date.
- With respect to the consolidated **finance cost**, it is worth noting that expenses incurred on third-party borrowings were lower, amounting to 5,105 thousand euros in 2020 as compared to 5,980 thousand euros in 2019, a consequence of lower average debt levels and decreases in interest rates achieved via diversification of the debt assumed. However, the performance of exchange rates in 2020 was negative, especially due to the strong depreciation of the Brazilian real and Mexican peso, generating an expense of 2,383 thousand euros in 2020 (2019: 1,529 thousand euros).
- All of the above resulted in a negative consolidated **finance cost** of 7,544 thousand euros in 2020 (2019: 8,149 thousand euros).
- **Corporate income tax** contributed to negative results, coming in at 2,478 thousand euros in 2020 (2019: 1,452 thousand euros).
- Profit for the year decreased due to the results generated by the **discontinued operations**, which mainly comprised the results arising from the turnkey business, an activity which the Arteche Group sold in 2020.
- **Profit for the year attributed to the Parent company** amounted to 1,029 thousand euros, as compared to 893 thousand euros in 2019. We have maintained positive consolidated results, reflecting the good performance and recovery of the Group which had already started in 2017.

**ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARIES**  
**Consolidated directors' report for the year ended 31 December 2020**

- Financial situation:

Net Financial Debt has been reduced by 8,384 thousand euros, which places the Net Financial Debt to EBITDA ratio at 2.22 times.



With respect to the Arteche Group's financial strategy, the following can be highlighted:

- The Arteche Group arranged new **syndicated financing** in 2017, thereby aligning borrowings more with the Company's and Group's needs (Note 21.1.) Likewise, in January 2018 a new financing framework agreement for working capital was arranged for a duration of three years, guaranteeing availability of the corresponding facilities over said period. On January 29, 2021 a novation agreement was reached for the syndicated loan held by the Group, increasing the available amount on the tranche existing since 2017 up to 55,567 thousand euros and extending its maturity to 2026. In addition, a new revolving credit line was arranged for a maximum amount of 5,000 thousand euros maturing in 2023 and the framework agreement for financing working capital was renewed.
- On December 19, 2019 a credit line was arranged with the **European Bank of Investments (EBI) for an amount of 27,000 thousand euros**. 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 was carried out for an amount of 7,000 thousand euros in April 2020.
- Likewise, in February 2020 a long-term loan amounting to 7,000 thousand euros was arranged with **Cajamar**.
- In November 2020 the Group entered financial markets for the first time with a commercial paper program registered on the **Spanish Alternative Fixed Income Securities Market (MARF)**. This new source of financing can be utilized for a balance of up to 50 million euros at very competitive prices below 1% per annum and the commercial paper maturities ranging from one to twelve months.
- Further, in 2020 the Spanish Official Credit Institute ("**ICO**" from the Spanish "**Instituto de Crédito Oficial**") guaranteed the Arteche Group's R&D&I plan, confirming its compliance with European Union directives in matters of Innovation and Sustainability (20 million euros).

## **ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARIES**

### **Consolidated directors' report for the year ended 31 December 2020**

Further, new loans were arranged during 2020, the most noteworthy of which were the loans from financial entities guaranteed by the ICO for a balance of 13,350 thousand euros at December 31, 2020, maturing in 2025 and 2026.

In this manner the Group managed to diversify its financing sources and transform its debt structure, replacing short-term debt with long-term debt and thereby improving financial stability.

## **2. OUTLOOK FOR THE GROUP**

The outlook for 2021 is optimistic, with plans to improve profitability and the generation of cash flow. The competitive position achieved with the efforts made in previous years, and new certifications obtained together with new developments, allowed the Arteche Group to grow in new markets and with new products.

The Group's global strategy is focused on increasing its profitability with the optimization of productive processes, the implementation of new purchase policies for reducing costs, the incorporation of improvements to designs, the efficiency of operations in accordance with the principles of lean management, and the rationalization of its structure.

The policy for reducing overhead costs and working capital needs will be strengthened, which will contribute to increased control in the client, supplier, and inventory areas.

The policy for geographical diversification and the development of new products implemented in the Company, together with the strategic lines that have been defined, will allow us to meet the challenges of 2021 and subsequent years with favorable expectations and without detecting any significant risks arising from the activities.

## **3. RESEARCH AND DEVELOPMENT**

The priorities of the Arteche Group in terms of innovation are oriented towards achieving an energy transportation and distribution network which allows for efficient, reliable, and sustainable integration of the new realities associated with the energy transition in progress (renewable energies, electric vehicles, storage, etc.). Specifically, the aim is to move towards digitalization of the electricity grid, towards solutions which will facilitate efficient interconnection of renewable generation of energy, providing the equipment used for operating in the network with the necessary intelligence to perceive its status and predict its performance, as well as towards redesigning equipment so that only sustainable materials are used.

