

**ZARDOYA OTIS, S.A.**  
Lorea García Jáuregui  
Secretary of the Board of Directors

**COMISIÓN NACIONAL DEL MERCADO DE VALORES**  
División del Área de Mercados  
Calle Edison, 4  
Madrid

Madrid, April 13, 2018

For the attention of the Director General of the Markets Area

**RELEVANT EVENT**

**Notice the General Shareholders' Meeting**

In compliance with article 228 of Royal Legislative Decree 4/2015 of October 23, whereby the revised text of the Securities Market Law was approved, Zardoya Otis, S.A. (the "**Company**") informs you that, at its meeting of April 9, 2018, the Board of Directors passed a resolution to call the Company's Ordinary General Shareholders' Meeting, which is scheduled to be held, on the first call, on May 22, 2018, at the HOTEL NH COLLECTION EUROBUILDING, Calle Padre Damián, 23, 28036 Madrid, at 12:00 noon or, on the second call, on May 23, 2018 at the same time in the same place.

In this respect, the following documents relating to the General Meeting are attached hereto:

1. Notice of the Ordinary General Shareholders' Meeting.
2. Full text of the Board's motions to be passed, if appropriate, by the Ordinary General Shareholders' Meeting
3. Individual and consolidated annual financial statements and management reports for the Company and its consolidated group which will be submitted for the approval of the Ordinary General Shareholders' Meeting, as well as the relevant audit reports
4. Annual Corporate Governance Report for the 2017 reporting period (which, in accordance with the Capital Companies Law, article 538, has been included in a separate section of the management report).
5. Annual Director Compensation Report for the reporting period ended November 30, 2017.
6. Auditor Independence Report prepared by the Audit Committee.
7. Report on the operation of the Audit Committee during the reporting period ended November 30, 2017.
8. Report on the operation of the Nominating and Compensation Commission during the reporting period ended November 30, 2017.
9. Report from the Board of Directors in relation to the motion for the re-election and ratification of Ms Robin Fiala and the re-election of Mr Mark George.

10. Report from the Nomination and Compensation Commission in relation to the motion for the re-election and ratification of Ms Robin Fiala
11. Report from the Nomination and Compensation Commission in relation to the motion for the re-election of Mr Mark George.
12. Rules on distance voting and proxies.
13. Forms to be used for proxy and distance voting.
14. Total number of shares and voting rights that exist at the date the notice is issued.
15. Model of attendance, proxy granting and distance voting card.

We inform you that the Company's Board of Directors has decided not to propose a capital increase through a bonus issue due to the change made to the legislation regulating personal income tax, which, as from January 1, 2017 onwards, has modified the taxation of pre-emptive subscription rights. These are now taxed in the same way as dividends and the deferred taxation on the sale of such rights has disappeared.

We likewise inform you that both the individual and consolidated annual financial statements and management reports for the reporting period ended November 30, 2017 (together with their respective audit reports) that are to be submitted for the approval of the General Meeting, as well as the Annual Corporate Governance report for said period (which, in accordance with article 538 of the Capital Companies Law, has been attached to the management report as an exhibit) have been sent to the National Securities Market Commission and made available to shareholders on the Company's corporate website (<http://www.otisworldwide.com/site/es-esl/Pages/Ascensores-Otis-Informacion-para-accionistas-e-inversores.aspx>).

The aforementioned documents relating to the Ordinary General Shareholders' Meeting and the rest of the information required under article 518 of the Capital Companies Law will be published on the Company's corporate website (<http://www.otisworldwide.com/site/es-esl/Pages/Ascensores-Otis-Informacion-para-accionistas-e-inversores.aspx>) and will be available uninterruptedly until the Ordinary General Shareholders' Meeting is held.

Finally, it should be noted that the notice of the Ordinary General Shareholders' Meeting will be published in the next few days with the legally-required notice period in the national newspaper Expansión.

Yours faithfully,

Lorea García Jáuregui  
Secretary of the Board of Directors

## **NOTICE OF ORDINARY GENERAL SHAREHOLDERS' MEETING**

Pursuant to the provisions of the Bylaws, the Regulations of the General Shareholders' Meeting and the Capital Companies Law, the Board of Directors of Zardoya Otis, S.A. (the "**Company**"), at its meeting of April 9, 2018, passed a resolution to call the Ordinary General Shareholders' Meeting to be held, on the first call, on May 22, 2018 at 12:00 noon at the NH COLLECTION EUROBUILDING HOTEL, calle Padre Damián 23, Madrid, or, if applicable, on the second call, on May 23, 2018 at the same time and in the same place, in order to deliberate and, if appropriate, adopt the motions contained on the following

### **AGENDA**

1. Examination and, if appropriate, approval of the annual financial statements and management reports of both the Company and its consolidated group for the period running from December 1, 2016 to November 30, 2017.
2. Application of the profit for the period running from December 1, 2016 to November 30, 2017.
3. Approval of the performance of the Board of Directors and, in particular, of the distribution of dividends charged to the profit for the period running from December 1, 2016 and November 30, 2017.
4. Approval of the distribution of a dividend charged to reserves for a gross amount of 0.08 euros per share.
5. Re-appointment of the auditors for the Company and its consolidated group for the period running from December 1, 2017 to November 30, 2018.
6. Consultative ballot on the 2017 Annual Director Compensation Report in accordance with the provisions of the Capital Companies Law, article 541.
7. Appointment and re-election, if appropriate, of the following members of the Board of Directors:
  - 7.1. Ratification and re-election of Ms Robin Fiala, who was appointed by co-option, as a proprietary director.
  - 7.2. Re-election of Mr Mark George as a proprietary director.
8. Authorization to allow the Company to, directly or indirectly, accept its own shares as security, in accordance with the Capital Companies Law, article 149 and related articles.
9. Delegation to the Board of Directors of the interpretation, rectification, execution, formalization and registration of the resolutions passed.
10. Requests and questions.
11. Approval of the Minutes.

### **SUPPLEMENT TO THE NOTICE AND SUBMISSION OF MOTIONS**

In accordance with article 519 of the revised text of the Capital Companies Law, approved by Royal Legislative Decree 1/2010 of July 2 and amended by Law 31/2014 of December 3 for the improvement of corporate governance ("**Capital Companies Law**"), shareholders representing at least three percent of the share capital may: (i) request that a supplement to this Notice be published including one or more items on the Agenda, provided that the new items are accompanied by an explanation or, if

applicable, a reasoned motion; and (ii) submit reasoned motions on items that are already included on the Agenda or must be included thereon.

This right shall be exercised by a notification, sent by reliable means, received at the Company's registered office (Calle Golfo de Salónica, 73) within the five days following publication of the Notice. The notification shall state the identity of the shareholder or shareholders exercising the right and the number of shares they own and shall attach the relevant documentation –a copy of the attendance card or certificate of entitlement– that evidences their shareholder status, in order for this information to be checked against the information provided by Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación, S.A.U. (“Iberclear”), together with the content of the item or items that the shareholder wishes to raise or the content of the motion or motions the shareholder proposes.

The Supplement to the Notice shall be published at least fifteen days prior to the date on which the Meeting is scheduled to be held.

