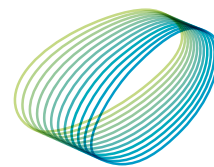


# SUSTAINABILITY REPORT 2019



arteche



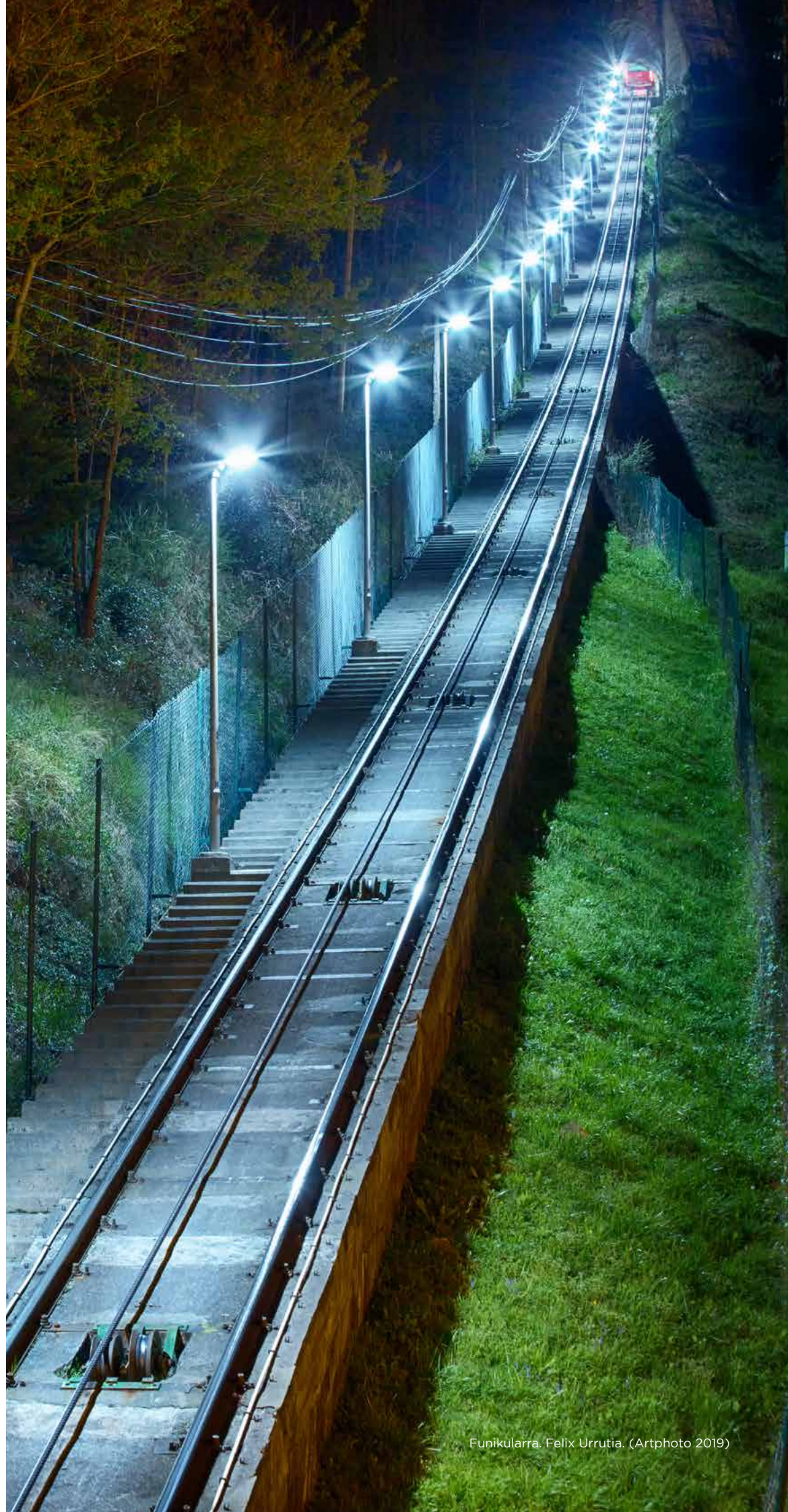




# Moving Together



# Sustentabilidad



Funikularra. Felix Urrutia. (Artphoto 2019)

2	Letter from the President	
4	<b>Chapter 1.</b> <b>How we understand sustainability</b>	1.1. Identity and values 4 1.2. Overview of the Arteche Group 8 1.3. Our sustainable commitment 14 1.4. Our sustainability plan 16
21	<b>Chapter 2.</b> <b>Good governance, ethics and risk management</b>	2.1. Corporate governance system 21 2.2. Ethics 26 2.3. Risk management system 29
31	<b>Chapter 3.</b> <b>Our commitment against corruption and bribery</b>	3.1. Risks and crime prevention program 32 3.2. Corruption prevention measures 33
35	<b>Chapter 4.</b> <b>Our commitment to the people</b>	4.1. Our Team 36 4.1.1. Employment 36 4.1.2. Equality and accessibility 42 4.1.3. Work organization and social relations 46 4.1.4. Health & Safety 47 4.2. Our fight for Human Rights 49
51	<b>Chapter 5.</b> <b>Our environmental commitment</b>	5.1. Management and environmental approach 52 5.2. Environmental issues 54
61	<b>Chapter 6.</b> <b>Our social commitment</b>	6.1. Our collaboration with society 62 6.2. Subcontracting and suppliers 67 6.3. Clients 69 6.4. Tax information 71
75	<b>Capítulo 7.</b> <b>About this report</b>	





## Letter from the President

— This year, as an essential part of our Strategic Plan, we have defined a Sustainability Plan which, in line with our mission and values, should guide all of the Group's actions in the field of sustainability

In this document, we present the 2019 fiscal year Sustainability Report, with the aim of providing society and the company's stakeholders with a global vision of our strategy and the lines of action in the area of sustainability. A strategy that in line with the United Nations Sustainable Development Goals and with our commitment, as a signatory company, to the principles of the Global Compact.

The Sustainability Report details our progress in environmental protection, engagement in society, and ethical response to business challenges in all the countries where we are located.

The management indicators we use to monitor our sustainability objectives follow the GRI (Global Reporting Initiative) standards, which makes it possible for us to better evaluate our performance and facilitates monitoring and external comparison for our stakeholders.

During the 2018-2019 biennium we completed the first stage of our 2022 Strategic Plan.

An ambitious plan with an organic growth target of more than 8% year-on-year, reinforced with an acquisition plan with which we seek to strengthen our growing presence in the world with new locations and business partners. To this end, a strong commitment to the excellence of our processes and to improving the efficiency of our factories, together with a significant investment in technological innovation and digitalization, are key factors in this exciting moment in the electricity sector.

Our sector is undergoing a period of development and transformation. Economic growth and the demand for energy, electrification of the economy, the decisive drive towards renewable generation and digitalization are transforming the electrical grid.

We are experiencing an era of both challenges and opportunities for everyone in the sector and, at Arteche, we are preparing to take advantage of both of them.

In this context, 2018 and 2019 have been consolidation years, years of laying the foundations for future growth. We have completed work implemented in recent years by refocusing our activity: we have identified the businesses in which we want to be present and divested ourselves of those areas that we don't consider essential to our future.

This has made us stronger. We are taking on the challenges and opportunities offered by the evolution of the electricity grid with a solid portfolio of products and solutions focused on electricity substations, connection of renewable energy to the grid, supply quality improvement, and smart grid development.

From a financial point of view, we have closed this biennium with a strengthened position. We have strengthened our international commercial presence with a 24% growth in two years and an improvement in results of more than 25%. In addition, with the reorganized portfolio of products and solutions, all businesses are growing and are profitable.

From a geographic standpoint, we have grown in most countries, especially in our main markets in Europe and the Americas; and our performance in North America, where we have grown all of our portfolio's products by almost 50%, is worth noting. As far as products and solutions are concerned, in addition to growing in Arteche's "core" business, we are growing at a faster rate in the future products and solutions oriented to the intelligent network and renewable generation.

Some data that reconfirm this effort are the interconnection of more than 30GW of renewables to the grid between 2018 and 2019 with our solutions, and the fact that sales of products and solutions focused on the smart grid have increased threefold in the last two years.

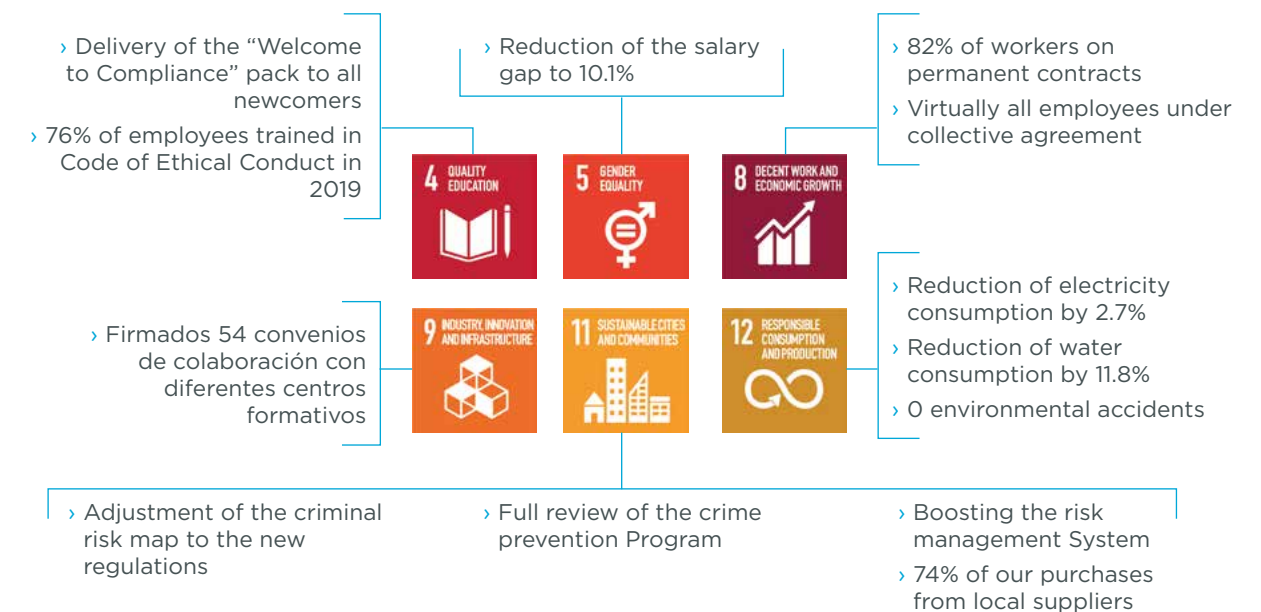
As I said before, the goal is to continue growing. Our plan calls for significant growth in sales and

profitability, but a growth that is in accordance with our values. Our values have been rooted for more than 70 years in the people who are part of Arteche and for whom sustainability and an ethical and transparent way of doing things have always been the guideline.

This year, as an essential part of our Strategic Plan, we have defined a Sustainability Plan which, in line with our mission and values, should guide all of the Group's actions in the field of sustainability.

For this plan, we have selected the Sustainable Development Goals as the main focus of our activity, taking into account the sector in which we are, the type of company we are and the countries in which we are present. Therefore, we will focus our efforts, capacities and technological innovation on contributing to goal number 8 (Decent Work and Economic Growth), 11 (Sustainable Cities and Communities), 9 (Industry, Innovation and Infrastructure), 4 (Quality Education), 12 (Responsible Production and Consumption) and 5 (Gender Equality).

In order to measure our contribution to these goals, we have set up a panel of indicators following GRI standards and we are already starting to see some results in 2019.



We are advancing and fulfilling the objectives defined in all fields, but we have exciting challenges ahead of us, which we face with the confidence that a great team of committed professionals gives us.

Throughout Arteche's 70+ years of history, we have distinguished ourselves by our closeness to our clients, our flexibility in meeting their needs with technology and service, and by always responding to difficulties.

This feature, which has made us stand out from the very beginning, and is summarized in our Moving Together brand philosophy, takes on greater importance today during this time of transformation.

Alexander Artetxe

Chairman and Chief Executive Officer





Light square. Pablo Quiroga (Artphoto 2019)

# Chapter 1. How we understand sustainability

— “Our commitment is to move forward together, Moving Together. We want to pave the way together, together, we want to pave the way”

## 1.1. Identity and values

Arteche is an organization with an international calling, with over 70 years of history, which has production and technical-commercial facilities all over the world and products installed in more than 150 countries.

This reality allows us to be directly familiarized with the local contexts of the electrical sector, its demands and complexities. This is an understanding that has been structured into a dynamic organization, prepared to boost growth in geographic areas and technological developments with present and future business opportunities.

In short, a global, strong and stable brand, prepared to respond to market movements with a basic guideline: to move forward together with our clients. Moving Together.

We have an international team with the necessary talent and commitment to offer excellence in both quality and service. This allows us to work with a criterion of continuous

innovation, adapting to the different needs of each client and, as a consequence, establishing close relationships with them.

This way of working makes Arteche an organization that is very aware of tomorrow's challenges and that, nowadays, is internationally recognized for its strength, knowledge, trajectory and outreach.

Arteche's mission, vision, corporate values, and policy - all of them approved by the Board of Directors and endorsed by senior management - describe our long-term *raison d'être*, and contribute to build trust among all our stakeholders. They also address the main social, economic and environmental trends and the expectations of our stakeholders, and define our role in society.

## Mission statement

Our mission is to be an international reference in the electricity sector, with the vocation of helping our customers to provide the maximum value to grow together in the development of the electricity network of the future, being a family business, with roots and corporate headquarters in Bizkaia.

Our focus is to master technology, and enhance knowledge and the development of people, within a sustainable project that is attractive and responsible to society and the environment.

## Visión

We aspire to always be at the forefront of technological innovation in the sector and be recognized internationally for quality and service level in all our products and solutions for the network of transport and distribution of energy.

## Values

In order to develop our mission and vision, in Arteche we have condensed our corporate values into the following four values:

- |          |  |   |
|----------|--|---|
| <b>1</b> | <b>› Clients</b><br>Proximity and commitment                       | <ul style="list-style-type: none"><li>› Proximity</li><li>› Contact with the client</li><li>› Fulfilling commitments</li><li>› Rapid response</li><li>› Search for solutions</li><li>› Listen, learn and contribute to the client</li></ul>                                   |
| <b>2</b> | <b>› People</b><br>Professionalism and shared project              | <ul style="list-style-type: none"><li>› Commitment to the company's project</li><li>› Commitment to the people</li><li>› Sharing knowledge</li><li>› Joint effort to achieve shared goals</li><li>› Taking on challenges</li><li>› Solving problems when they occur</li></ul> |
| <b>3</b> | <b>› Excellence</b><br>Continuous improvement and bettering        | <ul style="list-style-type: none"><li>› Getting it right the first time</li><li>› Ambition to exceed the highest quality and efficiency standards</li><li>› Continuous improvement</li><li>› Pursuit of a high corporate reputation</li></ul>                                 |
| <b>4</b> | <b>› Innovation</b><br>Ambition, transformation and new challenges | <ul style="list-style-type: none"><li>› Innovative ambition</li><li>› Systematic search for opportunities</li><li>› Not settling for what has been established or what has been achieved</li><li>› Collaborating with others to transform knowledge</li></ul>                 |



Arteche Group general policy

The involvement and leadership of the President and CEO of the Arteche Group himself in the dissemination, development and updating of the values is reflected in his statement:

**We, the Arteche Group,**

*As designers, manufacturers, integrators and marketers of products and solutions for the measuring, protection, automation, control and communication in electricity networks; and as project managers for the generation, transmission and distribution of electricity*

**We are committed to:**

*Offering our clients proximity and attention to detail that satisfy their needs and expectations, thanks to the highest quality of Arteche products and services.*

*Establishing a transparent environment in which to operate and interact, focusing on those aspects of our code of ethics that are strongly present in our corporate values, guaranteeing that our management is appropriate to the context and purpose of our organization.*

*Developing and promoting a corporate culture of prevention of harmful conduct or control actions with appropriate procedures that allow us to detect, correct and sanction irregularities within the organization and with any external party.*

*Protecting and ensuring human rights, occupational safety and the environment in order to better understand and meet the needs of people and the environment.*

*Disallowing any form of forced and/or child labor and expressing our total rejection toward them.*

*Respecting the individual and association rights of the people of Arteche and promoting a policy of equality and non-discrimination, on whatever grounds.*

*Encouraging teamwork, cooperation and collaboration across all levels of the organization.*

*As part of our culture and in order to guarantee the most competitive version of our products, we trust in the innovative and professional attitude of our personnel, with a preventive culture and continuous improvement, for the improvement of our products and services thanks to our vocation for efficiency and excellence.*

Wednesday, July 25, 2018  
Alexander Artetxe  
Chairman and Chief  
Executive Officer

These values are in alignment with the principles of Sustainable Development, Corporate Social Responsibility and, therefore, with the 2030 Agenda - Sustainable Development Goals of the United Nations.