During the last financial year (2020) the R&D&I team taken as a whole executed more than 100 projects of different dimensions which required more than 120,000 hours of work.

As a result of executing the projects planned in recent years, the Group has consistently managed to ensure that more than 80% of its contract volume corresponds to products developed or modified during the last 5 years (projects for expanding the range of products and incorporating improvements to products already being commercialized).

These projects are integrated in the framework of the Arteche Group's strategic plan for 2018-2023 through a series of fundamental strategic lines:

- Supervision and automation of the electricity distribution grid
- Implementation of sensor systems for the electricity transportation and distribution networks based on measurement systems using conventional and digital technologies (LPIT).

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**Consolidated directors' report for the year ended 31 December 2020**

- The decision to concentrate on sustainability via research and the substitution of dielectric and magnetic materials for less environmental impact
- The development of solutions for protection, control, and automation of the electric substations which utilize new enabling technologies (IoT, artificial and visual intelligence)

During 2020, and within the framework of the aforementioned strategic plan, the Group prepared 5-year manufacturing route sheets for each of the product lines in which the R&D area is divided, defining the following main developments for the period:

- High voltage transformers: development of a new line of capacitive transformers and asset management solutions (including monitoring and modeling oil and gas transformers).
- Medium voltage transformers: the development of new models for submersible and explosion-proof transformers.
- Sensors: expansion of the product range up to 72kV.
- Auxiliary relays: development of a range of relays appropriate for the specifications of the railway sector (Miniplus range).
- Electronics: implementation of a new platform for electronic products and development of recloser protection equipment, MV feeder and bay controllers.
- Primary equipment: development of a complete recloser range up to 38kV.
- Digital measurement: development and industrialization of a range of voltage transformers and electronic combiners.

#### **4. OWN SHARES OF THE DOMINANT COMPANY**

There are no own shares at 31 December 2020.

#### **5. ENVIRONMENTAL ISSUES**

As part of Arteche's commitment to sustainable development, the Group's vocation is to promote and integrate a culture of responsibility with respect to the environment. In order to achieve this, the Group ensures compliance with environmental provisions and proposes the actions necessary for continual improvement of the environment as well as prevention of environmental risks.

Likewise, improvements to preventive actions are boosted, in compliance with or exceeding the applicable environmental regulatory standards, minimizing the environmental impact of entrepreneurial activities, and making efficient use of available resources as well as conserving biodiversity.

As part of integrated and multi-site management, the Group has integrated, implemented, and certified all the specifications required by ISO 14001:2015, amongst which the corresponding procedures are included with regard to the prevention of environmental impacts.

In management terms, during 2020 Group Management was focused on defining the Group's sustainability strategy, setting the sustainability plans for all regions and improving internal control of non-financial information and indicators.

As environmental management is one of the pillars of the sustainability plans, and therefore a fundamental part of the Group's strategy, the Arteche Group's Sustainability Plan for 2021 has the following priority objectives:

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**Consolidated directors' report for the year ended 31 December 2020**



In the 2020 Statement of Non-Financial Information of the Arteche Group, an integral part of this management report, the information related to the environment is expanded.

## **6. INVESTMENTS**

During fiscal year 2020, the Company has made investments in intangible fixed assets for an amount of 5,233 thousand euro, most of which correspond to the aforementioned R & D expenses and investments in property, plant and equipment for an amount of 6,441 thousand euro, mainly in machinery and facilities.

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## **7. RISK**

The Arteche Group is exposed to certain credit, market and liquidity financial risks, which it manages through the grouping of identification, measurement, concentration limitation and supervision systems. The management and limitation of financial risks is carried out in a coordinated manner between the Management of the Arteche Group and the businesses by virtue of the policies approved at the highest executive level and in accordance with established norms, policies and procedures, which are periodically approved and supervised by the Board of Directors of the Parent Company. The identification, evaluation and coverage of financial risks is the responsibility of each of the businesses.

### **a) Credit risk**

The credit risk is caused by the possible loss caused by the breach of the contractual obligations of the counterparts of the Group companies, that is, by the possibility of not recovering the financial assets for the amount accounted for and within the established term.

The Group has controls within the commercial and financial department that evaluate the credit history of our clients, establishing credit limits for each one of them, as well as periodically monitoring accounts receivable for debt seniority.

### **b) Market risk**

Market risk is caused by the possible loss caused by changes in the fair value or in the future cash flows of a financial instrument due to changes in market prices. Market risk includes the risk of interest rate, exchange rate and other price risks.