The foregoing does not affect the right of any shareholder to put forward alternative proposals or proposals on items that are not required to appear on the Agenda in the course of the General Meeting in the terms provided for in the Capital Companies Law.

## **RIGHT TO ATTEND**

Shareholders may attend the Ordinary General Shareholders' Meeting irrespective of the number of shares they own.

To attend the General Shareholders' Meeting, it shall be an essential requirement to prove share ownership by means of a certification of entitlement or equivalent document issued by Iberclear or the participating entities authorized to do so, issued five days prior to the date of the General Meeting, pursuant to article 15 of the Bylaws, article 5 of the Regulations of the General Shareholders' Meeting and article 179 of the Capital Companies Law.

Since it is likely that the General Shareholders' Meeting will be held on the second call, for the purposes of the provisions of article 517 of the Capital Companies Law, it should be noted that shareholders must have the shares recorded in their name no later than May 18, 2018.

In order to confirm the identity of the shareholders or the persons holding valid proxies from them, at the entrance to the premises where the General Shareholders' Meeting is held, those attending may, in addition to providing their attendance card, be requested to prove their identity by providing their national identity document or any other official document in force that the Company deems appropriate in this respect.

## **PROXY AND VOTING RIGHTS**

### **Right to grant proxy from a distance**

Any shareholder entitled to attend may be represented at the General Shareholders' Meeting by another person, who need not be a shareholder. Proxy shall be conferred in writing specifically for the General Meeting pursuant to article 15 of the Bylaws, article 6 of the Regulations of the General Shareholders' Meeting and articles 184 and 522 et seq. of the Capital Companies Law.

In particular, proxy may be granted from a distance, although only proxies conferred as follows shall be valid:

- (A) By written postal correspondence, sending to the Company (Zardoya Otis, S.A., Calle Golfo de Salónica, 73, 28033 Madrid) the certificate of entitlement or

equivalent document issued by Iberclear (or the participating entity thus authorized), together with the pertinent attendance, proxy and voting card, which may be downloaded from the Company's website, duly signed and completed by the shareholder.

- (B) Using means of electronic distance communication that duly guarantee the proxy attributed and the identity of the principal. Proxy granted by these means shall be admitted when the electronic document whereby it is conferred includes the recognized electronic signature or the advanced electronic signature of the principal, in the terms set forth in Law 59/2003 of December 19 on Electronic Signatures, based on a recognized electronic certificate of which no revocation is recorded and which is issued by the Spanish Public Certification Authority (CERES), an entity that reports to the Fábrica Nacional de Moneda y Timbre (the Spanish Mint). The user certificate must be obtained by the shareholder, at no cost to the Company, and must be in force when proxy is granted. Any shareholder who has an electronic signature and meets the above requirements and identifies him/herself with said electronic signature may grant proxy by means of an electronic communication in accordance with the instructions and procedures that are specified on the Company's website (<http://www.otisworldwide.com/site/es-esl/Pages/Ascensores-Otis-Informacion-para-accionistas-e-inversores.aspx>), which include the forms to be used for this purpose.

To be valid, proxy granted by either of the means of distance communication mentioned above must be received by the Company before midnight on the day preceding the date on which the Ordinary General Shareholders' Meeting is scheduled to be held on the first call. Otherwise, the proxy shall be deemed not to have been granted.

In the event that the shareholder is a legal person, it must (i) simultaneously provide a notary's certificate stating that the powers of attorney that support the authorization of the person to whom proxy has been granted by postal correspondence or electronic distance communication are sufficient; and (ii) notify the Company of any change or revocation of the powers held by its representative, the Company thus declining any liability until such notification has been made.

The shareholder granting proxy by postal correspondence or electronic distance communication undertakes to inform the designated proxy-holder of the proxy granted in his/her favour.

In the event that a shareholder grants proxy to the Company, the directors or the Secretary of the Board by postal correspondence or electronic means of distance communication, but does not include therein instructions for casting the vote or there are doubts as to the recipient or scope of the proxy, it shall be considered that the proxy: (i) is granted in favour of the Chairman of the Board of Directors or, in the event that the latter has a conflict of interest, in favour of the Deputy Chairman of the Board of Directors, unless otherwise stated by the shareholder; (ii) refers to all the motions on the Agenda of the General Meeting; (iii) casts a vote in favour of said motions; and (iv) likewise includes any points that may be raised off the Agenda, in respect of which the proxy-holder will vote in the manner he/she considers most favourable to the principal's interests.

In the event that the proxy-holder has, from a legal standpoint, a conflict of interest when voting on any of the proposals that are submitted to the General Meeting on or off the Agenda, the proxy will be deemed to have been granted to the Chairman of the Meeting or, in the event that the Chairman is likewise affected by the conflict of interest, to the Secretary of the Board of Directors, unless the shareholder granting the proxy

states otherwise (in which case the shareholder will be deemed not to have authorized the substitution).

A proxy-holder may only vote on behalf of his/her principals by attending the General Meeting in person. For this purpose, on the day and in the place of the General Meeting, the designated proxy-holder must identify him/herself with his/her current national identity card or passport, so that the Company may verify the proxy granted in his/her favour, accompanied by a copy of said proxy and, if the shareholder is a legal person, a copy of the notary's certificate of the power of attorney.

Proxy granted by postal correspondence or using means of electronic distance communication may be declared null: (i) if it is expressly revoked by the shareholder, using the same means as employed to grant the proxy, within the term fixed for granting it; (ii) by the shareholder attending the General Meeting in person; or (iii) due to transfer of the shares ownership of which conferred the right to grant the proxy and the right to vote, when the Company is aware of said transfer at least five days before the General Meeting is held. At any event, proxies granted after a distance vote has been cast shall be deemed not to have been granted.

When a proxy-holder holds proxies from several shareholders, he/she may cast different votes in accordance with the instructions received from each one of the shareholders.

Likewise, entities that hold shareholder status according to the accounting register of shares but which act on behalf of different persons may, at any event, divide their vote and cast it differently in accordance with the different voting instructions they have received, if applicable. These intermediary entities may grant proxy to each one of the indirect shareholders or to third parties designated by the latter and there is no limit on the number of proxies they may grant. To do this, they must, within the seven days preceding the date on which the General Meeting is scheduled to be held, provide the Company with a list stating the identity of each client, the number of shares in respect of which they are exercising voting rights on behalf of each client and the voting instructions received, if applicable, in order to determine how their vote will be cast.

### **Distance voting**

Shareholders entitled to attend and vote may cast their vote on the motions on items included on the Agenda using the following means of distance communication:

- (A) By written postal correspondence, sending to the Company (Zardoya Otis, S.A., Calle Golfo de Salónica, 73, 28033 Madrid) the certificate of entitlement or equivalent document issued by Iberclear (or the participating entity thus authorized), together with the pertinent attendance, proxy and voting card, which may be downloaded from the Company's website, duly signed and completed by the shareholder.
- (B) By electronic means of distance communication, provided that the electronic document whereby the vote is cast includes the recognized electronic signature or the advanced electronic signature of the principal, in the terms set forth in Law 59/2003 of December 19 on Electronic Signatures, based on a recognized electronic certificate of which no revocation is recorded and which is issued by the Spanish Public Certification Authority (CERES), an entity that reports to the Fábrica Nacional de Moneda y Timbre (the Spanish Mint). The user certificate must be obtained by the shareholder, at no cost to the Company, and must be in force when the vote is cast. Any shareholder who has an electronic signature that meets the above requirements and identifies him/herself with said electronic signature may cast his/her vote on the items of the Agenda for the General Meeting in accordance with the instructions and procedures that are specified on

the Company's website (<http://www.otisworldwide.com/site/es-esl/Pages/Ascensores-Otis-Informacion-para-accionistas-e-inversores.aspx>),, which include the forms to be used for this purpose.