Corporate Social Responsibility and sustainable development

Arteche is a project that is shared with all our clients, with our suppliers, and with the whole of the society in which we develop our activity..

Ethics, honesty, solidarity, and transparency are the principles that make up our philosophy and constitute our management model, and which all of us at Arteche follow, always seeking excellence in quality and service. Our commitment to society is strong, and all of us at Arteche want to participate actively in order to contribute to social development, to generate value for our clients and for society as a whole.

Our companies are recognized for their socially responsible management, and the ISO 26000 principles and standards have been applied to various of their management systems, in order to maximize the social and economic benefits of the society in which we develop our work.

At Arteche, we base the management of our Corporate Social Responsibility on the following fundamental matters:

- Labor practices
- Environment
- Plans to stimulate and attract talent
- Advanced development of knowledge management
- Respect for human rights
- Fair operating practices



Our goal is to develop innovative projects that help us in implementing the concept of sustainability in each and every one of our company's activities.

In fact, the Code of Ethical Conduct of the Arteche Group establishes a clear guideline regarding non-financial performance: "We take on the commitment to society as an indispensable basis for the sustainable development of Arteche. Each Arteche employee must contribute to the achievement of sustainability goals, must support economic progress, and must care for the environment and social development" and a concise a Group goal: "To offer our clients a quality service in a responsible and efficient way. To promote support for charitable, educational and community service activities". Our goal is to develop innovative projects that help us in implementing the concept of sustainability in each and every one of our company's activities.

– "Our commitment is to move forward together, MOVING TOGETHER. We want to pave the way together, together, we want to pave the way."

» Welcome manual intended for new additions to the Arteche Group..




1.2. Overview of the Artech Group

Activities, brands, products and services


The Artech brand is an international reference in the design, manufacture and marketing of electrical equipment and solutions in the areas generation, transport and distribution of electricity, as well as in industrial electrical applications and in turnkey projects for substations and renewable generation plants, energy quality and distribution automation.

Our product and service portfolio consists of the following families:




**HV & MV Instrument Transformers**

- High Voltage instrument transformers up to 800kV
- Power Voltage Transformers
- Medium voltage instrument transformers.
- Combined Transformers & Metering Units




**Digital measurement**

- Optical Current transformers
- Stand Alone Merging Units
- Cable fault detection system to protect mixed HV lines based on passive optical transformer




**Low power instrument transformers and sensors**

- Low power voltage and current transformers according to IEC 61869
- Combined Low power instrument transformers and PLC/BPL couplers




**Power grid automation systems**

- Substation automation systems
- Substation grade metering and control devices
- Distribution automation IEDs
- PV power plant control systems




**Electro-mechanical relays and test blocks**

- Auxiliary, trip and supervision relays for HV/MV power systems and demanding substation environments
- Relays for railway industry according EN-50155 and other railway demanding standards
- Test blocks




**Medium Voltage reclosers**

- Three-phase reclosers
- Vacuum technology
- According ANSI C37.60, IEC 62271-111, IEC 61000-4 and IEC 60255
- Substation or pole mount




**Power Quality**

- Power Quality consultancy and engineering services
- Power factor correction
- Voltage regulation
- Grid code compliance
- Capacitor banks and harmonic filters



**Specialized and value added services**

- Power system assessment
- System stability studies
- Ferro resonance studies
- Short short circuit analysis
- Lifecycle services
- Diagnosis and monitoring of instrument transformer



**Turnkey solutions in Mexico and Brazil**

- EPC services for substation
- Wind and solar power plants
- Operation and Maintenance

Location of operations, markets served

We sell our products in 150 countries, although our sustainability impacts are focused on five countries: Spain, Brazil, Mexico, Argentina and China.

Location of the Artech Group's production plants and commercial offices



**ARGENTINA**

AIT -Córdoba-

Buenos Aires (Office)

**SPAIN**

GRUPO ARTECHE -Mungia- (Headquarter)

ELECTROTÉCNICA ARTECHE HNOS. -Mungia-

ELECTROTÉCNICA ARTECHE SMART GRID -Mungia-

ARTECHE CENTRO DE TECNOLOGÍA -Mungia-

SAC -Madrid-

ARTECHE GAS INSULATED INSTRUMENT TRANSFORMERS -Vitoria/ Gasteiz-

Sevilla (Office)

**FRANCE**

París (Office)

**AUSTRALIA**

ARTECHE SMART DIGITAL OPTIC -Sídney-

**INDIA**

ARTECHE SMARTGRID INDIA PVT -Bangalore-

**BRAZIL**

ARTECHE EDC -Curitiba-

ARTECHE STK -Curitiba-

São Paulo (Office)

**MEXICO**

ARTECHE NORTH AMERICA -Tepeji del Río-

AMYT -Mexico DF-

ARTECHE ACP -Mexico DF-

ARTECHE MÉXICO TURNKEY SOLUTIONS -Mexico DF-

**CHILE**

Santiago de Chile (Office)

**UAE**

ARTECHE MIDDLE EAST JLT -Dubái-

**SOUTH AFRIKA**

Johannesburgo (Office)

**CHINA**

ARTECHE DYH -Dalian-

Shanghái (Office)

**USA**

ARTECHE USA -Miami-

**THAILAND**

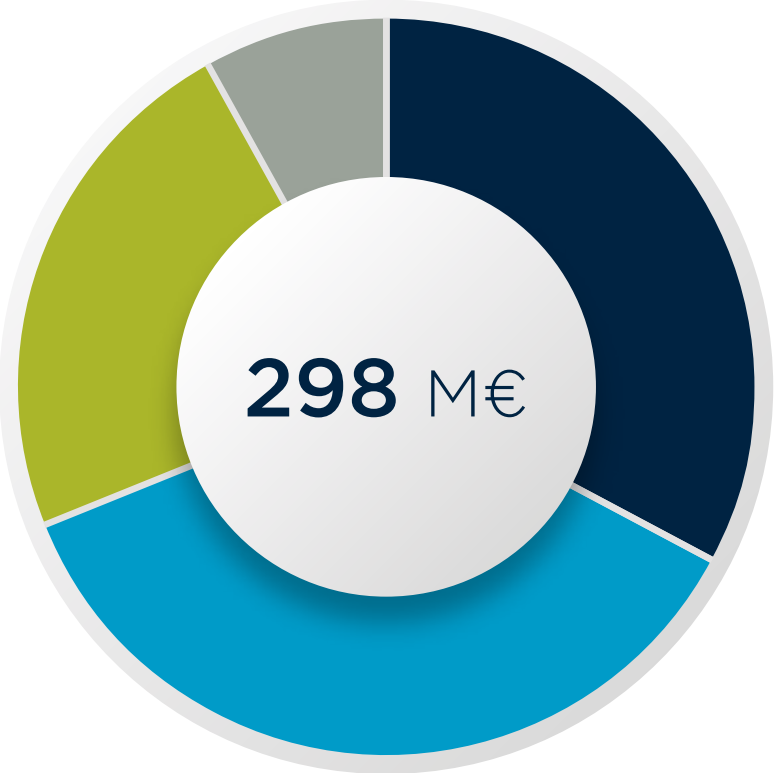
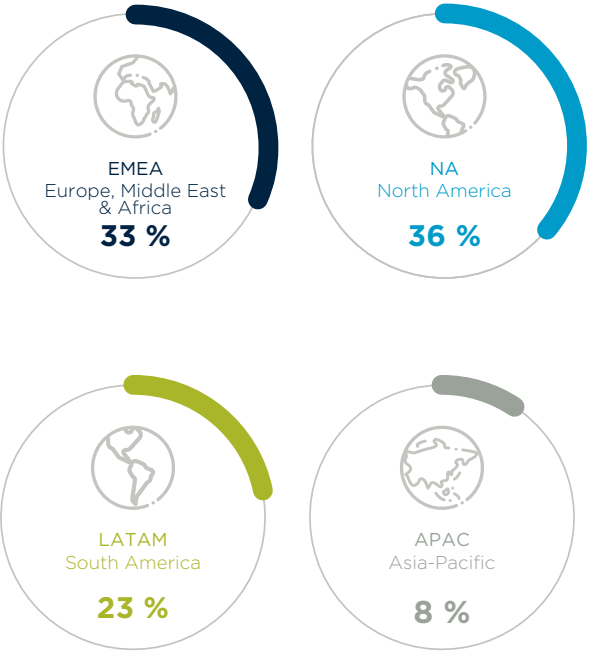
Bangkok (Office)

In 2019 there have been no significant changes to operations or to their location, including facility openings, closures and expansions.

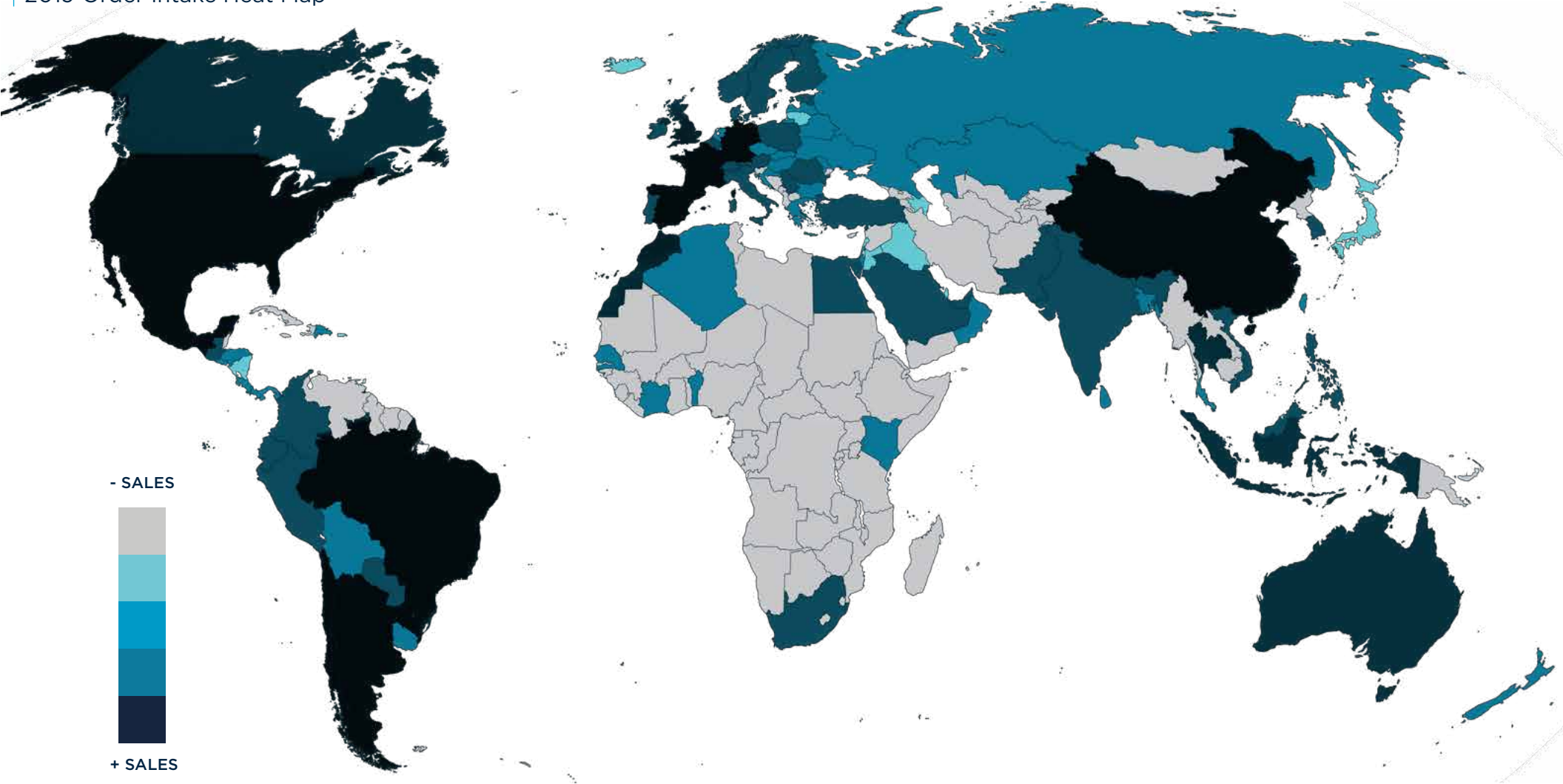
Our recruitment has increased by 16% in the year 2019.



Arteche Group's 2019 geographical distribution of recruitment



2019 Order Intake Heat Map





Participation in external institutions

Arteche belongs to many associations related to its activity, aiming to be an agent of change in the different sectors in which it develops its activities.

Some collaborations





1.3. Our sustainable commitment

Commitment to the United Nations Global Compact

In 2014, by means of a letter which was later updated in 2018 and which was sent to the United Nations General Secretary, we have stated our commitment and connection to the human and labor rights recognized in national and international legislation and with the principles on which the United Nations Global Compact is based, the Norms of the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights of the United Nations, the OECD Guidelines for Multinational Enterprises, the Tripartite Declaration of Principles concerning Multinational Enterprises and the Social Policy of the International Labor Organization, as well as any documents or texts that may replace or complement those referred to above.

As members of the United Nations Global Compact, we are committed to the fulfillment of the 2030 Agenda for Sustainable Development approved by the UN in 2015, whose Sustainable Development Goals (SDA) are as follows:



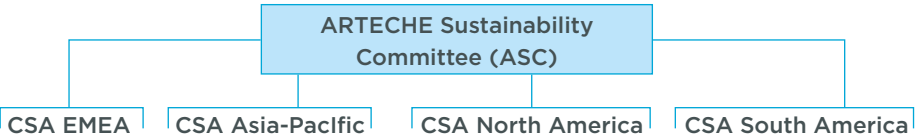
In order to facilitate the analysis from the point of view of the contribution to the 2030 Agenda, it is important to establish the relationship between the activities described by Arteché throughout this report and the different ODS that are boosted by the activities carried out. To this end, each section identifies the ODS the Group contributes towards, but only includes those ODS towards which the company considers it makes a relevant contribution.

Constitution of the sustainability committee

One outcome of Arteché's commitment to sustainable development and the 2030 agenda, was that in 2019 we set up a global executive body (led by the company's top executive, the Chairman and CEO) called the Sustainability Committee. The constitution of the Committee responds to a need to order and systematize actions that Arteché has been promoting since its constitution more than 70 years ago.

The operation of this Sustainability Committee is based on: a) leadership and coordination of sustainability goals and actions, b) relocation into regional sustainability sub-committees and c) monthly sessions.

Organizational scheme of the Sustainability Committees



The purpose of this Committee is as follows: *"To actively promote, from a global perspective, sustainable development: working for social progress, environmental balance and economic growth. The 2030 Development Agenda is an action plan for the people, the planet and for prosperity".*

The main actions carried out by this Committee during the 2019 fiscal year were:

- › High-level diagnosis of the Group's situation in terms of sustainability
- › Definition and prioritization of Arteché's contribution to the ODS (See "Our Sustainability Plan")
- › Proposed GRI indicators to monitor for selected ODS
- › Definition of the operations' system of the Committee and Subcommittees
- › Reflection on tools at the disposal of the Committee (computer systems, communication channels, budget, etc.)
- › Communication of the Committee's formation to the whole Group
- › Analysis of first actions proposed through the communication channels

Senior management has been a strong supporter of the development of these activities, as well as the integration of the objectives into the strategy, which is currently being developed. In 2019, the Group has set concrete goals, measured by specific indicators in order to align the organization's goals with the ODS.

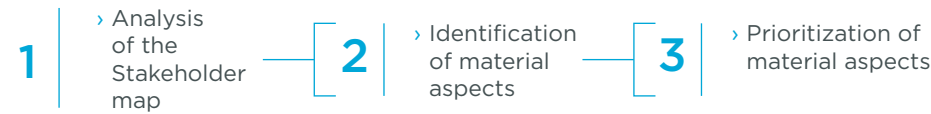
This strong commitment to Arteché's sustainability is based on the firm support of the Board of Directors, the Audit and Compliance Committee, and, especially, on the direct involvement of the Chairman.





1.4. Our sustainability plan

The Group's sustainability strategy has been based on the identification of possible sustainability impacts and possible risks that may arise from our activities, and on the development of our first Sustainability Plan, aligned with our 2022 Strategic Plan. For this purpose, we have carried out a materiality analysis in the following steps:



Analysis of the stakeholder map

In Arteché we consider as stakeholders those who are influenced by our decisions and by the Group's activity, and also those who are relevant for the operation and sustainability of our business. At the end of the year, the Group's Management Committee carries out an internal process to identify the stakeholders with whom its activity is involved.

This process is part of the annual strategic reflection process for the coming year.

Arteché Group's Stakeholders

The Group has different communication strategies with each of its stakeholders, and they are always based on transparency, on offering accurate, reliable, understandable and relevant information, and always with honesty, as reflected in the Code of Ethical Conduct.

Knowing the expectations of the stakeholders with respect to Arteché is a fundamental aspect and, thus, we have fluid, two-way communication with all of them through the different communication channels that we make available to them, or through the regular meetings that are held.