#### Interest rate risk

The interest rate risk is produced by the possible loss caused by changes in the fair value or in the future cash flows of a financial instrument due to changes in the market interest rates. The Group's exposure to the risk of changes in interest rates is mainly due to the need for an adequate financing structure, part of which is established in loans and credits received in the long term at variable interest rates.

The Group manages the interest rate risk by distributing the financing received at a fixed and variable rate. The Arteche Group has almost all of its financial indebtedness at a variable rate, using, if applicable, hedging instruments to minimize risk, basically when the financing is long-term. The hedging instruments that are specifically assigned to debt instruments have a maximum of the same nominal amounts.

#### Exchange rate risk

This risk is a consequence of the international operations that the Arteche Group performs in the ordinary course of its business. Part of their income and costs are denominated mainly in US dollars, Mexican pesos, Brazilian reais, Argentine pesos and Chinese renminbis.

To manage and minimize this risk, the Arteche Group uses strategies at the Group level, given that its objective is to generate profits only through ordinary activity in operations and not through speculation on fluctuations in the exchange rate.

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The Arteche Group analyzes the exchange rate risk based on its firm order book and the anticipated operations whose materialization is highly probable based on contractual evidence. The limits of exposure to risk are set annually for a time horizon less than one year that allows, where appropriate, to adapt to the market trend, always associated with net cash flows of the Group. The instruments used to minimize this risk are, basically, insurance of the exchange rate and derivatives in foreign currency, and are contracted in all cases by the Parent Company of the Group.

**c) Liquidity risk**

Exposure to adverse situations in the debt or capital markets may hinder or prevent the coverage of the financial needs required for the adequate development of Grupo Arteche's activities and its strategic plan.

The liquidity policy followed by the Group ensures compliance with the payment commitments acquired without having to resort to obtaining funds under burdensome conditions. For this purpose, different management measures are used, such as the maintenance of committed credit facilities of sufficient amount and flexibility, the diversification of the coverage of financing needs through access to different markets and geographical areas, and the diversification of the maturities of the debt issued.

The main risks and uncertainties are described in note 5 to the consolidated financial statements.

**8. AVERAGE PAYMENT PERIOD TO SUPPLIERS**

The average supplier payment period during 2020 for Group companies located in Spain was around 121 days (2019: 109 days), as presented in Note 21.2 to the accompanying consolidated financial statements. The Group is currently analyzing measures which will allow it to reduce this average payment period.

**9. EVENTS OCCURRED AFTER THE CLOSING OF THE YEAR**

On January 29, 2021 a novation agreement was reached for both the syndicated loan held by the Group, increasing the available amount on the tranche existing since 2017 up to 55,567 thousand euros and extending its maturity to 2026, and the financing framework agreement for working capital. In addition, a new revolving credit line was arranged for an amount of 5,000 thousand euros maturing in 2023. The Group had not made use of this second tranche at the date of authorizing the accompanying consolidated financial statements for issue. Likewise, the limits granted under the bank guarantees were increased to a maximum amount of 7 million euros.

The renewal of the Group's syndicated loan, together with the arrangement of diversified financing sources in recent years, with traditional bank financing, institutional financing (EBI, ICO, Cofides), and access to financial markets such as the MARF, has allowed the Arteche Group to make noteworthy improvements to its debt structure, replacing short-term debt with long-term debt and thus enhancing financial stability.

**10. NON-FINANCIAL INFORMATION**

In accordance with Law 11/2018 which amended the Code of Commerce, the revised Spanish Corporation Law on the audit of accounts as regards non-financial and diversity information, the 2019 statement of non-financial information is attached to this Consolidated Management Report.



## **ARTECHE LANTEGI ELKARTEA, S.A. AND SUBSIDIARIES**

### **Preparation of the Consolidated Annual Accounts and Consolidated Directors' Report for 2019**

On March 29, 2021, the Board of Directors of Arteche Lantegi Elkartea, S.A., in compliance with the requirements established in article 253 of the Spanish Corporate Enterprises Act and article 37 of the Commercial Code, prepared the consolidated financial statements and consolidated management report for the year ended December 31, 2020, consisting of the foregoing accompanying documents.

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Ziskua Ber, S.L. represented by  
D. Lander Arteche Eguia

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Mr. Alexander Artetxe Panera

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Madlane Bay, S.L. represented by D. José  
María Abril

---

D. Luis Aranaz Zuza

---

Promig Consulting, S.L. represented by  
Guillermo Ulacia

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Lusove Mavi, S.L.U. represented by D.  
Dámaso Quintana Pradera

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Creva Projects, S.L. represented by D.  
Pablo Ramallo Taboada

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Gestión de Capital Riesgo del País Vasco  
SGEIIIC, S.A. represented by  
Dña. Yolanda Beldarrain Salaberria