Votes cast by either of the means mentioned above shall not be valid if they are not received by the Company at least twenty-four hours before the date on which the Ordinary General Shareholders' Meeting is scheduled to be held on the first call. Votes received after said deadline shall be deemed not to have been cast.

In the event that the shareholder is a legal person, it must (i) simultaneously provide a notary's certificate stating that the powers of attorney that support the authorization of the person to whom proxy has been granted by postal correspondence or electronic distance communication are sufficient; and (ii) notify the Company of any change or revocation of the powers held by its representative, the Company thus declining any liability until such notification has been made.

A shareholder who casts his/her vote by postal correspondence or electronic means of distance communication and does not mark any of the boxes provided for indicating his/her vote on the items on the Agenda shall be deemed to wish to vote in favour of the respective motions put forward by the Board of Directors.

Shareholders who cast a distance vote in the terms stated in the Bylaws and the Regulations of the General Meeting shall be deemed to be present at the General Meeting for quorum purposes. In consequence, proxies granted previously shall be deemed to have been revoked and those granted subsequently shall be deemed not to have been granted

A distance vote can only be declared null (i) if it is subsequently expressly revoked by the same means as was employed to cast it within the term fixed for distance voting, (ii) by the attendance of either the shareholder who cast the distance vote or a proxy-holder of said shareholder at the meeting; or (iii) due to transfer of the shares ownership of which conferred the right to vote, when the Company is aware of said transfer at least five days before the date on which it is planned to hold the General Meeting.

#### **Rules common to granting proxy and voting by means of distance communication**

- (A) The validity of the proxy granted and the vote cast by distance communication is subject to verification of the shareholder's status as such with the file provided by Iberclear, the entity responsible for the accounting register of the Company's shares. In the event of any discrepancy between the number of shares stated by the shareholder granting proxy or casting his/her vote by distance communication and the number stated in the account entry registers notified by Iberclear, the number of shares stated by the latter shall be considered valid for quorum and voting purposes unless there is evidence to the contrary.
- (B) The following rules on the order of priority of proxy voting, distance voting and presence at the General Meeting are established: (i) the attendance of the General Meeting in person by a shareholder who has previously granted proxy or cast a distance vote, irrespective of the manner in which the vote was cast, shall cause said proxy or vote to be null; (ii) when the shareholder validly grants proxy through an electronic communication and, furthermore, also grants proxy through a printed attendance card issued by Iberclear (or the participating entity thus authorized), the latter shall prevail over the proxy granted by electronic communication, regardless of the respective dates of granting; (iii) in the event that a shareholder validly grants several proxies or casts several votes by electronic communication, the last proxy granted or last vote cast that is received

by the Company within the term allowed shall prevail; and (iv) both proxies and distance votes shall be null if the shares that confer the right of attendance are disposed of and the Company is aware of this at least five days before the date on which it is planned to hold the General Meeting.

- (C) Custody of his/her electronic signature is solely the shareholder's responsibility.
- (D) The Company reserves the right to change, suspend, cancel or restrict the mechanisms for voting and granting proxy from a distance when technical or security reasons require or force this to be done.
- (E) The Company shall in no case be liable for any damages that may be caused to the shareholder by breakdowns, overloads, lines down, connection failures, malfunctions of the postal service or any other contingencies of the same or a similar nature, beyond the Company's control, that hinder or prevent the use of the mechanisms for voting and granting proxy from a distance.
- (F) Any of the co-owners of a share deposit may vote, grant proxy or attend and the rules on priority established above shall be applicable among them. For the purposes of article 126 of the Capital Companies Law, it is assumed that the co-owner who carries out an action (granting of proxy, voting or attendance) at any given moment has been designated by the rest of the co-owners to exercise the rights that correspond to him as a shareholder.

#### **RIGHT TO INFORMATION**

In compliance with articles 272, 287 and 518 of the Capital Companies Law, article 13 of the Bylaws and article 5 of the Regulations of the General Shareholders' Meeting, shareholders who so wish may, as from publication of this notice, examine and obtain the full text of the Notice and all the motions, free of charge and immediately, at the registered office (calle Golfo de Salónica, 73, 28033 Madrid), from 9:00 to 14:00 on working days, notwithstanding the fact that the motions may be amended up until the date on which the General Meeting is held.

In particular, the following documents are included:

- (A) Full text of the Notice and of all the motions (including any that may, if applicable, be proposed by shareholders), notwithstanding the fact that the motions may be amended up until the date on which the General Meeting is held;
- (B) The annual financial statements and management reports, both individual and consolidated, that will be submitted for the approval of the General Meeting, together with the respective account auditors' reports;
- (C) The proposal for application of the profit for the period;
- (D) 2017 Annual Corporate Governance Report (which, in accordance with article 538 of the Capital Companies Law, is included in the management report in a separate section);
- (E) 2017 Director Compensation Report;
- (F) Auditor Independence Report prepared by the Audit Committee;
- (G) Report on the operation of the Audit Committee during the reporting period ended November 30, 2017;
- (H) Report on the operation of the Nominating and Compensation Commission during the reporting period ended November 30, 2017;
- (I) Board of Directors' report on the motion for the re-election and ratification of Ms Robin Fiala and the re-election of Mr Mark George;



- (J) Nominating and Compensation Commission's report on the motion for the re-election and ratification of Ms Robin Fiala;
- (K) Nominating and Compensation Commission's report on the motion for the re-election of Mr Mark George;
- (L) Rules on distance voting and proxies;
- (M) Forms to be used for proxy and distance voting;
- (N) Total number of shares and voting rights existing at the date of the Notice; and
- (O) Model of the attendance, proxy and distance voting card.

Any shareholder shall likewise be entitled to request that said documents be sent to him/her free of charge or to consult the aforementioned documents and the other documents mentioned in article 518 of the Capital Companies Law on the Company's website (<http://www.otisworldwide.com/site/es-esl/Pages/Ascensores-Otis-Informacion-para-accionistas-e-inversores.aspx>) as from publication of the notice of the Ordinary General Meeting until said meeting is held.

In accordance with articles 197 and 520 of the Capital Companies Law and article 5 of the Regulations of the General Shareholders' Meeting, until the fifth day before the date on which the Meeting is scheduled to be held or in the course of the Meeting itself, shareholders may request the Board of Directors (i) for any information or clarification they deem necessary on the items included on the Agenda, or ask any questions they consider relevant thereon in writing; (ii) any clarification they deem necessary in relation to the publicly-available information that the Company has provided to the National Securities Market Commission since the last General Meeting was held and/or the account auditor's report.

The directors are obliged to provide the information in writing up to the date on which the General Meeting is held.