- 1 Internal
  - Employees and family members
  - Works council and trade unions
  - Shareholders, owners and Board of Directors
- 2 External
  - Clients
  - Vendors
  - Government and Public Administration
  - Training and knowledge centers
  - R&D and alliance centers
  - Financial institutions
  - Industry associations
  - Competitors
  - Environment
  - Company

Main communication channels with internal and external stakeholders

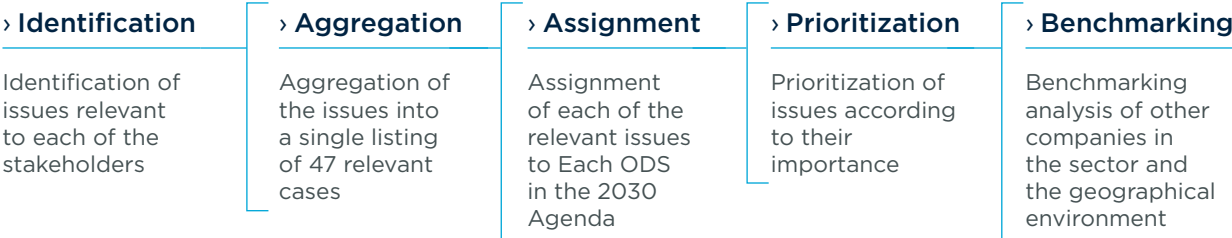
Internal stakeholders	External stakeholders
Internal Newsletters	Arteché website
All Hands Meeting	Contact forms
Intranet	Annual Report
Internal News	Social Networks
Performance Assessment	E-mail address
Deployment of strategic objectives	Ethical Channel
Information panels	
Sustainability Committees	
Ethical Channel	

Identification of material aspects

We have conducted a materiality analysis in order to understand and prioritize the most relevant issues for both its key stakeholders and its strategy. That is, it is an analysis that contributes to the development of the business strategy in line with what is expected from the Group, and also determines what information should be reported on.

At the end of 2018, as part of the strategic reflection process, the Group Management Committee carried out an analysis of Arteché's main stakeholders. This exercise took into account the main needs and concerns of each of them, which had been detected through the different communication channels available.

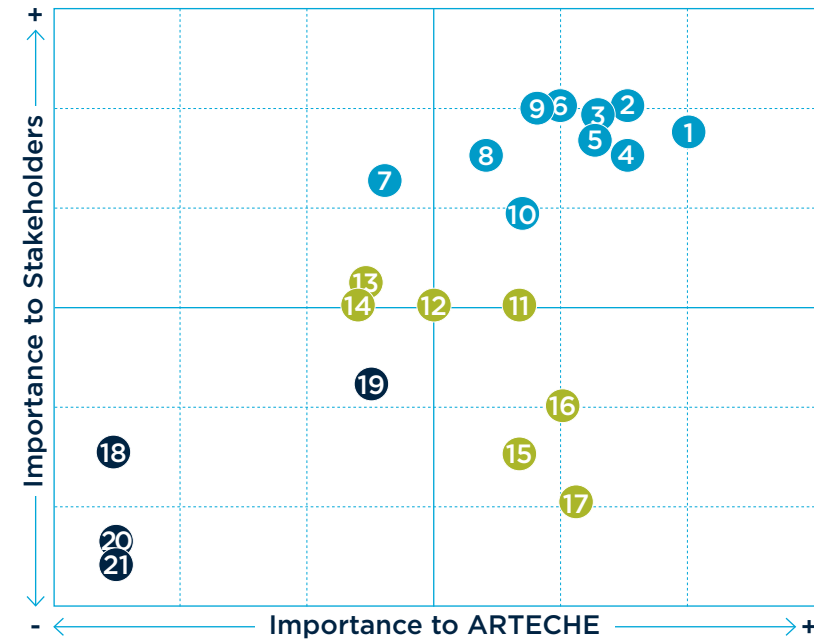
Likewise, one of the main tasks of the Arteché Group's Sustainability Committee in the 2019 fiscal year has been to identify the expectations of its stakeholders in terms of sustainability. Following the GRI standard, the analysis phases have been:





Through this process, we have identified those economic, social, environmental and ethical behavior aspects that are relevant to stakeholders and to our strategy, and which have been covered throughout this report.

Arteche Group's Materiality Matrix



Priority issues	Relevant issues	Other relevant issues
1 Employment	11 Subcontracting and suppliers	18 Consumption of raw materials
2 Health and Safety	12 Contamination	19 Consumers
3 Work organization	13 Use of renewable energies	20 Actions to fight food waste
4 Social relations	14 Sustainable use of resources	21 Biodiversity protection
5 Company commitment to sustainable development	15 Circular economy and prevention and management of waste	
6 Training	16 Climate change	
7 Equality	17 Tax information	
8 Human rights		
9 Environmental management		
10 Fight against corruption and bribery		



Prioritization of material aspects

As a result of the continuous dialogue with our stakeholders and, being aware of the unquestionable economic, social and environmental repercussions of all our activities, at Arteche we frame all our business actions within the commitment to a mission and values, and in the context of respect for Human Rights. We focus our efforts on the ODS where our contribution is most relevant:

4

QUALITY EDUCATION

› Ensuring inclusive, equitable and quality education and promoting lifelong learning opportunities for all

5

GENDER EQUALITY

› Achieving gender equality and empowering all women and girls

8

DECENT WORK AND ECONOMIC GROWTH

› Promoting sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all

9

INDUSTRY, INNOVATION AND INFRASTRUCTURE

› Developing resilient infrastructures, promoting inclusive and sustainable industrialization, and fostering innovation

11

SUSTAINABLE CITIES AND COMMUNITIES

› Making cities and human settlements inclusive, safe, resilient and sustainable

12

RESPONSIBLE CONSUMPTION AND PRODUCTION

› Ensuring sustainable consumption and production patterns



How we understand sustainability

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How we understand sustainability

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## Main lines of action of our 2020 sustainability plan

Although these ODS are our priority objectives due to our ability to influence them and because of our stakeholders' expectations, we also promote initiatives related to the rest of the ODS.

In fact, our contribution to the 17 ODS will be seen in each of the following chapters.

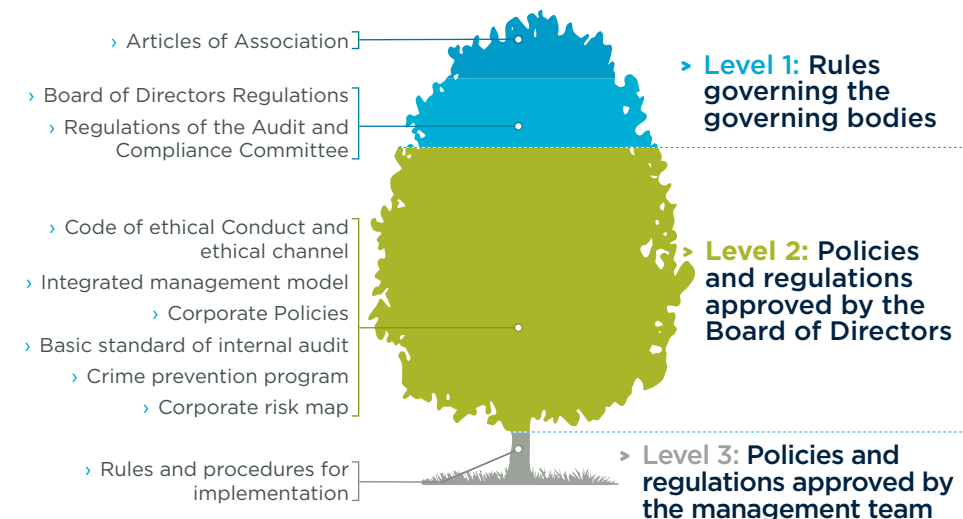
	<ul style="list-style-type: none"> <li>› Internal training plans</li> <li>› Active collaboration with colleges, schools and training centers to encourage technical vocations</li> </ul>
	<ul style="list-style-type: none"> <li>› Implementation of equality committees in all companies</li> <li>› Parity work in new hires and defining objectives in internal succession plans</li> </ul>
	<ul style="list-style-type: none"> <li>› Promoting internal training in Health and Safety</li> <li>› Extending the code of conduct to suppliers and other collaborators</li> </ul>
	<ul style="list-style-type: none"> <li>› Reduction of plastic consumption in suppliers' packaging</li> <li>› Encouraging the use of recycled and renewable materials.</li> </ul>
	<ul style="list-style-type: none"> <li>› Developing local initiatives aimed at offsetting our energy footprint and supporting local communities.</li> </ul>
	<ul style="list-style-type: none"> <li>› Energy efficiency study in all plants</li> <li>› Reduction of non-recyclable / non-reusable waste</li> <li>› Reduction of consumption regarding 2019 indicators</li> </ul>



### 2.1. Corporate governance system

Artecne's corporate governance system is mainly made up of the Corporate Bylaws, the Regulations of the different governing bodies, the Group's mission, vision and values, the Code of Ethical Conduct, the corporate policies and the Integrated Management Model.

#### Key documents in the corporate governance system



“In the 2019 fiscal year, the Group's corporate governance system was updated to continue adapting it to better practices”

- › 76% of employees trained in Code of Ethical Conduct in 2019
- › Improvements in corporate governance
- › Boosting the Risk Management System



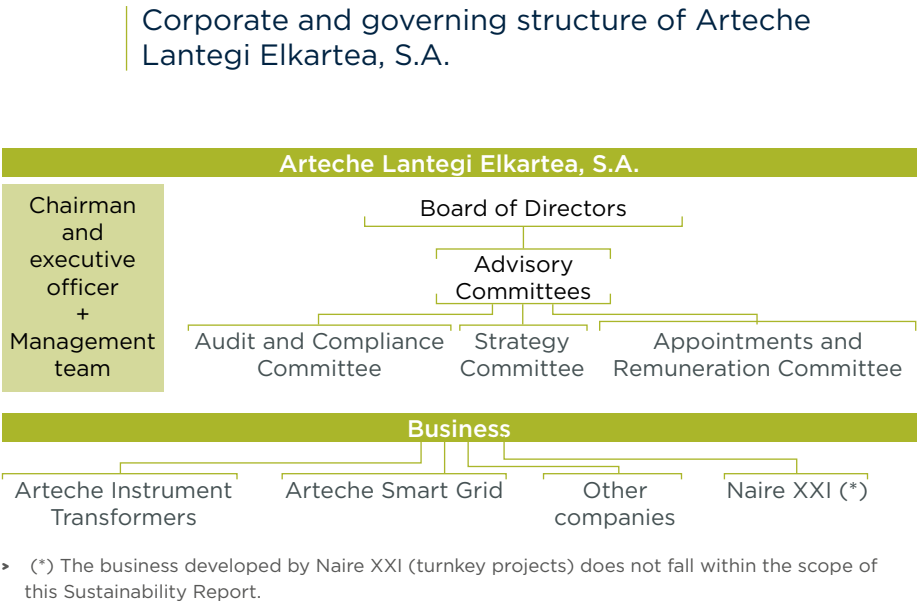
In a context of growing importance of corporate governance, in the 2019 fiscal year we have updated our corporate governance system, to continue adapting it to better practices. The main changes are summarized as follows:

- › Updating the Regulations of the Board of Directors
- › Updating the Regulations of the Audit and Compliance Committee
- › Promoting the three-line defense model by creating two new organizational areas: Internal Audit and Compliance Officer
- › Approval of the Basic Internal Audit Standard
- › Creation of an ethical channel, as a basic communication tool of the Code of Conduct
- › Updating certain corporate policies that develop the principles of the corporate governance system and contain the guidelines that govern the Group's actions. The Compliance Officer is currently in the process of reviewing the corporate policies, as well as evaluating which of them should be approved at the highest level.
- › Implementation of the Ethics Committee
- › Updating the Crime Prevention Program, by reviewing the risk map and its associated monitoring

All these new features are endorsed by the Company's highest governing body, which is a further step towards improving the Group's governance and fostering an ethical culture, both key aspects in the sustainability of our business model.

The board of directors and its committees

The corporate and governance structure of Artechelantegi Elkarte, S.A. Can be seen in the following diagram:



The Board of Directors is, after the General Meeting of Shareholders, the highest decision-making body of the Company, which is regulated by the Articles of Association and its Regulations.

The Board of Directors has three committees, which do not have executive functions and act as information, advisory and consultative bodies, and also make proposals on matters within their competence.

Committee	Functions
Audit and Compliance Committee	<ul style="list-style-type: none"><li>› Oversight of information systems, internal control and risk management</li><li>› Oversight of the economic and financial reporting process</li><li>› Accounts auditor supervision</li><li>› Oversight of the internal audit function</li><li>› Oversight of the Group's ethical channel and internal compliance function</li></ul>
Strategy Committee	<ul style="list-style-type: none"><li>› Development of the Artechel Group's strategy, with a special focus on corporate development and inorganic growth.</li></ul>
Appointments and Remuneration Committee	<ul style="list-style-type: none"><li>› Proposals for the appointment and re-election of directors</li><li>› Proposal for the system and its remuneration amount and policies</li><li>› Approval of annual remuneration of executives</li><li>› Assessment of the training, promotion and selection policy for managers</li></ul>

In 2019, the composition of the Board of Directors changed, with a woman joining the Artechel Group's top management body and one of the male members being replaced by a new one.

Composition of the Board of Directors by December 31st, 2019

Position	Director	Condition	Committee
Chairman and Chief Executive Officer	Alexander Artetxe	Executive	Strategy and Appointments and Remuneration
Director	Lander Artechel	Executive	Audit and Compliance
Director	Dámaso Quintana	External	Strategy
Director	José María Abril	External	Strategy
Director	Pablo Ramallo	External	Audit and Compliance
Director	Guillermo Ulacia	External	Strategy and Appointments and Remuneration
Director	Luis Aranaz	External	Audit and Compliance
Director	Yolanda Beldarrain	External	Audit and Compliance

› Secretary non-counselor: José Ramón Berecibar.



The Chairman and Chief Executive Officer is responsible for the direction and proper functioning of the Board of Directors, management supervision functions, institutional representation of the Group, as well as for the leadership and promotion of the Group's strategy and its transformation process.

With regard to the concentration of power in the Chairman of the Board of Directors, who is also the company's chief executive, the Group has taken measures to limit the risks of such concentration, including: The existence of committees, with a majority of independent or external directors, whose resolutions are subsequently ratified by the Board; the delimitation of the functions of the Chairman in the Board's regulations, etc.

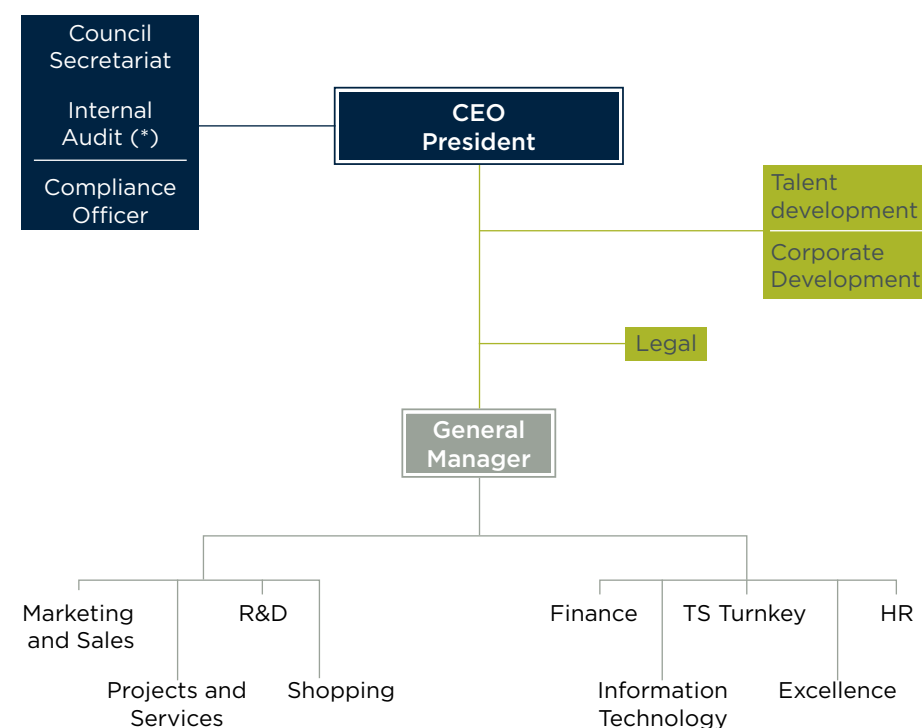
With regard to the procedure implemented to avoid conflicts of interest in the highest governing body, it should be noted that the directors inform the Board of Directors of any situation of direct or indirect conflict of interest they may have with the Company, in compliance with Article 229 of the Law on Corporations. Directors who are in said situation refrain from intervening in those matters where a conflict between the interests of the Company and those of the directors or of their related parties may arise.

The Artech Group continues its commitment to progressively incorporate the best corporate governance practices possible, especially in relation to the structure of the Board of Directors and its different committees, their functions and operation.

## Organization and structure

Our current organizational structure is based on functional areas, which provide support to all productive societies, which in turn have their own hierarchical management mechanisms.

The General Manager is responsible for the day-to-day management of the Group's business, reporting directly to the Chairman and CEO, and is supported by the Group Management Committee, which is an executive body made up of the Directors of the different functional areas, (except for the Directors of Internal Audit and Compliance Officer) with supervision and assurance duties.



► (\*) Functional dependence of the Audit and Compliance Committee.



PLC-USA Coupler. Andoni-Gallastegi. (Artphoto 2019)



2.2. Ethics

The Compliance Goals are part of our strategy and - together with the Group's values, principles, standards and rules of conduct - are set out in Arteche's **Code of Ethical Conduct**, which was approved in 2018 by the Board of Directors. In it, a set of fundamental principles and general guidelines for conduct is established and it is aimed at guaranteeing the professional, ethical, and responsible behavior of all directors, managers, and the Group's employees, both in relation to the performance of their duties and in their relations with colleagues, managers, subordinates, clients, suppliers, and the market and the general society in which they operate, always complying with the regulations of each country and respecting their ethical principles, serving as a guide for their professionals' operation in a global, complex and ever-changing environment.

In addition, the Code was drawn up by taking into account both the generally recognized recommendations on good governance and the principles of social responsibility accepted by society, thus constituting a basic reference for the Group's monitoring. It also responds to the new crime prevention obligations imposed in the area of criminal liability of legal persons.

The Code thus constitutes a fundamental part of the Group's system of corporate governance and is fully compliant with the principles of corporate organization established in said system. It consists of:



15 Ethical Conduct Code general principles (action guidelines, commitments to conduct, and responsible practices)

- › Respect for legality
- › Professional conduct with integrity. Conflict of interest
- › Anti-corruption measures
- › Fair employment practices: Equal opportunities and non-discrimination
- › Information transparency
- › Relationship with customers and suppliers
- › Health & safety
- › Protection of own and third party assets
- › Protection of competition
- › Environment
- › Use of company goods and services
- › Confidential information. Trade secrets
- › Sustainable development
- › Financial control
- › Relationship with authorities and officials

- › Code enforcement system.
- › Obligation to act: Queries and complaints ethical channel: this channel is a two-way communication tool that is offered so that any doubts in connection to the Code of Conduct can be cleared and, when applicable, any possible irregularities or behavior that goes against said regulations can be reported. All communications received are subject to objective, independent and confidential analysis, and in all cases a response is given to the interested party. The ethical channel has been launched in 2019 through postal mail and email: **etica@arteches.es**, **ethics@arteches.com**. Arteche guarantees that the consultations and complaints received through this channel are treated with the utmost reserve and confidentiality by the Ethics and Compliance Subcommittee, and are managed in an impartial and independent manner, and, in connection to this, Arteche has adopted a specific commitment to prohibit reprisals against any person who submits an inquiry or complaint, either formally or informally.



The Code of Ethical Conduct is available at **www.arteches.com**, so that any external interested parties (clients, suppliers...) can comply with it.

This Code has been communicated to the entire organization for its correct understanding, knowledge and compliance. 76% of the Group's employees have been trained in the Code in 2019.

Throughout 2019 we have developed various initiatives aimed at informing and training staff on the ethical reference framework and the guidelines for action to comply with it, both at a general level and at an area-specific level, according to the risks inherent in them. Thus, we have tried to strengthen the ethical culture of the organization in matters such as:

- › Values and principles that should govern the business relationships in Arteche
- › Behaviors that are defined as not tolerated by the organization, and behaviors that may be considered a criminal offense
- › Use and management mechanism of the ethical channel for queries and complaints, obligation to act, confidentiality guarantee and specific commitment to prohibit reprisals against any person making a complaint

In addition to this Code, Arteche's **"Crime Prevention Program"** is also integrated in its Corporate Compliance Program, which contains measures that tend to our concern for ethics and legality (See chapter 4 "Our commitment against corruption and bribery") in a practical manner.

This commitment to ethics and good governance is in turn transmitted to the third parties with which the Group has relations through various initiatives, such as for example, the introduction of clauses in contracts with suppliers requiring them to have a system of compliance and to respect the Code of Ethical Conduct.



Bodies responsible for regulatory compliance

The area in charge of ensuring compliance with regulations is the **Compliance Officer**, which is an internal unit within Arteché, reporting to the Chairman of the Board of Directors, and which has the aim of providing the organization with basic and fundamental support to ensure compliance - both with the regulations in force and with the Code of Ethical Conduct and with the Group's internal policies and regulations - on the part of the different companies that make up the Group, their management bodies, departments or areas, the people responsible for them and the employees. The Compliance Officer therefore focuses on deepening the principles of action and values of the Group's companies in order to provide the Board of Directors and senior management with certainty on these issues, thus contributing to the protection of the Group and its reputation:

- › Supervising compliance with applicable regulations.
- › Supporting existing controls and moving towards greater commitment and accountability challenges for the management in the development of all business activities
- › Promote improvement in the coordination of non-compliant behavior prevention.
- › Reinforcing excellence in the management of default risks

The Compliance function has autonomy and powers to carry out its tasks without requiring any authorization, always with objectivity, impartiality and independence. It also has the authority and legitimacy to gather information at any time and to access the records and documentation it requires to carry out its function.

The **Ethics Committee** is the supreme, autonomous and independent oversight body responsible for ensuring compliance with regulations. This body is responsible, among other functions, for receiving communications concerning allegations of non-compliance with this Code and/or queries on its interpretation. Similarly, it is responsible for the supervision and execution of the Corporate Compliance Program, and the attributions contained therein. It is also in charge of promoting an ethical culture within our organization.

This body may act on its own initiative or at the request of any person subject to the Code. Its decisions are binding both for the company and the employee. Its members are: a representative of the Commission, the Compliance Officer, the Director General, the Legal Director and the Human Resources Department. The sub-committee has its own regulations which define its functions and responsibilities.

› Arteché plant in Mexico



The members of the Subcommittee have access to all of Arteché's information as well as the duty to demand and the right to obtain the appropriate and necessary information from the Group that will help them to fulfill their obligations. They are not subject to instructions from third parties or from Arteché's Management Committee, and are therefore guaranteed full indemnity for their opinions, actions and the decisions in which they intervene within the Subcommittee.

Throughout 2019, the Ethics Subcommittee has met on 6 occasions, the most important activities being the monitoring of the main issues related to the implementation of a corporate compliance model, the updating and review of the assessment of criminal risks and the controls that help to minimize them, the monitoring of the complaints and queries received through the ethics channel, as well as the verification of the initiatives aimed at training and informing Arteché's staff on ethical Conduct.

During the 2019 fiscal year, a total of 11 consultations were received through the Ethical Channel or other means, with a maximum resolution time - except for one exception justified by the complexity of the consultation - of 8 days. Most of the queries made concerned behaviors related to:

- › Handling of confidential information
- › Possible conflicts of interest
- › Information transparency
- › Gifts and business courtesies policy

In addition, during 2019, five complaints were received regarding compliance with the Code of Ethical Conduct, one of which resulted in disciplinary action for Code breaching conduct.

None of the allegations were related to cases of corruption, fraud or bribery.

2.3. Risk management system

The activities carried out by the different companies that make up Arteché are subject to numerous contingencies which, were they to materialize, would prevent or hinder the achievement of the goals set, the latter being measured through the measurement systems established in the Integrated Model. Some of these risks are inherent in the countries in which the Group carries out activities, or even in the markets or sectors in which it operates.

The risks in Arteché are managed by means of identification, measurement, management and control systems in each of the areas defined in this report, establishing the necessary controls for their reduction in each of the affected areas in each case.

The Company's Board of Directors, at the initiative of the Audit and Compliance Committee, aware of the importance of this aspect in the control and management of the business, has promoted an improvement in the risk management system in 2019, the main advances of which have been:

Updating the Corporate Risk Map	› •Alignment with Strategic Plan 2021
Laying the foundation for a world-class risk management system	› COSO Methodology › Responsibility allocation › Reporting mechanism › •Audit Plan Alignment › 2022 Roadmap
Implementing a regulatory compliance model	› Supervision by the Compliance Officer
Updating the contingency plans of the different plants	› Business Continuity Risk Management



Long-term risks and opportunities

The main risks which were identified in the Group are categorized as follows:

- › Strategic Risks
- › Financial Risks
- › Technological Risks
- › Operational and Technical Risks
- › Reputational Risks
- › Economic-financial Information Reliability Risk
- › Corporate Governance Risks
- › Regulatory Compliance Risks

These risk categories also include non-financial risks, such as those related to the environment, people, remuneration and equal opportunities.

Arteche's activity is of a multinational nature, just like our clients, which entails currency risks. To mitigate this risk, the Group tries to use natural currency hedging and exchange rate insurance hedging as well. The Group's indebtedness also makes our results vulnerable to the risk of changes in the interest rate on our debt.

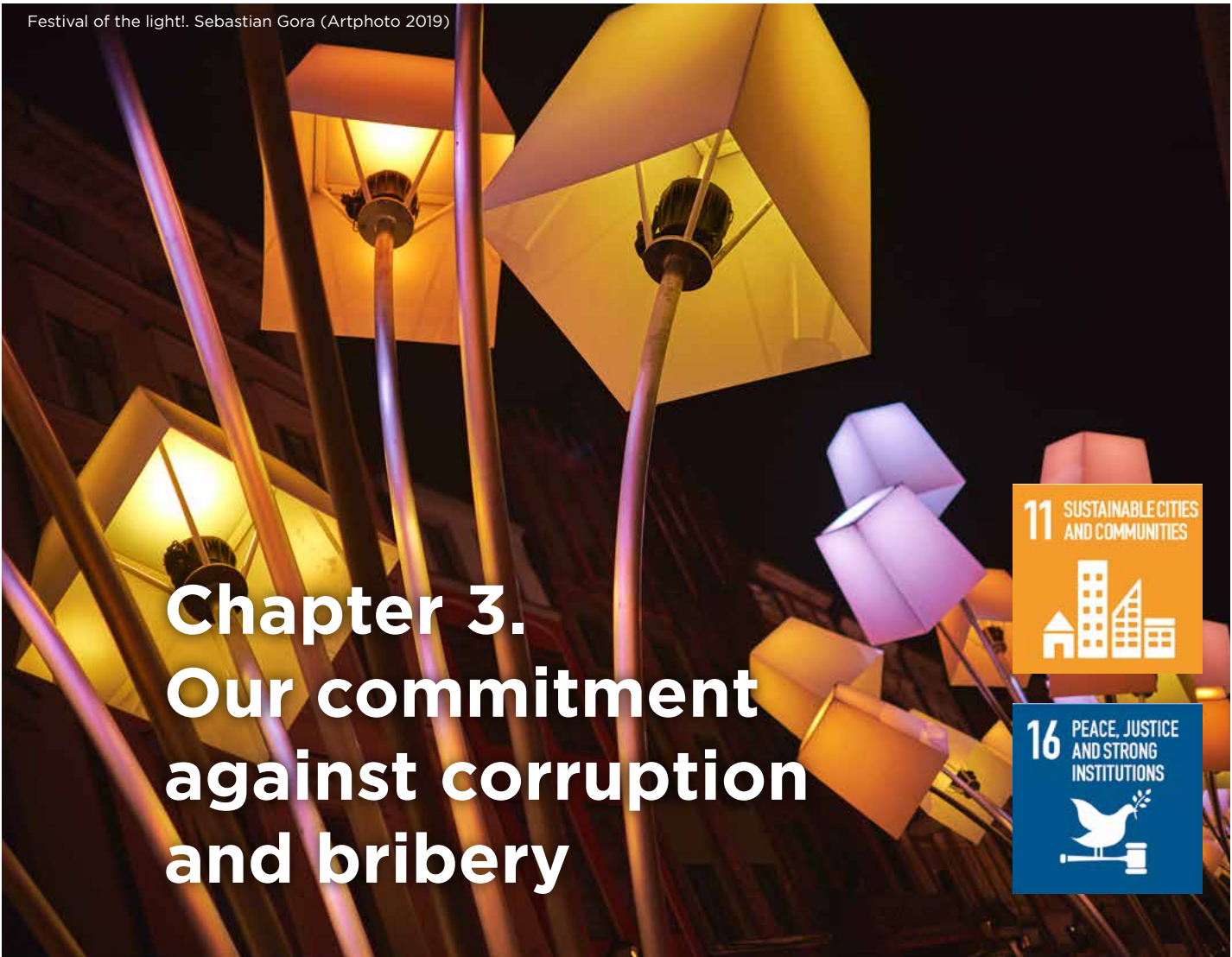
In order to control credit risk, the Group has a credit management policy with scaled approvals and ceilings for the attribution amounts, as well as rating databases. The application of this policy is supervised by a committee specialized on credit risk, which reports to the financial area.

Geopolitical conflicts, the macroeconomic environment and alliance policies in the market also affect our results.

We use raw materials for our production processes, which are subject to price volatility arising from supply conditions, political and economic variables and other external factors; this risk is not covered by the Group.



Festival of the light!. Sebastian Gora (Artphoto 2019)



The Arteche Group's corporate governance system is based on the commitment to ethical principles, good practices and transparency, and is articulated around the protection of social interest and the creation of sustainable value for its stakeholders, and it also allows these principles and good practices to be extended to our entire system of internal and external rules.

Within this framework, the fight against corruption and bribery is part of our basic goals in terms of sustainability and good governance, and has meant the establishment of preventive measures which ensure strict compliance with the legal system in force in the territories where we carry out our activities, including the approval of the Code of Ethical Conduct and the Crime Prevention Program.

– “At Arteche, we always bear in mind that the best way to go on growing and developing our business is by doing things properly and with integrity”

- › Adjustment of the criminal risk map to the new regulations
- › Full review of the Crime Prevention Program
- › Delivery of the “Welcome to Compliance” pack to all new additions





### 3.1. Risks and crime prevention program

We have a Program for the prevention of crime in our business activity which has the aim of reducing or preventing the risk of committing crimes, in response to Organic Law 5/2010 of June 22, which amends the 1995 Criminal Code and which came into force on December 23, 2010, and which introduces the criminal liability of legal persons into the Spanish legal system.

The change of legal context implies new risks for societies. Considering all of the above, we have implemented a criminal risk management system, which has been called the Crime Prevention Program and which aims to prevent the conduct of its managers, employees, collaborators and any person subject to the dependence or hierarchy of the Company in general, who acts on behalf of and in the benefit of the Company, and which may trigger the possible criminal liability of the company.

This program includes the commitment of the management, the organizational model detailing the assignment of professionals and the description of functions which are responsible for the crime prevention program, as well as different policies and procedures.

During the 2019 financial year and within this program, said program was adapted to Organic Law 1/2019 of February 20th, which amends Organic Law 10/1995 of the Criminal Code. In order to update the management system for crime prevention within the framework of the regular verification and continuous improvement to which it must necessarily be subjected in 2019, the following exercise has been carried out:

- › Joint assessment with those responsible for the areas affected by the risks that have undergone changes in order to confirm their application or to discard them.
- › Analysis of the potential extension to other areas of the organization of the application of the risks after the modification.
- › Identification of how the new offenses incorporated in the risk map could be applied to all areas of activity.
- › Review the new concepts of financial instruments, currency and public official.
- › Modify the risk impact in accordance with the new penalties

In the management of preventive measures and controls, and to the extent that the previous year's risk analysis and evaluation has led to changes in the map, the adequacy of the preventive measures assigned has been assessed and, where appropriate, new controls have been implemented or existing ones strengthened.

Likewise, a complete review of the program has been carried out from the Compliance area, in order to implement continuous improvement actions in the system. Professionals responsible for all relevant areas and processes in the Group have been involved in this review.



The line of life. Marta Ferrero (Artphoto 2019)



OPEN2. Isabel Ros (Artphoto 2019)

### 3.2. Corruption prevention measures

At Arteché, we always bear in mind that the best way to go on growing and developing our business is doing things properly and with integrity.

The Code of Ethical Conduct establishes clear guidelines against corruption, specifying that Arteché's professionals may not directly or indirectly offer or grant or request or accept advantages, gifts or unjustified benefits that have the immediate or mediate purpose of obtaining a present or future benefit for Arteché, for themselves or for a third party. More specifically, it is established that they may not give or receive any form of bribe or kickback from any other party involved, such as public officials, other companies' staff members, political parties, authorities, customers or suppliers.

Arteché's professionals will also not accept money from customers or suppliers, not even in the form of loans or advances or hospitality.