In the course of the General Meeting itself, shareholders may orally request any information or clarification they see fit on the items included on the Agenda, in such a way that, if it is not possible to satisfy the shareholder's right at that moment, the directors will be obliged to provide the information in writing within the seven days following the conclusion of the General Meeting.

The Board of Directors shall be obliged to provide the information requested in accordance with the preceding paragraphs except in cases where this information is unnecessary to protect the shareholders' rights, there are solid reasons for considering that it could be used for purposes outside the Company or making it public would damage the Company itself or its related companies.

When, before a specific question is asked, the information requested is clearly, explicitly and directly available to all shareholders on the Company's website in question-answer format, the Board of Directors may limit its reply to referring the shareholder to the information provided in said format.

Notwithstanding the foregoing, information shall not be refused when the request is supported by shareholders representing at least twenty-five percent of the share capital.

## **ELECTRONIC SHAREHOLDER FORUM**

In accordance with the provisions of article 539 of the Capital Companies Law, the Board of Directors has decided that the rules of operation for the Electronic Shareholder Forum published on the Company's website and available to shareholders

at the registered office, shall be applied to the General Shareholders' Meeting as from the date on which the notice of said Meeting is published.

### **DATA PROTECTION**

Personal data that shareholders send to the Company in order to exercise their rights to attend or be represented at the General Meeting or that are provided for this purpose by the entities with which said shareholders' shares are deposited through the entity legally authorized to keep the register of book entries, Iberclear, will be processed by the Company in order to manage the running, compliance and control of the shareholder relationship that exists, together with the attendance at and running of the General Meeting and, if applicable, compliance with any rules to which Zardoya Otis, S.A. may be subject.

In order to manage the shareholder relationship that exists, Zardoya Otis, S.A. will send information to shareholders, including information sent electronically, strictly related to the shareholders' investment and the Company's evolution.

The rights of access rectification, opposition and/or cancellation may be exercised by means of a letter, accompanied by a copy of the national identity card, addressed to the registered office (Calle Golfo de Salónica, 73, 28033 Madrid) for the attention of the Secretary of the Board of Directors.

In the event that the shareholder includes personal data referring to other natural persons on the assistance, proxy and distance voting card, the shareholder must inform them of the points contained in the preceding paragraphs and meet any other requirements that may be applicable in order to furnish the personal data to Zardoya Otis, S.A. correctly, without the need for the latter to take any additional action in terms of information or consent.

### **EXPECTED DATE AND TIME OF THE GENERAL SHAREHOLDERS' MEETING**

The Ordinary General Shareholders' Meeting is expected to be held on the **SECOND CALL**, i.e. on May 23, 2018, in the place and at the time mentioned above.

## **MOTIONS FOR THE ORDINARY GENERAL SHAREHOLDERS' MEETING**

### **MOTION 1**

**Examination and, if applicable, approval of the annual financial statements and management reports of both the Company and its consolidated group for the period running from December 1, 2016 to November 30, 2017.**

A motion is put to the Ordinary General Shareholders' Meeting for approval of the annual financial statements and management reports of the Company and its consolidated group, including the Annual Corporate Governance Report, in order to meet the requirements of: (i) the provisions of article 540 of Royal Legislative Decree 1/2010 of July 2, which approved the revised text of the Capital Companies Law (the "**Capital Companies Law**"), introduced by Law 31/2014 of December 3, whereby the Capital Companies Law was amended to improve corporate governance ("**Law 31/2014**"); and (ii) Order ECC (461/2013 of March 20, which determined the content and structure of the annual corporate governance report, the annual compensation report and other reporting tools of listed corporations, savings banks and other entities that issue securities that are traded on official securities markets ("**Order ECC/461/2013**"), reorganizing and completing the transparency requirements established in Law 4/2015 of October 23 approving the revised text of the Securities Market Law ("**LMV**"), for the period 2017 (running from December 1, 2016 to November 30, 2017).

The Annual Corporate Governance Report for the year 2017 has been prepared taking into account the provisions of the aforementioned article 540 of the Capital Companies Law and the aforementioned Order ECC/461/2013 and follows the applicable annual corporate governance report model approved by Circular 7/2015 of December 22 of the National Securities Market Commission ("**CNMV**"), which amended Circular 5/2013 of June 12, establishing the models for corporate governance reports of listed corporations, savings banks and other entities that issue securities traded on official securities markets.

The annual financial statements have been approved by the Board of Directors, signed by all the directors, numbered correlatively and verified by the account auditor (who has issued the relevant audit reports).

Said annual financial statements include the global compensation of the Board of Directors for the period in question, which was 2,084 thousand euros, in the income statement.

### **MOTION 2**

**Application of the profit for the period running from December 1, 2016 to November 30, 2017.**

A motion was put to the Ordinary General Shareholders' Meeting for approval of the following application of the profit in accordance with the statement of financial position approved:

<b>Distribution bases</b>	<b>Amount</b>
Profit for the period	<i>152,288,999.12 euros</i>
<b>Distribution</b>	<b>Amount</b>
Legal reserve	<i>376,742.90 euros</i>
Dividends (*)	<i>112,911,434.64 euros</i>

Reserve for goodwill	----- euros
Voluntary reserve	39,000,821.58 euros

(\*) The whole of the proposed dividend has been paid to the shareholders, as stated in the following item on the Agenda.

### **MOTION 3**

**Approval of the performance of the Board of Directors and, in particular, of the distribution of dividends charged to the profit for the period running from December 1, 2016 to November 30, 2017.**

A motion is put to the Ordinary General Shareholders' Meeting for approval of the performance of the Board of Directors during the period running from December 1, 2016 to November 30, 2017 and ratification of the distribution of interim dividends charged to the profit for the period running from December 1, 2016 to November 30, 2017, i.e. three quarterly interim dividends, the total amount of which was 112,911,434.64 euros. For these purposes, the partial cash distribution of the share premium for the sum of 0.079 euros per share, which was approved by the Ordinary General Shareholders' Meeting held on May 14, 2017, was excluded.

Number	Date	Gross dividend per share	Charged to	Shares entitled to dividend	Total gross dividend
145	April 10, 2017	0.080 €/ share	First interim 2016	470,464,311 Treasury shares 0	37,637,144.88 € 0 € <b>37,637,144.88 €</b>
146	October 10, 2017	0.080 €/ share	Second interim 2016	470,464,311 Treasury shares 0	37,637,144.88 € 0 € <b>37,637,144.88 €</b>
147	January 10, 2018	0.080 €/ share	Third interim 2016	470,464,311 Treasury shares 0	37,637,144.88 € 0 € <b>37,637,144..88 €</b>
<b>Total dividends paid in 2017/2018 and charged to 2017</b>					<b>112.911.434.64 €</b>

(\*) Treasury shares did not receive a dividend.

### **MOTION 4**

**Approval of the distribution of a dividend charged to reserves for a gross amount of 0.08 euros per share.**

A motion is put to the Ordinary General Shareholders' Meeting for the distribution of a dividend charged to reserves for gross amount of 0.08 euros per share, the withholdings and taxes established by law being payable by the recipient.