No gifts, presents, amenities, services, or any other kind of favor that could illicitly influence the commercial or professional relationship will be admitted or offered, only allowing those which:

- › Are permitted by the legislation of each country and its ethical principles
- › Are delivered for the purpose of commercial practice or are of an accepted courtesy social use
- › Have of irrelevant or symbolic economic value
- › Do not damage Arteché's image

Where there is doubt as to what is acceptable, the bid must be declined or, as the case may be, consulted first with the immediate superior of the Group company concerned, who may refer the consultation to the ethics subcommittee, when appropriate.

Likewise, we promote the existence of true accounting that completely, accurately, and truthfully reflects Arteché's economic, financial, and patrimonial reality and that is subject to annual external audits.

We select our suppliers objectively and impartially, avoiding any conflict of interest and any favoritism in their selection. Professionals who deal with clients and suppliers have the obligation - as set out in our code of ethics - of avoiding any type of interference that could damage their impartiality and professional objectivity in their decision-making, guided by criteria of transparency and applying at all times the internal rules established for the processes of supplier approval and of contract awarding in general. This obligation especially affects employees who have to make decisions on contracting supplies and services and those who decide on the economic conditions of transactions with clients.



Measures to prevent money laundering

Although the Group’s companies are not obliged to comply with Law 10/2010 on the prevention of money laundering and financing of terrorism, and even though Arteché does not consider itself to be excessively exposed to such risk, in our Criminal Risk Management System we have proceeded to evaluate it, and we have established and applied measures of collection and payment control to prevent them from being used to activate money laundering, and we apply the precautionary principle to our relationship with clients and suppliers, as well as to our property and corporate operations.

To date, we have not detected any suspicions of money laundering or corruption.

Contributions to foundations and Non-profit organizations

We get involved in social development in the regions where we are located, by collaborating with local organizations and NGOs, both by making financial contributions and, at times, by providing counseling in regard to company management and networking and relations with other companies. All these actions are aligned with the Group’s strategy, with its Code of Ethical Conduct, and the Crime Prevention Program, especially with regard to the corruption risk.

The Human Resources Department, with the approval of the General Management, is the area responsible within the Group for establishing the strategy, for receiving communications and for channeling donation and sponsorship approvals. Some of the decision criteria are:

- › Proposals that do not comply with the applicable regulations or that go against the social and/or ethical customs and manners of the community to which they are addressed are not accepted. Neither are those that could damage Arteché’s image or reputation.
- › No donations or sponsorships are made that could lead to any kind of discrimination or exclusion
- › No proposal is accepted that may lead to a conflict of interest, or that may have the intention of, or may be interpreted as a benefiting Arteché
- › Arteché does not make donations that directly or indirectly end up in political parties

Contributions to foundations and non-profit organizations amounted to EUR 18 thousand in the 2019 fiscal year.

Within “Chapter 6. Our Social Commitment” describes partnership and sponsorship actions where we collaborate with the aim of contributing to the improvement of the societies in which we are present.



The people who make up the Arteché Group are key to developing a sustainable project as explicitly expressed in our Code of Ethical Conduct and our values.

People’s experience, knowledge and motivation are reflected in each of our products and services. We remain committed to ensuring our organization is an attractive place to work, where knowledge can be acquired and shared in order to develop professionally within a context of innovation and where the levels of demand are never at odds with the creation of spaces for balancing personal and professional lives. In relation to our performance with people, we consider these material aspects:

Subject matter	Related ODS		
Employment	1 NO POVERTY	5 GENDER EQUALITY	
Health & safety	3 GOOD HEALTH AND WELL BEING	8 DECENT WORK AND ECONOMIC GROWTH	
Work organization	4 QUALITY EDUCATION	5 GENDER EQUALITY	8 DECENT WORK AND ECONOMIC GROWTH
Social relations	8 DECENT WORK AND ECONOMIC GROWTH		
Training	4 QUALITY EDUCATION	8 DECENT WORK AND ECONOMIC GROWTH	
Human rights	8 DECENT WORK AND ECONOMIC GROWTH	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	
Equality	5 GENDER EQUALITY	10 REDUCED INEQUALITIES	

We comprise more than 1,800 people from different cultures and back-grounds, with a shared goal: to move forward.

– “We comprise more than 1,800 people from different cultures and backgrounds with the same goal: to continue moving forward”

- › 82% of workers on permanent contracts
- › Reduction of the salary gap to 10.1%
- › Virtually all employees under collective agreement



4.1. Our Team



4.1.1. Employment

Leadership Model

People are what is at the heart of our sustainable business model, which is why the Group's strategic plan includes the development of a leadership model based on 15 principles of behavior, with the aim of contributing to a shared management model aligned with the corporate values.

The Group must be strongly cohesive around common ideas and philosophies, teamwork is fundamental and the effectiveness of the Group depends on the leaders operating in a manner which is consistent with these principles.

To have an attractive common project we need leaders in relationships and teams; clarity of ideas, ability to communicate and alignment with the long term.

Leaders behaving in accordance with the Values is the key to building work environments in which there is positive learning and a good work environment.

| Incorporation

The management of each plant, together with the management of each area, determines in the annual and multi-year plans, the resource requirements for carrying out their activities and attracting talent. They are also responsible for ensuring that the needs set out above are adequately met.

Taking into account the need for the resources required after the analysis of the annual and multi-year plans, Human Resources proceeds to implement the corresponding process for searching, analyzing, evaluating and recruiting the right person according to the needs indicated. Before any employee joins the organization, they receive the "Welcome to Compliance" pack as a set of principles and values that guide us in our activity so that they are aware of the type of company they are joining and can commit to its ideology.

Likewise, at the time of joining the Artech Group, new recruits receive the "Welcome Manual" and sign their adherence to the Code of Ethical Conduct. The purpose of this document is to provide initial information about our standard and integrated management system (Quality, Environment, Health and Safety and Information Security), as well as the Human Resources and Social Responsibility aspects that are necessary for the development of their work.

People Development

We have established a methodology which guarantees that the organization's personnel is competent and equipped with the necessary training, experience and skills to develop and carry out their functions.

It is based on induction for the new talent recruitment, training, development of leadership skills, alignment with objectives, development of professional careers and evaluation of performance, commitment and satisfaction of the people in the Organization. Likewise, we encourage the management of internal knowledge in the corresponding processes.

In order to do so, we rely on the Leadership Model.

We consider knowledge to be the key factor in competitiveness. Therefore, in all our values, reference is made to this approach by proposing active listening and learning from clients, a drive for continuous improvement, collaboration and cooperation with other entities and bodies and, - most significantly - a proactive attitude to sharing knowledge, good practices and all kinds of useful and relevant information.

In this context, in 2019, the process map has been strengthened, processes have been updated and the procedure for staff induction and training has been updated.

This training seeks to ensure that the people in the organization acquire the necessary skills for the proper performance of their duties according to their job profile, both at the time of joining the company and throughout their whole career.

Once the training needs have been identified, the corresponding plans are drawn up and implemented.

► ARTECHE\_CT\_CE (C nada)



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Our commitment to the people

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Our commitment to the people





In 2019, a large part of the training has been oriented towards knowledge of the Code of Ethical Conduct, recycling in occupational health and safety issues, recycling in regular work, improvement in language skills and more specifically we have dealt with issues of Inspection and testing, Comprehensive internal audit, Harmonized management systems, Tax update and electronic credit invoice, AMFE methodology, Management of commercial contracts, Product manager, Digitalization in HR management, Cybersecurity, Data exploitation, communication protocol 61850, New product development procedure, etc.

During 2019, a total of 23,058 hours of training have been invested (30,381 hours in 2018), which represents an average of 12.41 hours of training per employee (18.5 hours per employee in 2018). In 2018, the data we had was not segregated by gender or by professional categories due to the fact that our reports did not contemplate such differentiation, nor did we have a system to facilitate the data with such a structure at the time.

Training hours per year per professional category - 2019

Management	2.844
Specialists and Managers	614
Operators	10.370
Technicians and Administration Staff	3.337
Graduates	5.893

### Shared project, commitment and communication with people

The Organization has the mechanisms to provide the necessary respect and consideration to individuals and to establish the appropriate formal and informal channels of communication (cascade communication, monthly corporate newsletters, performance evaluation, feedback, plenary sessions presenting deployments of strategic objectives, management meetings, results communication meetings, meetings with workers' representatives, etc.) that contribute to strengthening awareness, staff satisfaction and commitment to the Organization to carry out a shared project.

### Template description

In Arteché we are 1,858 employees, 23% of which are women, with a very low voluntary rotation, attracted and integrated in a stable way by the good economic and social conditions fundamentally related to the conciliation of work and personal life.

Total number of employees and distribution by gender and professional category

	Men		Women		Total		Men %		Women %	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Specialists and Managers	46	58	12	13	58	71	79%	82%	21%	18%
Operators	769	871	167	187	936	1.058	82%	82%	18%	18%
Technicians and Administration Staff	181	162	91	96	272	258	67%	63%	33%	37%
Graduates	230	296	100	119	330	415	70%	71%	30%	29%
Management	43	45	10	11	53	56	81%	80%	19%	20%
Total	1.269	1.432	380	426	1.649	1.858	77%	77%	23%	23%

Apart from the equality, diversity and non-discrimination goals - which will be discussed in detail below - we focus our efforts on continuing to provide a stable and quality work environment. In this regard, the percentage of indefinite-term contracts in the Group is 82% of the total and the average seniority is of 9.74 years (10.1 years in 2018). There is no high seasonality in Arteché's operations, so it is considered that the average number of indefinite contracts is not significantly different from the figure at the end of the fiscal year. The average annual number of indefinite contracts is 81.45%.

Tomorrow is Monday. Rosly Majid (Artphoto 2019)





Percentage of employees distributed by gender, age, professional category and type of work contract

Professional category		Indefinite		Temporary		Indefinite %		Temporary %	
		2018	2019	2018	2019	2018	2019	2018	2019
Gender	Specialists and Managers	51	71	7	-	88%	100%	12%	0%
	Operators	667	744	269	314	71%	70%	29%	30%
	Technicians and Administration Staf	252	247	20	11	93%	96%	7%	4%
	Graduates	316	397	14	18	96%	96%	4%	4%
	Management	53	56	-	-	100%	100%	0%	0%
	Men	1.049	1.184	220	248	83%	83%	17%	17%
	Women	290	331	90	95	76%	78%	24%	22%
	<30	164	176	175	183	48%	49%	52%	51%
	30-50	972	1.093	117	140	89%	89%	11%	11%
	>50	203	246	18	20	92%	92%	8%	8%
Age	TOTAL	1.339	1.515	310	343	81%	82%	19%	18%

In addition, concerned about the renewal and incorporation of young people, the average age of the staff is 38.8 years (39.9 in 2018).



Quality of excellence. José Alejandro González Agüero (Artphoto 2019)

2019 turnover rate and new hires

	Activation	Deactivation	Tasa rotación (*)
Total	88	100	2,2%

> (\*) Calculated as (Group deactivations in 2019 / Total workforce) X 100

Of the total number of deactivations in the Group, 43 have been as a result of layoffs:

Distribution of layoffs by gender, professional category, age and employment contract

Professional category		Layoffs	
		2018	2019
Gender	Management	-	1
	Specialists and Managers	1	4
	Operators	12	22
	Technicians and Administration Staff	5	11
	Graduates	10	5
	Men	17	21
	Woman	11	22
	<30	-	6
	30-50	13	21
	>50	15	16

The Arteché Group currently employs people of various nationalities, the predominant ones being Spanish, Mexican, Brazilian, Argentinean and Chinese. An appropriate management of cultural diversity results in tangible competitive advantages, in connection to openness to knowledge and to plural points of view, the contribution to the attraction and retention of talent, the strengthening of Arteché's culture, the increase in innovation, in creativity and in productivity.

Distribution of employees by country

	2018	2019
Spain	39%	39%
Mexico	34%	37%
Argentina	8%	7%
China	12%	11%
Brazil	6%	6%





4.1.2. Equality and accessibility

We are committed to seeking equal treatment and equal opportunities between women and men, and to avoiding gender inequalities with regard to access to employment, training, promotion and working conditions, all of which fall within the conduct commitments and responsible practices of the Code of Ethical Conduct.

As such, promoting a work environment based on ethical behavior, respect for diversity and effective equality is a commitment that is part of our corporate culture and is translated into internal policies. In this way, we go beyond the locally applicable laws, promoting policies of real equality of treatment and opportunities among the people of Arteché.

To achieve these goals, the Group is committed to developing the principle of equal opportunities, compliance with which is one of the foundations of professional development promoted by the organization, by practicing and displaying equal treatment towards the people in the company, creating an environment that facilitates the integration and the reconciliation of professional, personal and family life.

We apply diversity and equal opportunities by promoting the integration of people with disabilities, in accordance with the General Law on the Rights of People with Disabilities and their Social Inclusion. We collaborate with several Special Employment Centers (SEC), favoring the social and occupational integration of disabled people.

As an example of reconciliation measures applied in several of our plants, we mention the following:

- › 30 calendar days' leave without pay: In order to facilitate the possibility of caring for dependent family members, employees shall be entitled to one continuous month's unpaid leave within a calendar year.
- › Partially paid leave: This leave is framed within a period of 5 consecutive years, during which the worker will provide full-time services for 4 years and will have one year to exercise the leave right (Basque Country). During the 5 years the employee will receive 80% of their salary.

Each of the Group's companies applies local reconciliation measures, in accordance with the customs of each place.

In the Arteché Group's staff we have 4 men and 2 women with disabilities (the same as at the end of 2018). In Spain, by virtue of the declaration of exception resolution, our companies are exempted from reaching the 2% of disabled employees in our staff, due to the adoption of alternative measures, such as service provision contracts with various special employment centers.



In addition, all workers who have applied for paternity or maternity leave have been given the opportunity to adapt it to the most convenient dates according to their preferences, in order to reconcile the leave with their working life.

Parental leave

	Men	Women	Total
Total number of people who have been entitled to parental leave	49	18	67
Total number of people who have taken parental leave	49	18	67
Number of people who have returned to work after the end of parental leave	47	14	61
Return-to-work rate	98%	78%	91%

(\*) Calculated as: number of employees who have in fact returned\*100/no. of those who had to return

With regard to reductions in working hours, these have been granted in accordance with the preferences for the reconciliation of the workers' work lives.

► Photovoltaic installation in Nuñez de Balboa (Extremadura-Spain)







► Interior planta Artech Gas Insulated Instrument Transformers

Distribution of part-time contracts by gender, professional category, age and employment contract

		Part-time contracts	
		2018	2019
Professional category	Management	-	-
	Specialists and Managers	-	-
	Operators	1	5
	Technicians and Administration Staff	3	4
	Graduates	-	-
Gender	Men	3	2
	Women	1	7
Age	<30	2	7
	30-50	2	2
	>50	-	-
Employment contract	Temporary	3	8
	Indefinite	1	1
	Total	4	9

Pay and wage gap data

Our remuneration policy establishes salary levels linked to the position held in the organization, regardless of gender, race, religion, age, sexual orientation, nationality, marital status or other factors. Historically, the nature of the production process has generated lesser attraction on the part of the female collective, which is why Artech is developing actions to improve the integration of women into the organization.

The Group confirms that there is equal pay for men and women in all production centers. An example of this is the collective agreements, whose salary tables by category are the same for both genders. Consequently, the differences presented in the following table are based on the age of each group in the Group. This means that women have less average seniority than men in the Artech Group and therefore have a lower associated salary level.

Even so, and despite having registered a progressive improvement in recent years, the average salary level of women in the Artech Group is 10.1% lower than that of men (15.1% at the end of 2018).

Average wage by age and professional category

		2018	2019
Professional category	<30	6.835	7.714
	30-50	26.147	23.773
	>50	41.581	40.030
	Management (*)	85.703	84.371
	Specialists and Managers	10.022	12.549
	Operators	15.482	14.903
	Technicians and Administration Staff	22.003	21.503
Age	Graduates	43.580	38.121

► (\*) Including the Group Management Committee, Functional Area Management Committees, Geographical Management Committees, and Area Directors reporting directly to the Group Chairman.

Average total wage and salary gap

	Men		Women		Gap (*)	
	2018	2019	2018	2019	2018	2019
Total	25.121	23.567	21.322	21.194	-15,1%	-10,1%

► (\*) Calculated as Average wage women / Average wage men -1



We have been working for a long time to reduce the salary gap in new hires, as well as in the promotions of our younger workers. The policies implemented in this area have led to a reduction in the 2019 gap for workers under 30 and between 30 and 50 years of age.

There is a better evolution of the wage gap in regions where the absolute weight of women is lower, due to the fact that new incorporations of women are taking place in positions of greater responsibility.

The average wage of the people considered to be executives was EUR 84.3 thousand in 2019 (EUR 90.9 thousand and EUR 57.4 thousand, men and women, respectively) and EUR 85.7 thousand in 2018 (EUR 91.8 thousand and EUR 59.3 thousand, men and women, respectively).

Information on the remuneration of the members of the Board of Directors, directors with executive functions and senior management is provided in note 27 of the consolidated Annual Accounts of the Artech Group for the 2019 fiscal year.

The Artech Group has equality plans in the plants where legal regulations demand it. Since the end of 2019, the Artech Group has started certain initiatives for the further development of the equality plans. These include carrying out a diagnosis in the main production plants in Mungia and Madrid and creating equality committees in certain locations that did previously not have them. The situation is in a process of continuous improvement, due to the progressive hiring and retention of women in the different areas of the Artech Group.

4.1.3. Work organization and social relations

The Artech Group respects the personal and family life of its professionals and promotes conciliation programs to help reach the best balance possible between this and their work responsibilities, tending to it as much as possible given the complexity, location and place of performance of the different activities.

Applies regulations, policies and programs for the reconciliation of work and family life among its workers, as set out in its internal regulations, collective agreements, collective contracts, etc.

We are concerned about people's well-being, which is why we encourage conciliation through good practices in flexibility of working hours and work organization. Because of this, we have different working hours, shift schedules, split shifts, morning schedules, etc. The total hours of absenteeism recorded in the Artech Group amounted to 169,748.7 hours.



Absenteeism rate

	2018	2019
Absenteeism rate	0,10%	0,09%

The Group's companies comply with the legislation in force at each location with regard to social dialogue and employee participation in matters relating to Occupational Health and Safety.

In the manufacturing plants and corporate headquarters, which is where most of the workers are grouped, we have Works Committees, or their equivalent denominations (Union Committees, Guild representatives, etc.).

Similarly, at these plants we have Occupational Health and Safety Committees (CIPA, etc.) where workers' and companies' representatives make their suggestions and recommendations and carry out control and monitoring work in this field.

On the other hand, workers employed in larger companies are subject to collective agreements or contracts or have them as their main reference.

The labor relations of 100% of the Group's employees have as a reference framework some collective agreement, at either the company or sector level.

At the time of the analysis, the Group does not have any formally approved policies for worker disengagement after working hours.



In Test. José Alejandro González Agüero (Artphoto 2019)

4.1.4. Health & Safety

Artech is an organization that is fully committed to the continuous improvement of safety and the Prevention of Occupational Risks, with the aim of achieving and maintaining a healthy working environment, focused on both the people who are part of the Group and those who collaborate with us or use our products and services.

In order to develop the health and safety management model, in 2018 and at a global level, the Health and Safety Department was created with the aim of standardizing and homogenizing health and safety management processes in all the Group's companies; in 2019, the local areas which required it were reinforced, and in them the organizational modality is at least in line with the legal requirements of each country and shares the good practices of all the companies.

The participation of the entire organization is encouraged, by setting up health and safety committees in all the Group's companies. Their basic function is to ensure compliance with the provisions on the prevention of occupational risks (both legal and internal to the Group) and to propose the necessary actions for the continuous improvement of working conditions and the prevention of occupational risks. These committees collaborate with the Management team of the company in the continuous improvement; promoting and encouraging the cooperation of workers in the execution and fulfillment of the regulations, and exercising a vigilance and control work.

Our commitment to the people

4

QUALITY EDUCATION

5

GENDER EQUALITY

8

DECENT WORK AND ECONOMIC GROWTH

Our commitment to the people

3

GOOD HEALTH AND WELL BEING

8

DECENT WORK AND ECONOMIC GROWTH



General Management, aware of the importance of good planning for the prevention of occupational risks, assumes the following functions within its responsibilities:

- › Approval and regular monitoring of established safety and health objectives
- › Monitoring and continuous improvement of health and safety management and its implementation, as well as improvement indicators for Health and Safety
- › Promoting development, continuous improvement, and compliance with procedures that support the health and safety processes as defined in the model
- › Assurance that the integrity of the system is maintained when changes are implemented

In 2018, the OHSAS 18001 multi-site certification was maintained for all the Group's companies. In 2019, the transition from this standard to the ISO 45001 was made.

Types of accidents and accident frequency rate, occupational diseases and days lost

	2018 (**)	2019
Incidents with time off	51	28
Incidents without casualties, but with first aid attention	29	34
Material accidents	21	22
Incidents suffered in itinere	12	15
Days lost	390	414
Diseases detected in the year	3	1
Time off frequency rate	17,67%	8,22%
Severity index (*)	0,14%	0,12%
Incidence rate of occupational diseases	1,84%	0,57%
Severity rate for occupational diseases	0,06%	0,01%

- › (\*) Calculated as the number of days lost\*1000/no. of hours worked
- › (\*\*) For 2018 we only have aggregated data by gender starting on June 1st (date when the new incident reporting was implemented in the Group).

Types of accidents, days lost, severity rate and accident frequency rate by gender - 2019

	Hombres	Mujeres
Incidentes con baja laboral	23	5
Días perdidos	398	16
Tasa de frecuencia con baja (*)	8,76%	6,38%
Índice de gravedad (**)	0,15%	0,02%

- › (\*) Calculated as the number of incidents with time off\*1,000,000/no. of hours worked
- › (\*\*) Calculated as the number of days lost\*1000/no. of hours worked

The typology of the accidents has a predominance of blows and cuts with tools, followed by objects falling due to manipulation.

In addition, at the Arteché Group, we consider that, in general, there are no risk situations that could generate a high incidence of occupational illness or a serious case of said illnesses.

4.2. Our fight for human rights

In Arteché, on top of committing ourselves to the strictest respect for the legal system in force in all the territories where we carry out our activities, we are also strongly committed to the defense of human rights, so that workers can exercise their rights of freedom of association and collective bargaining, and so that we avoid child labor, forced or compulsory labor, the assignment of dangerous jobs to young people, as well as the violation of ethnic minorities' and indigenous peoples' rights in the places where we carry out our activities.

The Group adopts the measures it considers necessary to guarantee and promote the protection of and respect for human rights in order to prevent, mitigate and repair any possible impact on human rights. To this end, our practices are aligned with the principles underlying the United Nations Global Compact (see section 1.3 "Our Sustainable Commitment"), the United Nations Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights, the OECD Guidelines for Multinational Enterprises, the Tripartite Declaration of Principles concerning Multinational Enterprises, and the Social Policy of the International Labor Organization.

This commitment to human rights is expressly stated in our Code of Ethical Conduct, whose principles are binding on all the Group's professionals, regardless of where they carry out their activities. With this declaration, Arteché - along with formalizing its public commitment - wants to send a clear message to all its stakeholders that the company is committed to respecting human and labor rights recognized in national and international legislation.

As explained in the section "2.2 Ethics", we have several tools to ensure compliance with the commitments included in the Code, tools such as the Crime Prevention Program, the Risk Map, Corporate Policies and the Ethics Channel, mainly, which are supervised by the Compliance Officer.



The matter of light. Antonio Farto Casado (Artphoto 2019)



Most of our suppliers come from countries where these rights are legally protected. Nonetheless, with the supervision of the Compliance Officer, we are also working on this commitment, not only in Artech's own operations, but also in the supplier qualification/approval process itself, in which we evaluate suppliers by taking into account environmental, safety and social responsibility criteria. We require a commitment from our suppliers to comply with human rights issues as specified in the supply chain chapter. During the visits, audits and performance evaluations of the Group's suppliers carried out throughout 2018 and 2019, no suppliers with forced labor, child labor or other aspects related to human rights have been detected.

We approach these commitments from a corporate social responsibility point of view, relying on ISO 26000:2012 as a reference. Likewise, in the companies located in Spain, we have an Action Protocol in case of harassment at work which includes the commitment to avoid situations of sexual harassment and gender-based harassment, as these are detrimental to dignity and to the working environment and generate undesirable effects on people's health, morale, confidence and self-esteem.

It should be noted that the Ethics Subcommittee did not receive any complaints regarding human rights in any of the Group's companies during 2019, whether it be informally or through the ethics channel. Nor has there been any sanctioning resolution, either judicial or administrative, that reveals any breach of human rights in the Group's companies as a whole.

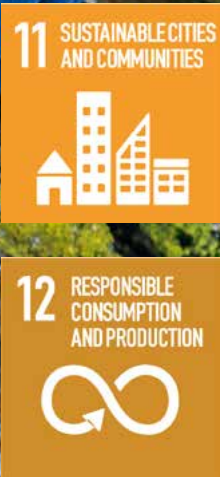
With regard to the fundamental conventions of the ILO, we are in a position to guarantee compliance with them in regards to forced labor and its abolition, to freedom of association and collective bargaining, and to the minimum age and prohibition of child labor.



SDO CFD (Alicante). Andoni Gallastegi. (Artphoto 2019)



# Chapter 5. Our environmental commitment



Our Code of Ethical Conduct, our Integrated Management Model and our values reflect the commitments we have made to the environment. This is something our stakeholders are asking of us, but it is also something to which we have made a commitment by signing the United Nations Global Compact.

In relation to its environmental performance, Artech considers the following material aspects:

Subject matter	Related ODS
Energía	7 AFFORDABLE AND CLEAN ENERGY
Residuos	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Emisiones	11 SUSTAINABLE CITIES AND COMMUNITIES
	13 CLIMATE ACTION

“Our calling is to promote and integrate an environmentally responsible culture”

- › Reduction of electricity consumption by 2.7%
- › Reduction of water consumption by 11.8%
- › 0 environmental accidents



5.1. Management and environmental approach



Environmental policies

As part of Artech’s commitment to sustainable development, our vocation is to promote and integrate a responsible culture with the environment. For this purpose, we ensure compliance with environmental regulations and propose the necessary actions for continuous improvement and the prevention of environmental risks.

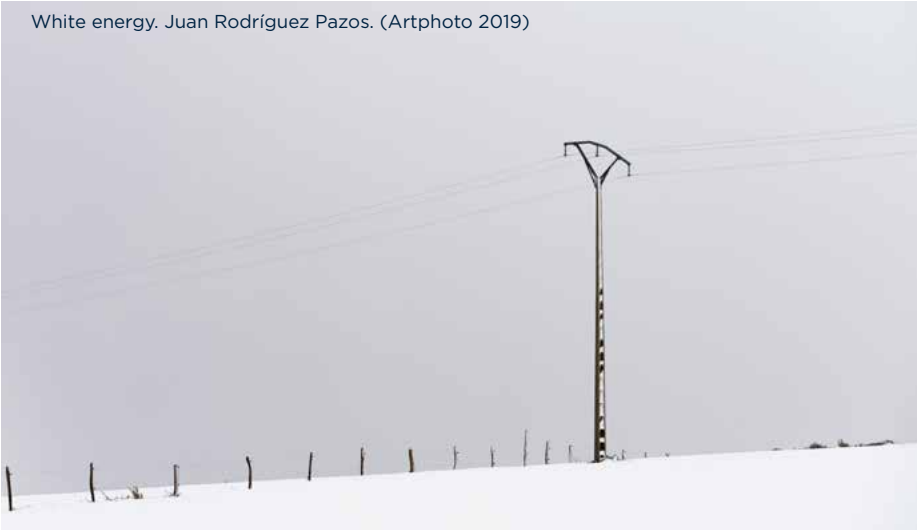
Likewise, we promote the improvement of preventive action, complying with or exceeding the standards of applicable environmental regulations, minimizing the environmental impact of our business activities, making efficient use of resources and preserving biodiversity.

General Management, aware of the importance of good environmental planning, assumes the following functions within its responsibilities:

- › Approval and regular monitoring of environmental objectives.
- › Monitoring and continuous improvement of indicators for environmental improvement.
- › Promoting development, continuous improvement and compliance with the procedures that support the environmental processes as defined in the model.

As part of our integrated and multi-site management system we have integrated, implemented and certified all the items required by the ISO14001:2015 standard, among which are the corresponding procedures for the prevention of environmental impacts.

Likewise, in our Code of Ethical Conduct, approved at the highest level, the people who are part of this Artech project accept the following as behavioral guidelines: to minimize waste and pollution, to preserve natural resources, to promote energy saving, as well as to carry out and sponsor research and development projects that promote the protection of the environment. We also convey this commitment to our suppliers, clients and collaborating companies, demanding their compliance if necessary.



White energy. Juan Rodríguez Pazos. (Artphoto 2019)



Management approach

The responsibilities on environmental aspects at Artech are structured in the following organizational scheme:

- › Global Director of Quality and Environment.
- › Director of Quality and Environment (in all production plants).
- › Environmental technicians (in plants required by size and high environmental scope).

Our plants have environmental goals that seek continuous improvement in their performance. Our continuous improvement indicators relating to the environment are mainly:

No. of environmental incidents
Electricity consumption rate
Water consumption rate
No. of non-conformities in audits

In this regard, a new supplier qualification system is currently being implemented, which includes environmental criteria and monitors the evolution of the environmental performance of these plants through the established indicators. In the years 2018 and 2019, 100% of the suppliers that were qualified were evaluated according to environmental criteria.

In addition, internal and external communication channels have been established to gather the suggestions, opinions and complaints of stakeholders, and to manage them appropriately (See section “1.3 Our Sustainable Commitment”). From the 2019 fiscal year, we would like to highlight the high degree of acceptance that the opening of sustainability mailboxes has received, through which numerous initiatives related to ODS have been introduced, the vast majority of which are related to environmental aspects (recycling of materials, elimination of plastic, efficient use of resources, etc.).

We periodically carry out both internal and external audits in order to evaluate the degree of compliance with the standards:

- › Internal audits (annual for all of the Group’s plants)
- › LRQA certification audits in ISO14001:2015 (annual), all plants are S/ISO14001:2015 certified within the integrated and multi-site management system

In addition, we have the tools at our disposal that make it possible for us to immediately become aware of the new legislation applicable in the environmental and tax fields, so that we are up-to-date with financial implications and other risks and opportunities arising from climate change.

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Our environmental commitment

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Our environmental commitment



Precautionary principle or approach

When developing new company products and activities, we apply the precautionary approach in order to avoid any negative impact that such product or service may have on the environment.

As part of our integrated and multi-site management system we have integrated, implemented and certified all the points required by the ISO14001:2015 standard, among which are the corresponding procedures for the prevention of environmental impacts:

- › Controlling, monitoring, measuring and evaluating S&H, MA legal compliance and Quality
- › Identifying, recording, updating and evaluating environmental aspects
- › Emergency Plans S&H and MA
- › MA Operational Control
- › Coordination of S&H and MA business activities

In addition, we have taken out liability insurance to cover the environmental risks to which the Group's production plants are exposed.

5.2. Environmental issues

We have a standard procedure for the entire Group to identify, record, update and evaluate environmental aspects. It describes how to proceed with the identification, evaluation and work plan (if required) for the environmental aspects of all the Group's production plants. This evaluation is carried out on an annual basis.

As a result of this assessment, no significant environmental aspects have been identified in the Group for 2018 and 2019.

- › No sanction or communication has been received for non-compliance with environmental regulations
- › No negative environmental impact in the supply chain has been identified
- › There are no provisions for environmental risks

We perform the environmental evaluation of the main products we manufacture, taking into account the measures necessary to reduce the international indicators that affect the environment such as: environmental incidents, electricity consumption, water consumption, etc.

In order to do this, we take into account the most appropriate designs and technologies, considering the environment and product quality, and following preventive criteria.

We carry out measurements required by applicable legislation regarding emissions, environmental noise, etc. in all of the Group's plants.

Circular economy and waste prevention and management

We conduct studies on the minimization of hazardous waste and packaging released to the market. Every year, we prepare environmental programs that include the best use of raw materials, reduction of waste and optimization of packaging released to the market. We have also implemented the analysis of the product's environmental life cycle within our product development procedure.

During the 2019 fiscal year, the variation in waste generated was as follows. Due to the direct correlation between production and waste generation, we additionally report the rate of variation corrected for increased production:

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Our environmental commitment



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Our environmental commitment



Waste reduction rate by type - 2019

Country		Rate of waste variation (*)	Rate of waste variation corrected for production (**)
Spain	Hazardous	+115%	+78%
	Not hazardous	+10%	-9%
	Recycled	-7%	-23%
Mexico	Hazardous	+181%	+133%
	Not hazardous	-76%	-80%
	Recycled	+102%	+67%
Argentina	Hazardous	+154%	+110%
	Not hazardous	-5%	-22%
	Recycled	-26%	-39%
China	Hazardous	-31%	-43%
	Not hazardous	0%	0%
	Recycled	-7%	-23%
Brazil	Hazardous	+115%	+78%
	Not hazardous	+100%	+100%
	Recycled	+321%	+248%
Total	Hazardous	+138%	+96%
	Not hazardous	-5%	-21%
	Recycled	+90%	+57%

- (\*) Calculated as: (tonnes per country 2019 / tonnes per country 2018) - 1
- (\*\*) alculated as: (tonnes per country 2019 / (group income 2019 x tonnes per country 2018 / group income 2018)) - 1



Although the generation of hazardous waste has been reduced in several Group companies, the overall increase has been due to three main causes:

- The strong increase in production of reclosers in Brazil,
- The increase in rejects in the transformer production plants, in particular, the significant increase in the generation of hazardous waste in Mexico due to the effect generated by the increase in production and by the failures in high voltage equipment due to the process of active parts carried out in the supplier, and
- The management of obsolete transformers in the Mungia warehouse.