Thus, the Company will pay up to a maximum of 37,637,144.88 euros, which is the result of multiplying the gross amount of the cash distribution per share (0.08 euros) by 470,464,311, which is the total number of shares into which the Company's share capital is divided. The amount resulting from multiplying the sum of 0.08 euros by the number of any treasury shares that may exist at the time the shareholders become entitled to receive

payment of the dividend will be deducted from this maximum amount. This dividend will be paid out on *July 10, 2018*.

#### **MOTION 5**

##### **Re-appointment of the auditors for the Company and its consolidated group for the period running from December 1, 2017 to November 30, 2018.**

Subsequent to a proposal in favour by the Audit Committee at its meeting of February 20, 2018 and the Board of Directors at its meeting of April 9, 2018, a motion is put to the Ordinary General Shareholders' Meeting for the re-appointment of PricewaterhouseCoopers, S.L. ("**PwC**") as the account auditors for the Company and its consolidated group for the annual period 2018, which commenced on December 1, 2017 and will end on November 30, 2018.

For the purposes of article 153 and related articles of Royal Decree 1784/1996 of July 19, whereby the Companies Register Regulations were approved, PwC is stated to be a Spanish company, with registered office at Paseo de la Castellana, 259 B, Torre PwC, 28046 Madrid, and tax identification number B-79031290, registered in the Madrid Companies Register on Sheet 87, Point 250-1, Folio 75, Volume 9267, Book 8054, Section 3, and in the Official Account Auditors Register (ROAC) with number S0242.

Likewise, it is proposed to authorize the Company's Board of Directors, expressly permitting it to be substituted by any of the members thereof or by the Board Secretary, to determine the account auditor's remuneration for the aforementioned period in accordance with the generally-applicable economic bases for said audit firm and, specifically, to execute the relevant service agreement, with the clauses and conditions deemed appropriate. The Board is likewise authorized to make any amendments to said agreement that may be appropriate in accordance with the legislation in force at any given moment; The foregoing is proposed by the Audit Committee in compliance with art 529 *quaterdecies* (d) of the Capital Companies Law.

.It is expressly stated that the re-appointment of PwC is in accordance with the new Law 22/2015 of July 20 on Account Auditing, which places restrictions on the maximum term for which an auditor may be engaged. According to the Transitional Provision established in Regulation (EU) 537/2014 of the European Parliament and Council, audited entities which, like the Company, had been engaging the same auditor for a period of 20 years or more as of June 2014 will not have to change auditor until June 17, 2020.

#### **MOTION 6**

##### **Consultative ballot on the 2017 Annual Director Compensation Report in accordance with the provisions of the Capital Companies Law, article 541.**

In order to comply with (i) the provisions of the new article 541 of the Capital Companies Law; and (ii) Order ECC/461/2013, which reorganizes and completes the transparency requirements established in the Securities Market Law, the 2017 Annual Director Compensation Report is submitted to the Ordinary General Shareholders' Meeting for a consultative ballot. The Company's Annual Director Compensation Report for the period running from December 1, 2016 to November 30, 2017 was approved by the Board of Directors at the meeting held on February 20, 2018, subsequent to a report in favour from the Nominating and Compensation Commission at its meeting of the same date.

The Company's 2017 Annual Director Compensation Report was drawn up taking into account the provisions of the aforementioned article 541 of the Capital Companies Law and Order EEC/461/2013, following the applicable annual director compensation report model approved by Circular 4/2013 of June 12, of the CNMV, which established the annual director compensation report models for directors of listed corporations and members of the boards of directors and control commissions of savings banks that issue securities traded on official securities markets.

This report was notified to the CNMV on *March 27 2018*

## **MOTION 7**

**Appointment and re-election, if appropriate, of the following members of the Board of Directors:**

### **7.1 Ratification and re-election of Ms Robin Fiala, who was appointed by co-option, as a proprietary director..**

A motion is put to the Ordinary General Shareholders' Meeting, with a prior report in favour from the Nominating and Compensation Commission, for the ratification of Ms Robin Fiala, of legal age, married, a United States of America national, domiciled in Farmington, United States of America, holding United States of America passport No. 452042476, currently in force, and N.I.E. (foreigner identification No.) Y-5915181-D as a proprietary director for the Bylaw-stipulated term of four years.

Ms Robin Fiala was appointed as a director by co-option, in a resolution passed by the Board of Director son October 5, 2017 subsequent to a report in favour from the Nominating and Compensation Commission, as a consequence of the resignation of the director Mr Philippe Delpech.

In the opinion of the Board of Directors, Ms Robin Fiala meets the conditions required to perform her function and fulfils the requirements set out in the Capital Companies Law, article 529 duodecies, to be classified as a "proprietary director", stating that the proposal for her ratification was requested by the majority shareholder, United Technologies Holdings, S.A.S.

### **7.2 Re-election of Mr Mark George as a proprietary director.**

A motion is put to the Ordinary General Shareholders' Meeting, with a prior report in favour from the Nominating and Compensation Commission, for the re-election of Mr Mark George, of legal age, married, a United States national, domiciled at One Carrier Place Farmington, CT06034, United States of America, holding United States of America passport No. 113107476, currently in force, and N.I.E. (foreigner identification No.) Y-3453374-F, as a proprietary director for the Bylaw-stipulated term of four years.

Taking the skills, professional career and experience of Mr Mark George into account, the Board of Directors unanimously passed a resolution to propose his re-election as a director at its meeting of April 9, 2018.

In the opinion of the Board of Directors, Mr Mark George meets the conditions required to perform his function and fulfils the requirements set out in the Capital Companies Law, article 529 duodecies, to be classified as a "proprietary director", stating that the proposal for his re-election was requested by the majority shareholder, United Technologies Holdings, S.A.S.

## **MOTION 8**

**Authorization of the Board of Directors for the direct or indirect derivative acquisition of treasury shares, within the limits and meeting the requirements set forth in article 146 and related articles of the Capital Companies Law.**

A motion is put to the Ordinary General Shareholders' Meeting to authorize the Board of Directors to, without previously consulting the General Shareholders' Meeting, acquire, directly or indirectly, the Company's own shares up to a maximum of 10% of the share capital for a maximum term of five years as from the date of this General Shareholders' Meeting. These shares may be acquired by purchase in the market at a minimum price of two euros per share and a maximum price of twenty-five euros per share and the Board of Directors is authorized to set aside the reserves stipulated in article 148 of the Capital Companies Law.

It is expressly stated that any shares acquired as a result of this authorization may be sold (or exchanged), written off or delivered to the Company's workers or directors, either directly or as the result of their exercising any option rights they may hold.

This delegation of powers to the Board of Directors replaces the powers conferred at the Company's General Shareholders' Meeting of May 24, 2017, which, in consequence, will be null and void.

### **MOTION 9**

**Authorization for the Company to accept its own shares as security, either directly or indirectly, in accordance with the provisions of article 149 of the Capital Companies Law.**

A motion is put to the General Shareholders' Meeting to authorize the Board of Directors to, directly or through any companies in the Company's group, accept its own shares in pledge or as any other type of security, within the limits established by law and with the same requirements as apply to the acquisition thereof.

Specifically:

- (A) The number of shares that may be accepted in pledge will not exceed 10% of the Company's share capital.
- (B) The pledged shares must be free of all charges or encumbrances, fully paid up and not attached to compliance with any obligation the beneficiary of which is not the Company.
- (C) The authorization will remain in force for the maximum term provided for by law at any given moment, as of the date of the Ordinary General Shareholders' meeting that passes the resolution on this authorization.
- (D) When performing these transactions, the rules on the matter contained in the Company's Internal Code of Conduct must also be complied with.

### **MOTION 10**

**Delegation to the Board of Directors for the interpretation, rectification, execution, formalization and registration of the resolutions adopted.**

A motion is put to the General Shareholders' Meeting to authorize the Chairman of the Board of Directors, Mr Mario Abajo García, the Deputy Chairman of the Board of Directors Mr José María Loizaga Viguri, the Chief Executive Officer, Mr Bernardo Calleja Fernández and the Secretary of the Board of Directors, Ms Lorea García Jáuregui, so that any one of them, without distinction, may, jointly and severally, execute compliance with and/or perform each and every one of the resolutions and/or decisions adopted at the present meeting, with sufficient capacity and power of attorney to enter them into public record, execute deeds of power of attorney and request any entries that might be applicable in the relevant registers, including the Companies Register, making any rectifications that may be appropriate in this respect in the light of the oral or written comments of the registrars until the deeds are fully registered.

**Zardoya Otis, S.A.**

Audit Report,  
Annual Accounts and Directors' Report  
at 30 November 2017





*This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

## *Audit Report on the annual accounts issued by an independent auditor*

To the shareholders of Zardoya Otis, S.A.:

### *Report on the annual accounts*

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#### *Opinion*

We have audited the annual accounts of Zardoya Otis, S.A. (the Company) consisting of the balance sheet at 30 November 2017, the income statement, the statement of changes in equity, the cash flow statement and related notes to the accounts for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the financial position of the Company at 30 November 2017 and the results of its operations and cash flows for the year then ended in accordance with the applicable financial reporting framework (identified in Note 2) and in particular, with the accounting principles and criteria included therein.

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#### *Basis for opinion*

Our audit has been carried out in accordance with prevailing Spanish auditing regulations. Our responsibilities under said regulations are described below under *Responsibilities of the auditor in relation to the audit of the annual accounts*.

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, applicable to our audit of the annual accounts in Spain, as required by auditing regulations. In this respect, we have not provided any services other than audit services, nor have any situations or circumstances arisen that, in accordance with those regulations, might have undermined said independence.

We consider that the audit evidence obtained provides a sufficient and appropriate basis for our opinion.

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#### *Key audit matters*

Key audit matters are those that, in our professional judgment, were of most significance in the audit of the annual accounts of the current period. These matters have been addressed in the context of our audit of the annual accounts as a whole and in the preparation of our opinion thereon, and we do not express a separate opinion on these matters.

**Key audit matters**

**How the matter was addressed in the audit**

*Revenue recognition*

According to Note 20 to the accompanying annual accounts, the Company basically has three types of revenue from: a) provision of services, mainly contracts for the maintenance, modernisation and repair of elevators; b) installation and assembly; and c) exports.

Note 3.12.b indicates that revenues from maintenance contracts are recognised on a straight-line basis as they accrue. Revenue may be billed monthly, quarterly, half-yearly or annually depending on the terms of the contracts, advance payment being recognised, as applicable, to reflect accrual correctly. This type represents the most significant portion of the Company's revenue.

According to Note 3.12.a, elevator installation and assembly revenue is recognised based on the estimated percentage of completion of the work. This area requires judgements and estimates. Specifically, management periodically re-estimates the margin, estimating costs yet to be incurred such that the project's final margin does not differ substantially from the margin at contract inception.

Special attention is paid during the audit to the revenue recognition process to assure that the Company's revenue is duly supported. We consider the recognition of revenue as a result of transactions actually effected and within the period audited to be a key audit matter.

We describe, understand, assess and validate the relevant transactions and controls that support the revenue cycle, as well as the general IT controls and those of the Company's control environment.

Additionally, substantive tests of detail are carried out on revenue recognised during the year, using sampling techniques for different transaction types. Specifically, these refer to:

- Recognition of revenue from the installation and assembly of elevators, as well as modernisations and repairs, for which we test the periodic re-estimation of margins for a sample of projects.
- Recognition of revenue from maintenance contracts, checking the contractual documentation, the proper recognition of revenue and invoice collection for a sample of transactions.

We check a sample of transactions showing revenue not collected at the year end, through third-party confirmation or alternative audit procedures using the relevant documentary support. We also check that the revenue has been accounted for in the correct period.

We perform a computer-assisted audit test designed to detect unusual items. For the items that affect revenue recognition, we have verified the supporting documents to verify that they are correctly recognised.

We have checked the sufficiency of the information disclosed in the annual accounts.

On the basis of our tests, our audit objectives have been fulfilled for this key matter.

**Key audit matters**

**How the matter was addressed in the audit**

*Recovery of investments in Group companies*

The Company has investments in Group companies in the amount of €316 million, as described in Note 7 to the annual accounts.

The investments are measured at cost less any cumulative impairment adjustments. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, this being the asset's fair value less the higher of costs to sell and value in use.

It is a key audit matter due to the size of the item and because it entails a high level of judgement and estimation on the part of management.

When testing the analysis of the recovery of the value of investments in Group companies, we draw on our knowledge to conclude on whether the value and the assumptions employed by management are suitable. In particular:

- We consider the results and reserves relating to each investment and their evolution with respect to the previous year.
- We check the reasonableness of any latent capital gains and, if applicable, the value of implicit goodwill.
- We consider the comparables for transactions completed by the Company in recent years.
- We check the arithmetic calculations.

We have checked the sufficiency of the information disclosed in the annual accounts.

Our tests have not identified exceptions.

*Recovery of the value of intangible assets*

The Company has intangible assets other than goodwill in the amount of €28 million, as described in Note 5 to the annual accounts.

This item basically includes amounts relating to the cost of elevator equipment maintenance contracts acquired as a portfolio of contracts or as part of a business combination. The item is made up of a variety of portfolios in terms of both geographic location and acquisition date. They are amortised on a straight-line basis over a period deemed to be equivalent to their estimated useful life (from 10 to 20 years, depending on the features of the maintenance contract portfolio).

The amortisation charged is assessed regularly by analysing the useful life of the assets and, if applicable, impairment testing is performed where there are factors that indicate a possible loss of value. For this purpose, management takes into account the rate of cancellations and customer churn.

It is a key audit area due to the size of the item and management's judgements and estimates, which affect forecast flows.

For the acquisitions of maintenance contract portfolios, we check the key supporting documents, such as contracts and purchase deeds, asset valuations at the time of purchase and other relevant documents.

As regards possible impairment, amortisation and useful lives of the intangible assets:

- We check that the evolution of net contract loss rates is consistent.
- We verify the evolution of maintenance contract prices.
- We assess the reasonableness of the relevant margins and profits.

We have also checked the sufficiency of the information disclosed in the annual accounts.

Our tests have revealed a solid basis supporting the useful lives and recoverable amounts of the assets.