After this analysis, we have determined the following improvement actions for 2020:

- We will continue to promote the analysis and improvement of defects and rejects in partial discharges in all of the transformer plants,
- We will work on the minimization of waste generation stemming from raw material used in oil and resin insulation processes (Mungia and Mexico) and,
- At out Mexico plant, we have designed a work plan with the supplier, including within the company, a small area of active parts with the intention of improving the rejects and waste generated from this manufacturing.

Thanks to the application of continuous improvement actions across the different plants (highlighting several actions implemented in Mexico), we have achieved a decrease in the generation of non-hazardous waste, even when we have considerably increased the production of reclosers in Brazil, managed obsolete transformers in our warehouses and we have increased the segregation of packaging waste in Mungia.

We would also like to highlight that we have implemented the “0 plastic cups” action in Mungia in this 2019 and we are going to extend this action to the rest of the Group’s plants.

Sustainable use of resources

Below, we can see the data for the reduction in electricity consumption in 2019 as compared to the previous year:

Rate of reduction in electricity consumption by country - 2019

Country	Rate of variation in electricity consumption (*)	Rate of variation in electricity consumption corrected for production (**)
Spain	+2%	-16%
Mexico	-13%	-28%
Argentina	-1%	-19%
China	0%	-17%
Brazil	+27%	+5%
Total	-3%	-20%

- (\*) Calculated as: (kWh country 2019 / kWh country 2018) - 1
- (\*\*) Calculated as: (kWh country 2019 / (group income 2019 x kWh country 2018 / income group 2018)) - 1





During the 2019 fiscal year, we have worked on raising awareness and sensitizing all the personnel in our plants and offices to reduce electricity consumption, one of our main sources of energy. We have developed several initiatives in all our plants:

- › Air conditioning system replacements
- › Switching all luminaries to LED
- › Presence sensors in bathrooms
- › Work teams to define and launch energy saving awareness actions
- › Changes in the lighting systems in our Mexico plants

Also, as part of the measures to reduce energy consumption, energy audits have been carried out.

Due to the type of production process, in the Artech Group we do not consider water consumption as a material or significant aspect, despite the fact that in the year 2019 several awareness initiatives have been developed for its responsible use. Consumption has been reduced by 11.8% in 2019.

With regard to external noise, measurements are taken annually at our work centers, and satisfactory results have been obtained, mainly due to the low external noise of our production process.

Main raw materials consumed  
(in thousands of euros) - 2019

Aluminum	11.451	Magnet mat	3.681
Steel	10.148	Mineral oil	3.598
Stainless steel	5.882	Resin	2.502
Copper	8.828	Paper	2.433
		Plastic	1.862

Greenhouse gas emissions

We have calculated the scope 1 and 2 of direct and indirect greenhouse gas emissions:

- › Scope 1: direct greenhouse gas (GHG) emissions. Emissions stemming from combustion in boilers, furnaces, vehicles, etc., that are owned or controlled by the entity in question
- › Scope 2: indirect GHG emissions associated with the generation of electricity purchased and consumed by the organization

The data on the reduction of direct CO<sub>2</sub> emissions for each year with respect to the previous year is:

Reduction rate in direct and indirect CO<sub>2</sub> emissions - 2019

Country	2019	Country	2019
Spain	-1%	Spain	-2%
Mexico	+8%	Mexico	-13%
Argentina	+10%	Argentina	-1%
China	0%	China	0%
Brazil	+100%	Brazil	+27%
Total Scope 1 emissions	+33%	Total Scope 2 emissions	-3%

Although we have reduced emissions in 2019 thanks to the continuous improvement analysis we have implemented, we have experienced a significant increase in Brazil due to the large growth in recloser production in that region.





Biodiversity Protection

The industrial activity developed by Arteché is carried out with respect for the natural environments in which it takes place, which are not protected areas.

Main Environmental Indicators

Category	Indicators	Unit	2018	2019
Sustainable use of resources (fuel, electricity, water and raw material consumption)	Diesel C	Liters	500	800
	Diesel B	Liters	79.275	80.374
	Gasolina	Liters	0	11.452
	Natural gas	m³	24.021	20.992
	LPG/GLP	Liters	797.302	1.098.108
	Electricity	kWh	16.490.997	16.040.394
Circular economy and waste management	Water consumption	m³	35.039	30.914
	Hazardous waste	Tn	264	627
	Non-hazardous waste	Tn	1.000	954
Climate change	Recycled waste	Tn	290	550
	Scope 1 emissions (*)	Kg CO <sub>2</sub> e	1.582.658	2.107.702
	Scope 2 emissions (*)	Kg CO <sub>2</sub> e	7.091.129	6.897.369

► (\*) The emission factors used are the MAPAMA (Spanish acronym for Ministry of Agriculture and Fisheries, Food and Environment) (April 2018 - Version 10)



# Chapter 6. Our social commitment

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

We get involved in social development in the regions where we are located, by collaborating with local organizations and NGOs, both by making financial contributions and, at times, by providing counseling in regard to company management and networking and relations with other companies.

Likewise, our strategy is oriented towards improving competitiveness throughout the supply chain, and, in order to do so, we rely on both local suppliers and suppliers with a global presence.

In relation to its social performance, Arteché considers the following material aspects:

Subject matter	Related ODS		
Collaborations	4 QUALITY EDUCATION	8 DECENT WORK AND ECONOMIC GROWTH	11 SUSTAINABLE CITIES AND COMMUNITIES
Suppliers			
Clients			
External support	5 GENDER EQUALITY	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	12 RESPONSIBLE CONSUMPTION AND PRODUCTION

“We collaborate with various associations of a technological and social nature at an international level, in line with our motto: Moving Together”

- 54 collaboration agreements signed with different training centers
- 74% of our purchases from local suppliers





## 6.1. Our collaboration with society

We have undertaken a commitment to the society and the environment in which we operate, and consequently declare our willingness to work with responsibility and honesty, contributing to the well-being and economic and social progress of the communities where we carry out our activities.

We promote the support of charitable, educational and community service activities, contributing to the improvement of the societies in which we are present through different actions. In this section, we provide a non-exhaustive list of the actions undertaken during 2019.



## Conferences and events in which we have participated or which we have sponsored

We are committed to sharing knowledge and sponsoring events that contribute to the dissemination of knowledge. For example, in 2019 we participated in the Smart Grids Congress, the XVI International Conference on Electrical Equipment, CIRED (International Conference on Electricity Distribution) and CIGRE (International Council on Large Electric Systems), among many others.

Likewise, we collaborate with different **society outreach activities**:

- › Host company at the Industry Day, organized by FVEM (Spanish acronym for the Basque Federation of Metal Companies) in order to attract talent and strengthen the incorporation of women in the sector (Bizkaia)
- › Host company at the Bizkaia Vocational Training Centers Directors Visit within the framework of the 9th Business Route, organized by CEBEK (Business Confederation of Bizkaia) (Bizkaia)
- › Participation in the 12th edition of the Be Basque Talent Conference, organized by Bizkaia Talent (Paris)
- › Participation in the work table to set the agenda for the chemical engineering degree program at the Technological University Tula Tepeji (Mexico)
- › Forum on road safety prevention in the municipal presidency of Tepeji del Río (Mexico)
- › Participation in forums to discuss new environmental and labor laws at the Industry Federation of Paraná (Brazil)
- › Signatories of the collaboration Agreement and the manifesto, with the PWN (Professional Women's Network) association, as participants in the "Men on board" project, whose objective is to promote gender-balanced leadership at all decision-making levels and to develop organizational strategies that favor equal conciliation and co-responsibility (Bizkaia)

## R+D projects in which we participate in collaboration with other entities

In line with our mission to always be at the forefront of technological innovation in the sector and to be recognized internationally for quality and service level in all our products and solutions for the network of transport and distribution of energy and with one of our Values (Innovation), we collaborate in investigation and development projects with different entities. Throughout 2019, among other things, we participated in projects related to HVDC links for marine energy evacuation, new cyber-security and data analysis technologies for electrical substations, efficiency and sustainability of the eco-designed electrical substation, and the development of two environmentally, energetically and economically optimized measurement eco-transformers.

Along the same lines, we participate in the main international **Forums** for the development of knowledge, technology and innovation, with the following entities:

European SmartGrids Platform

Futured Platform

T&D Europe



And we collaborate in various technical **forums** on standardization and updating of standards and regulations in the sector. We also participate in various local **R&D initiatives**:

Txorierrri Politeknika Ikastegia	Euskalit Advanced Management
Basque Agency for Innovation (Innobasque)	Management and Finance Forum
Energy Cluster	Association for Progress in Management
Members of GAIA's Board of Directors	IRAM Argentina

In addition, we have established **alliances** with the Basque Electrical Laboratories Alliance (BELA), the Tecnalia Board of Trustees and CADIEEL (Argentine Chamber of Electrical Industries).

Academic collaborations

Attracting and retaining talent is a priority for us. Therefore, we consider that promoting training and collaboration with the different academic entities of the societies in which we are established is essential in order to allow the incorporation of new qualified professionals, the transfer of talent and technical knowledge, and the general development of the societies around us. It is for this reason that the following collaborations have taken place throughout 2019:

- › Collaboration agreements for internships with universities and career completion projects: 22 collaboration agreements have been signed with universities.
- › Collaboration agreements for internships with vocational training centers: 20 agreements have been signed with centers.
- › Dual university and vocational training projects: we have participated in 11 projects in total.
- › Collaboration agreements for internships for recent graduates: 12.

In addition, during this year we have attended various job fairs, such as the Job Fair in Jilotepec (State of Mexico), the Tula de Allende Job Fair (Hidalgo) and the Atitalaquia Job Fair (Hidalgo).

At the level of our internal staff, we provide financial support for the training of workers who want to improve their academic profile. In this sense, throughout 2019 we have financed 7 masters and 51 formal training courses (university, professional training, etc.) for obtaining a degree.

In addition, in Argentina, school materials are distributed to the children of Group employees, and in Mexico, scholarships are given to employees' children.



Social partnerships

Actions that are carried out on a regular bases or specifically, depending on the needs that arise in the societies which surround us. The actions carried out in 2019 have focused on:

Roadside Assistance Association
Firefighters Without Borders
NGO Creating Future
Food Bank
Association Against Cancer (AECC)
Associations for the disabled

In addition to these actions that are carried out regularly, in Mexico there are annual campaigns to support homes for the elderly, regular visits to hospitals of the Social Institute and campaigns to plant trees in the surroundings and donate toys to different groups. Every year we also deliver tons of wood, tools, and other materials to different groups and associations throughout the region. In 2019, a special fundraising campaign was also held to support children with cancer.

Sport Collaborations

From Artech we promote and participate in social competitions related to companies and other local entities. We also sponsor various sports teams and activities in the area where we operate. Some examples of this are the following:

- › We are members of the Athletic Club Foundation, a non-profit organization that uses football and the values and social dimension of Athletic Club in order to promote sport and help improve the quality of life of people and disadvantaged groups in Bizkaia. We participate in the Bizkaia Business Race, and in the inter-company football league. We sponsor Mungia's football, basketball, cycling, rugby and Basque Pelota teams as well as a local elite Paralympic Athlete
- › In Mexico, we participate in the Tepeji del Rio Tournament, as well as in different sports events in competition with other companies in the area



## Cultural collaborations

We participate by making donations towards sociocultural activities in the region, such as aid to promote the Basque language or local identity events in the regions where we are present.

On the other hand, we encourage and sponsor participation in activities such as the ArtPhoto Competition, a photography contest held annually with the theme of the use and impact of electricity, with 4 different categories:

- › Life and electricity: the photographs must reflect the impact of electricity on the daily lives of people and society, its influence on the daily life of each one of us in any regard: how electricity illuminates us, warms us up, moves us or entertains us
- › Electrical infrastructure and equipment: the impact of electricity on our lives would be impossible without the infrastructure and equipment - generation, transmission and electrical distribution -, which facilitate their use and shape our landscapes
- › Arteché products: compositions that integrate Arteché products in substations, projects, specific products, landscapes, etc.
- › Electrical work: the compositions must represent the connection between professionals in the electrical sector and the tasks they perform

This competition is free of charge and open to our employees and to anyone from any geographical location who is interested in participating, and there is a prize for each category.

Throughout the 5 years that we have organized this cultural activity, the level of participation has increased year by year. In fact, in 2019, the number of contestants doubled with respect to the previous year, having received 550 photographs from 35 different countries, spanning the 5 continents.

## 6.2. Subcontracting and suppliers

### Supply chain description

The goal is for the supply of materials or sub-assemblies to be manufactured in compliance with the established requirements of quality, cost, time, etc.

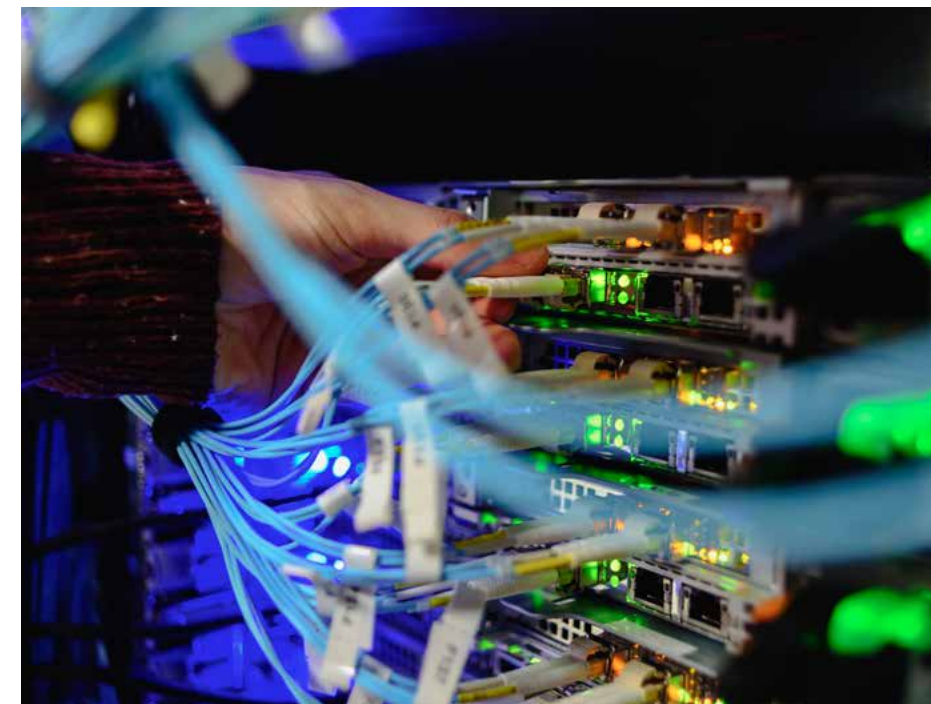
Regardless of the fact that the Arteché Group is organized by areas, we work by processes. The supply chain encompasses the following tasks, even though they are executed by different areas (purchasing, operations, excellence).

- › Selection and negotiation with suppliers. Awarding.
- › Procurement
- › Supplier Quality
- › Reception of materials
- › Storage of materials
- › Internal logistics
- › External logistics

Mainly raw materials and sub-assemblies are purchased. In the case of raw materials, they are awarded to suppliers both locally (for each production center) and globally (global awarding and local procurement.) In the case of sub-assemblies the purchase is made locally. In both cases, before the awarding of the contract, the supplier must be evaluated/approved, according to the criteria of the technical department and the excellence area.

In the case of production companies located in Mungia, purchases of sub-assemblies are, in several cases, made from special employment and occupational centers.

In the cases of greater volume purchases, the communication channels with the suppliers establish communication matrices that identify the interlocutors of both companies in matters of quality, deliveries, new projects, prices, logistics, so that the relationship is facilitated both for the daily supply and for incidents or corrective actions and improvement projects.





Consideration of suppliers’ and subcontractors’ social and environmental responsibility, and oversight of said responsibilities during our relationship with them

During the supplier qualification/approval process, Arteché evaluates its suppliers by taking into account environmental, safety and social responsibility criteria. We require a commitment from our suppliers to comply with the following aspects.

- › Compliance with all applicable laws and regulations of the country where the activities are carried out, unless these are less demanding than international ethical behavior, in which case the latter will be followed.
- › Respect for human rights, and no employee shall suffer harassment, physical or mental punishment or any other type of abuse
- › Compliance with wages, and working hours must comply with the laws, rules and regulations applicable in that regard in the country in question, including minimum wages, overtime and maximum working hours
- › No forced or compulsory labor shall be used, and employees will be free to leave employment once they have provided sufficient notice
- › No child labor will be used, and ILO standards will be specifically complied with
- › Respect for the right of employees to associate freely
- › All employees must be provided with good conditions of safety and hygiene at work
- › Respect for the environment, observing all relevant legislation in the country concerned, through the sustainable use of resources
- › Supply of products and services in a manner that meets the quality and safety criteria specified in the relevant contractual elements, and is safe for its intended purpose
- › Not using fraudulent means, such as the payment of bribes
- › Using wood from sustainably managed forests that respect the environment, thus combating climate change efficiently
- › Ensuring that the acquired conflict minerals (tantalum, gold, tungsten and tin) originate only from smelters and mines that are classified as “conflict-free”
- › Not using fraudulent methods in order to ensure the correct results and records of required materials and functional tests

During the visits, audits and performance evaluation of the Arteché Group’s suppliers, no suppliers with forced labor or child labor operations have been detected. In these audits, not only are aspects related to the quality of the production processes checked, but also aspects related to the environment, occupational health and safety and human rights.