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### *Other information: Directors' Report*

The other information only relates to the directors' report for 2017, the preparation of which is the responsibility of the company's administrators and which does not form an integral part of the annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the Directors' Report. Our responsibility for the Directors' Report, in accordance with the requirements of accounting legislation, consists of evaluating and reporting on the consistency of the Directors' Report with the annual accounts based on the knowledge of the company obtained in the performance of the audit of said accounts, without including any information other than that obtained as evidence during the audit. Likewise, our responsibility is to evaluate and report on whether the content and presentation of the directors' report comply with applicable regulations. If we conclude that there are material misstatements on the basis of our work, we are required to report them.

On the basis of the work performed, as described in the preceding paragraph, the information contained in the directors' report is consistent with that of the annual accounts for 2017 and its content and presentation comply with application legalisation.

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### *Responsibility of the directors and the audit committee in relation to the annual accounts*

The directors are responsible for drawing up and signing the accompanying annual accounts such that they present fairly the equity, financial situation and results of the Company in accordance with the financial reporting framework applicable to the company in Spain, and for the internal control which they consider necessary to enable the preparation of annual accounts free from material misstatements due to fraud or error.

In the preparation of the annual accounts, the directors are responsible for assessing the Company's capacity to continue as a going concern, disclosing, as appropriate, any going concern-related issues and applying the going-concern accounting principle, unless the directors intend to wind up the Company or discontinue its operations, or unless no other realistic alternative exists.

The audit committee is responsible for overseeing the preparation and presentation of the annual accounts.

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### *Auditors' responsibilities in relation to the audit of the annual accounts*

Our objectives are to obtain reasonable assurance that the annual accounts as a whole are free from material misstatement due to fraud or error, and to issue an audit report containing our opinion.

Reasonable assurance is a high degree of assurance but does not guarantee that an audit conducted in accordance with current Spanish auditing regulations will always detect a material misstatement when such exists. Misstatements may be due to fraud or error and are regarded as material if, individually or in aggregate, it may reasonably be foreseen that they will influence the business decisions taken by users on the basis of the annual accounts.

As part of an audit conducted in accordance with prevailing Spanish audit regulations, we apply our professional judgement and maintain an attitude of professional scepticism throughout the audit. In addition:

- We identify and assess the risks of material misstatement in the annual accounts due to fraud or error; we design and apply audit procedures to respond to those risks and obtain sufficient and adequate audit evidence to provide a basis for our opinion. The risk of not detecting material misstatement due to fraud is higher than in the case of a material misstatement due to error, as fraud may involve collusion, falsification, deliberate omissions, intentionally erroneous statements or the circumvention of internal control.
- We obtain knowledge of internal control mechanisms relevant for the audit in order to design the audit procedures which are appropriate depending on the circumstances, and not with the intention of expressing an opinion on the efficiency of the Company's internal control system.
- We assess whether the accounting policies applied are adequate and the reasonableness of the accounting estimates and the relevant information disclosed by the directors.
- We conclude as to whether the utilisation by the directors of the going concern principle is appropriate and, basing ourselves on the audit evidence obtained, we conclude as to whether there is or not any material uncertainty in relation to the events or conditions that could generate significant doubts as to the Company's capacity to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our audit report to the corresponding information disclosed in the annual accounts or, if those disclosures are unsuitable, to express a modified opinion. Our conclusions are based on audit evidence obtained up to the date of our audit report. However, future events or conditions could cause the Company to cease to be a going concern.
- We evaluate the overall presentation, structure and content of the annual accounts, including the disclosed information, and whether the annual accounts represent the underlying transactions and events in a manner that succeeds in expressing a true and fair view.

We liaise with the Company's audit committee in relation to, among other matters, the planned scope and timing of the audit and the significant audit findings, as well as any major internal control weakness that we identify in the course of our audit.

We also provide the Company's audit committee with a statement to the effect that we have complied with applicable ethical requirements, including those of independence, and we have notified the Audit Committee of any issues that could reasonably pose a threat to our independence and, if appropriate, the relevant safeguards.

Among the matters notified to the Company's audit committee, we determine those that have been of the greatest significance in the audit of the annual accounts for the current period and which therefore are key audit matters.

We describe these matters in our audit report unless legal or regulatory provisions prohibit the public disclosure of the matter concerned.



Zardoya Otis, S.A.

## *Information on other legal and regulatory requirements*

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### *Additional report for the audit committee*

The opinion expressed in this report is consistent with the content of our additional report for the Company's audit committee dated 20 February 2018.

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### *Term of engagement*

We were appointed auditors for a one-year period at the annual general meeting of shareholders held on 24 May 2017.

We were previously appointed under resolutions adopted by general shareholders' meetings for a period of three years and have been auditing the annual accounts uninterruptedly since the year ended 30 November 1990.

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### *Services provided*

Non-auditing services provided to the Company are disclosed in Note 30 to the annual accounts.

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PricewaterhouseCoopers Auditores, S.L. (S0242)

Original Spanish version signed by Rafael Pérez Guerra (20738)

27 March 2018

# **Zardoya Otis, S. A.**

Annual Financial Statements  
at November 30, 2017

**ZARDOYA OTIS, S.A.**

**STATEMENT OF FINANCIAL POSITION AT NOVEMBER 30, 2017 & 2016**  
(Thousands of Euros - EThs)

ASSETS	Note	2017	2016 (Restated)
<b>NONCURRENT ASSETS</b>		<b>435 547</b>	<b>447 449</b>
Intangible assets	5	32 259	38.750
Property, plant & equipment	6	57 506	57 626
<b>Noncurrent investments in group and associated companies</b>		<b>316 168</b>	<b>322 508</b>
Equity instruments	7	316 168	322 508
<b>Noncurrent financial investments</b>		<b>4 720</b>	<b>3 256</b>
Equity instruments	7	24	24
Other financial assets	7,18	4 696	3 232
<b>Trade and other receivables</b>		<b>3 444</b>	<b>3 897</b>
Deferred tax assets	19	21 450	21 412
<b>CURRENT ASSETS</b>		<b>217 957</b>	<b>179 393</b>
<b>Inventories</b>		<b>74 614</b>	<b>54 687</b>
Inventories	9	74 614	54 687
<b>Trade and other receivables</b>		<b>122 415</b>	<b>113 371</b>
Trade receivables	7,8	122 415	113 371
Trade receivables		87 247	85 588
Trade receivables, group and associated companies	8, 27	12 846	9 181
Sundry debtors		8 534	7 855
Employees		886	1 053
Other credits with the public authorities	21	12 902	9 694
<b>Current financial investments</b>		<b>143</b>	<b>775</b>
Current financial investments	7	143	775
Other financial assets		143	775
<b>Current accruals and prepayments</b>		<b>267</b>	<b>1 769</b>
Current accruals and prepayments		267	1 769
<b>Cash and cash equivalents</b>		<b>20 518</b>	<b>8 791</b>
Cash and cash equivalents	7,10	20 518	8 791
<b>TOTAL ASSETS</b>		<b>653 504</b>	<b>626 842</b>