For our activities, we make a high percentage of purchases of goods and services from national companies:

Proportion of spending on local suppliers - 2019

Spain	78,1%	China	89,1%
Mexico	74,0%	Brazil	64,9%
Argentina	55,8%	Total	74,0%

6.3. Clients

Policies and results

At Arteché we value our local service capacity as a competitive advantage that we reinforce by adding new remote monitoring and predictive data analysis technologies, which allow us not only to provide a local service but also to identify possible defects before they occur.

In addition to the local service teams, located close to our main users around the world, we have a first class technical engineering team.

Innovation and high value proposals make it possible for us to be part of the transformation of the electricity transmission and distribution network sector, being pioneers in the development of optical measurement solutions, allowing our customers to improve the continuity and quality of their service.

At Arteché we are proud of being part of the transformation of the electric sector, of being close to our customers, of adding value to them and being next to them in the development of the electric networks in over 150 countries, always distinguishing ourselves for our vocation for service and closeness.





We guarantee compliance with applicable safety regulations in the design of our products (CE marking and its equivalents in other locations) both for the product and for its use by the user. All our products are labeled in accordance with the standards applicable in each country.

For the management of complaints and claims or queries, we have a client communications procedure that guarantees customer support. All management of complaints and queries is recorded in our ERP according to the requirements established in our protocols. At Arteché, there is a specific and exclusive area of Customer Support for attending to these communications and their management.

Likewise, a commitment has been established to carry out a customer satisfaction evaluation every two years, per the internally established procedure.

Complaints received and their resolution

Within our customer complaint management processes there are defined indicators for the control and improvement of the process.

In addition, with the aim of continuously improving the efficiency of our service and our communication with customers, in order to resolve their complaints and claims, in 2018, we defined and implemented the following service policies for the Customer Support process:

- › I. Once we receive a customer complaint, we make a commitment to send the customer the confirmation of the reception of the complaint and its internal management in less than 48h.
- › II. Once we have all the required information, we will issue our proposal for immediate action (to resolve the Client's problem) in under 1 week
- › III. If field intervention is required, we commit to carrying it out within 3 weeks of the previous analysis, provided that we are authorized to do so by the Client
- › IV. In the case of equipment factory analysis, we undertake to have the corresponding analysis report and proposal for action within 2 weeks of receiving the equipment (and sending it to the Client)
- › V. We are committed to informing the client of each and everyone of the advances, dates, deadlines, etc., relative to this claim, until said claim is definitively closed



In order to strictly control and monitor the customer complaint process, in 2019 we have set up a global Customer Support structure, made up of a global representative, managers, administrators and service technicians in the various manufacturing entities and geographical regions. Likewise, agreed campaign policies and trade concessions have been implemented.

We highlight a 60% increase in the complaint rate in 2019 compared to 2018; this is the result of a higher demand in our controls, recording all kinds of minor incidents, even of a documentary nature, (test protocols, stickers, plate data, packaging markings, etc.) and because of them we have achieved a higher degree of customer satisfaction.

100% of customer complaints have immediate solutions to solve the client's problem, which are recorded in our ERP, within quality notifications. The Group's procedures determine a maximum of 48 hours for acceptance of the claim.

In all cases in which customer complaints are recognized as serious or important, in addition to the immediate actions, a corrective action is opened where a multidisciplinary team analyzes the root causes and determines and implements the actions to contain, correct, and avoid the repetition of the problem.

There have been no cases of non-compliance relating to the health and safety impacts of product and service categories, or any claims relating to breaches of privacy or loss of customer data.

6.4. Tax information

Policies and results

The fiscally responsible behavior of all the Arteché Group companies is part of the General Policy of Corporate Responsibility, which includes the basic action principles that must be respected.

The taxes and duties paid by the Group in the countries in which it operates constitute the main contribution on the part of the Group companies to the support of public charges and therefore, one of its contributions to society.

Arteché's fiscal policy is integrated within the ethical principles, social responsibility, transparency and institutional loyalty with which the Arteché Group is governed.

The principles of Arteché's fiscal policy include:

- › Prevention and reduction of fiscal risks in each location, providing the necessary human and material means to carry it out
- › Strengthening the relationship with the tax authorities, based on law, loyalty and trust, collaboration and reciprocity
- › Conceiving of the taxes and duties paid by the various Group companies to the relevant authorities as the main contribution to the support of public expenses and therefore, as a contribution to society





Based on these principles, the Group maintains the following tax practices:

- › Not using artificial corporate and tax structures which are aimed at avoiding or reducing tax obligations, and not carrying out related transactions with the sole purpose of reducing taxable bases or of transferring taxation to regions with lower tax rates
- › Avoiding structures of an opaque nature that pursue the goal of preventing the tax authorities from knowing who is ultimately responsible for operations in the region
- › Not incorporating or acquiring companies in tax havens
- › Taking into consideration the recommendations and codes of good tax practice implemented in the countries where the Group operates

Responsible taxation

The Group has an impact on the economic development of Bizkaia, Araba, Madrid, Mexico, Brazil, Argentina and China, mainly through the tax contribution generated by its activity, thus fulfilling a double economic and social function and respecting the value of transparency:

- › Corporate tax: In 2019 and 2018, certain Group companies (mainly Spain and Mexico) do not have to pay any income tax due to tax losses and deductions generated in previous fiscal years. In 2019, Argentina, China and Brazil have accrued income tax of EUR 650 thousand, EUR 276 thousand and EUR 69 thousand, respectively.
- › Personal Income Tax: EUR 9 million
- › Social Security: EUR 12.2 million
- › Value-Added Tax: EUR 1 million
- › Other fees: EUR 2.2 million

In doing so, we have contributed EUR 25.4 million in taxes and levies to the communities in which we operate.

Variation in the direct economic value generated and distributed - 2019

Direct economic value generated (*)	+20%
Economic value distributed (**)	-2%
Economic value retained	+13%

- › (\*) For direct economic value generated, turnover and other operating income have been considered
- › (\*\*) For economic value distributed, all supplies, personnel expenses, other operating expenses, exceptional expenses and financial expenses have been considered

The nature of the Artech Group’s business and its great commitment to re-search and development generate large tax deductions, which, together with the negative tax bases from previous years, mostly explains its low net tax burden. The profit before tax by region is included in the annex.





Financial assistance received from the government

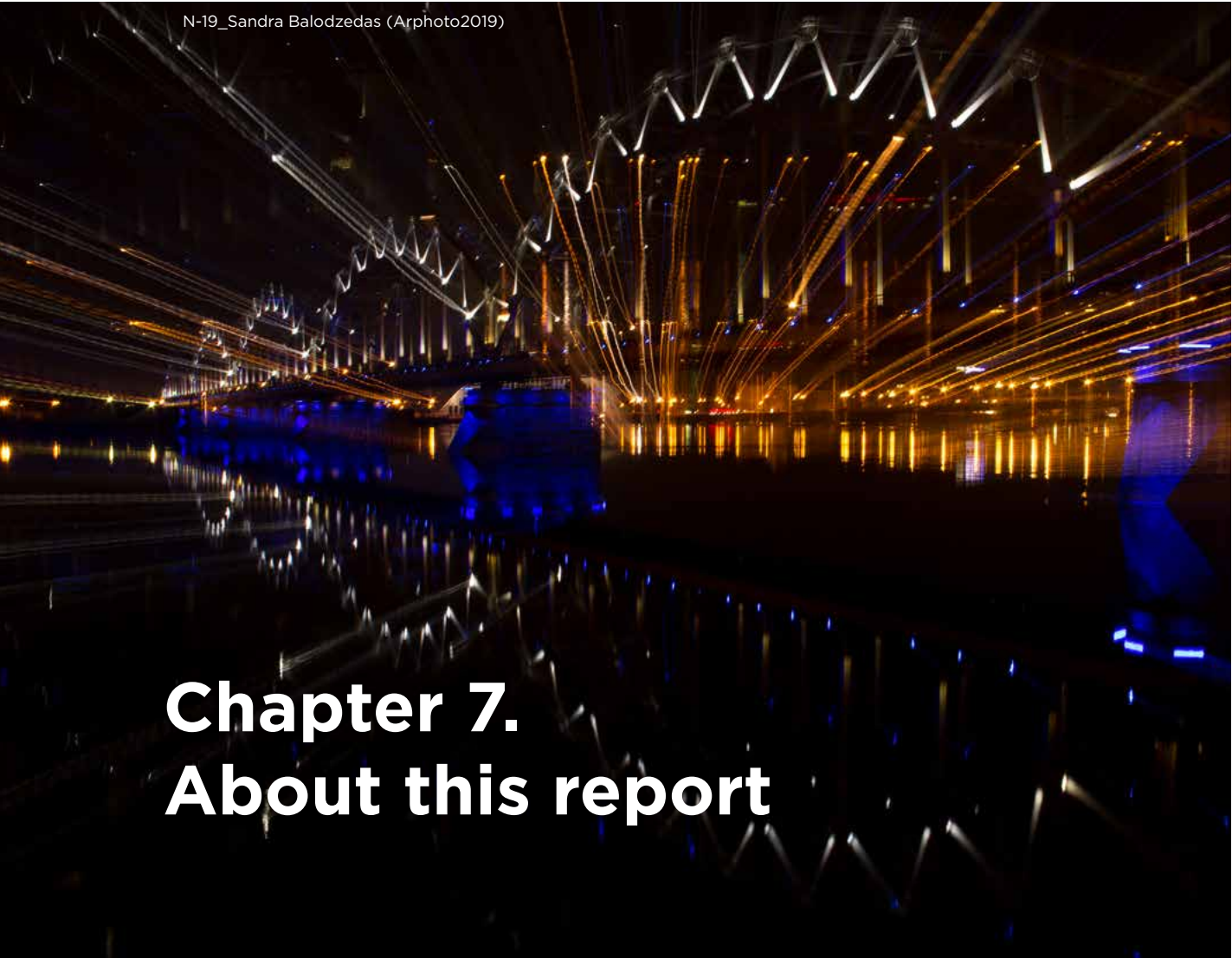
During 2019 and 2018 the grants received amount to:

	2019	2018
R+D+i grants	419	484
Bonuses	30	25

In addition, in 2019, refundable loans were received for the execution of activities amounting to EUR 912 thousand, of which EUR 284 thousand are linked to R&D projects and EUR 628 thousand to the execution of investment and competitiveness improvement projects.

In accordance with Article 64 bis of the Vizcaya Corporation Tax Law, in 2019 the Company obtained the monetization of tax credits for the execution of R&D projects amounting to EUR 177 thousand.

Basque Venture Capital Fund, whose sole shareholder is the Basque Government-Eusko Jauriaritza, has a 7.55% stake in Artechelantegi Elkartea, as it has converted the participative loan it had granted the company for EUR 5,000 thousand in the 2018 fiscal year into capital.



N-19\_Sandra Balodzedas (Arphoto2019)

Chapter 7.  
About this report

Information scope for this report

The scope of this report refers to the information relating to the 2019 fiscal year of the companies over which Artechel has control. Also, following GRI standards, companies from India and Australia and corporate delegations have been excluded from the scope of this report, mainly, as they are not considered relevant for the purposes of this report in terms of relative importance.

The companies included in the scope are those considered relevant for sustainability purposes.

In participating companies without effective control capacity, we promote the policies approved by the Group in matters of sustainability, through the governing bodies of these companies.

Therefore, the list of subsidiaries included in the scope of this report - all of which are fully consolidated because in all cases they hold a majority interest or control of the company - is as follows:



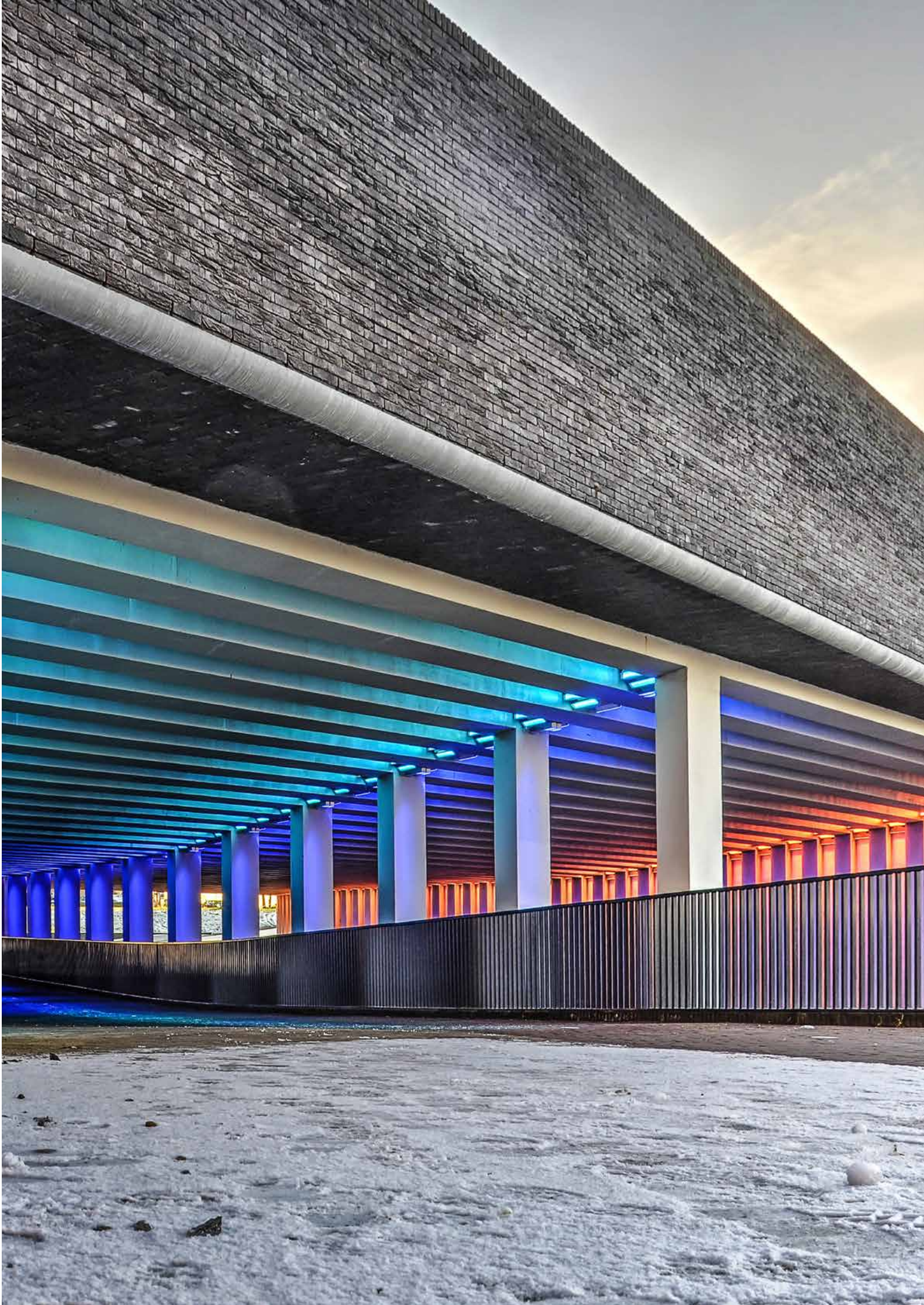


Company	Country	%
Arteche Lantegi Elkartea, S.A.	Spain	100%
Electrotécnica Arteche Hermanos, S.L.	Spain	100%
Electrotécnica Arteche Smart Grid, S.L.U.	Spain	100%
Arteche Centro De Tecnología, A.I.E.	Spain	100%
Arteche Gas Insulated Transformers, S.L.	Spain	100%
Grupo Empresarial SAC, S.L.	Spain	100%
AIT, S.A.	Argentina	100%
Arteche EDC Equipamientos e Sistemas, S.A.	Brazil	100%
Arteche DYH Electric Co. Ltd	China	70%
Arteche North America, S.A. de C.V.	Mexico	100%
Arteche ACP, S.A. de C.V.	Mexico	100%
Arteche Medición y Tecnología, S.A. de C.V.	Mexico	100%

Information Constraints

The “Global Scope” of Group companies is detailed in the consolidated financial statements for the 2019 fiscal year. However, in accordance with the previous section, the “scope of this report” is reduced to the relevant companies for sustainability purposes.

With these criteria in mind, Arteche considers that this report reflects in a reasonable and balanced way the economic, environmental and social performance of the Group.





# 2019

## SUSTAINABILITY REPORT

 [www.arteche.com](http://www.arteche.com)

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