**ZARDOYA OTIS, S.A.**

**STATEMENT OF FINANCIAL POSITION AT NOVEMBER 30, 2017 & 2016**  
(Thousands of Euros - EThs)

<b>EQUITY AND LIABILITIES</b>	<b>Note</b>	<b>2017</b>	<b>2016</b>
			(Restated)
<b>EQUITY</b>		<b>350 839</b>	<b>342 484</b>
<b>Equity</b>		<b>322 389</b>	<b>317 137</b>
Share capital	11	47 046	47 046
Share Premium	11	306	37 472
Reserves	13	198 022	155 719
Profit/(loss) for period	14	152 289	150 629
(Interim dividends paid)	11,14	(75 274)	(73 819)
<b>Adjustments for changes in value</b>	<b>18</b>	<b>28 450</b>	<b>25 437</b>
<b>NONCURRENT LIABILITIES</b>		<b>46 592</b>	<b>36 267</b>
<b>Noncurrent provisions</b>		<b>8 608</b>	<b>7 339</b>
Other provisions	17	8 608	7 339
<b>Noncurrent debt</b>	<b>7,15</b>	<b>953</b>	<b>922</b>
Other financial liabilities		953	922
<b>Noncurrent debt with group and associated companies</b>	<b>7,15, 27</b>	<b>37 031</b>	<b>28 006</b>
<b>CURRENT LIABILITIES</b>		<b>256 073</b>	<b>248 091</b>
<b>Current provisions</b>	<b>17</b>	<b>9 596</b>	<b>11 972</b>
<b>Current debt</b>		<b>324</b>	<b>324</b>
Borrowings from financial institutions	7	155	155
Other financial liabilities	7	169	169
<b>Current debt with group and associated companies</b>	<b>7,15</b>	<b>69 493</b>	<b>77 171</b>
<b>Trade and other payables</b>	<b>7</b>	<b>161 398</b>	<b>142 913</b>
Trade payables	15	42 777	41 006
Sundry creditors	15	79 902	68 514
Employees (outstanding remuneration)	15	18 774	20 233
Current tax liabilities	21	5 770	30
Other debts with the public authorities	15, 21	14 175	13 130
<b>Current accruals</b>	<b>16</b>	<b>15 262</b>	<b>15 711</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>653 504</b>	<b>626 842</b>

**ZARDOYA OTIS, S.A.**

**INCOME STATEMENT FOR THE PERIODS ENDED NOVEMBER 30, 2017  
AND 2016**

(Thousands of euros - EThs)

<b>CONTINUING OPERATIONS</b>	<b>Note</b>	<b>2017</b>	<b>2016</b> (Restated)
<b>Net revenue</b>	20	<b>590 223</b>	<b>570 291</b>
Sales		327 465	301 289
Services rendered		262 758	269 002
<b>Work carried out by the company on its own assets</b>		<b>1 954</b>	<b>1 718</b>
<b>Raw materials and consumables used</b>	20	<b>(215 326)</b>	<b>(194 833)</b>
Goods consumed		(215 717)	(197 650)
Raw materials and other consumables used		391	2 817
<b>Other operating revenue</b>		<b>656</b>	<b>332</b>
Ancillary and other current management revenue		656	332
<b>Personnel costs</b>	20	<b>(170 582)</b>	<b>(167 169)</b>
Wages, salaries and similar		(125 428)	(123 278)
Employee welfare expenses		(43 176)	(42 513)
Provisions	18	(1 978)	(1 378)
<b>Other operating expenses</b>		<b>(40 963)</b>	<b>(44 244)</b>
External services	20	(40 516)	(44 137)
Taxes		(637)	(673)
Losses, impairment and changes in provisions for trading operations	8	190	566
<b>Amortization, depreciation and impairment of fixed assets</b>	5,6	<b>(13 031)</b>	<b>(14 267)</b>
<b>Impairment and gains/(losses) on disposals of fixed assets</b>		<b>116</b>	<b>999</b>
Gains on disposals and other		116	999
<b>OPERATING PROFIT</b>		<b>153 047</b>	<b>152 827</b>
<b>Financial income</b>		<b>39 570</b>	<b>40 311</b>
<b>Financial expenses</b>		<b>(612)</b>	<b>(559)</b>
<b>Foreign exchange differences</b>		<b>57</b>	<b>24</b>
<b>FINANCIAL PROFIT/(LOSS)</b>	22	<b>39 015</b>	<b>39 776</b>
<b>PROFIT BEFORE TAX</b>		<b>192 062</b>	<b>192 603</b>
<b>Income tax</b>	21	<b>(39 773)</b>	<b>(41 974)</b>
<b>PROFIT FOR THE PERIOD ON CONTINUING OPERATIONS</b>		<b>152 289</b>	<b>150 629</b>
<b>PROFIT FOR THE PERIOD</b>		<b>152 289</b>	<b>150 629</b>

## ZARDOYA OTIS, S.A.

### STATEMENT OF CHANGES IN EQUITY AT NOVEMBER 30, 2017 & 2016

#### A) STATEMENT OF RECOGNIZED INCOME AND EXPENSES AT NOVEMBER 30, 2017 & 2016

(Thousands of euros - EThs)

	Note	2017	2016 (Restated)
<b>Income statement</b>		<b>152 289</b>	<b>150 629</b>
<b>Income and expenses recognized directly in equity</b>	18	<b>3 013</b>	<b>(342)</b>
Actuarial gains and losses and other adjustments		3 013	(342)
<b>Transfers to income statement</b>			
Measurement of financial instruments			
- Other income / expenses			
<b>TOTAL RECOGNIZED INCOME AND EXPENSES</b>		<b>155 302</b>	<b>150 287</b>

## ZARDOYA OTIS, S.A.

### STATEMENT OF CHANGES IN EQUITY FOR THE PERIODS ENDED NOVEMBER 30, 2017 & 2016

#### B) STATEMENT OF CHANGES IN EQUITY FOR THE PERIODS ENDED NOVEMBER 30, 2017 & 2016

(Thousands of euros - EThs)

		Share capital	Share premium	Reserves	(Treasury stock)	Profit for period	(Interim dividend)	Adjustments for changes in value	Total
	<b>Nota</b>								
<b>Balance, end of 2015</b>		45 237	73 614	133 511	(92)	151 159	(73 160)	25 779	356 049
Adjustments for changes in accounting policies 2015				(17 475)					(17 475)
Adjustments for errors 2015									
<b>Adjusted balance, beginning 2016</b>		45 237	73 614	116 036	(92)	151 159	(73 160)	25 779	338 575
Total recognized income & expenses	14					150 629		(342)	150 287
Transactions with shareholders or owners									
- Capital increases	11	1 809		(1 809)					-
- Distribution of dividends	11						(110 008)		(110 008)
- Increase (reduction) in equity resulting from mergers	14			(453)	4 894				4 441
Partial cash distribution of share premium	14		(36 143)						(36 143)
- Other transactions with shareholders or owners					(5 293)				(5 293)
- Other transactions with shareholders or owners	12			135	491				626
Other changes in equity	11,13,1 4			41 810		(151 159)	109 349		-
<b>Balance, end of 2016</b>		47 046	37 472	155 719	-	150 629	(73 819)	25 437	342 484
Adjustments for changes in accounting policies 2017									
Adjustments for errors 2017									
<b>Adjusted balance, beginning 2017</b>		47 046	37 472	155 719	-	150 629	(73 819)	25 437	342 484
Total recognized income & expenses	14					152 289		3 013	155 302
Transactions with shareholders or owners									
- Capital increases	11								-
- Distribution of dividends	11						(112 911)		(112 911)
- Increase (reduction) in equity resulting from mergers, business combinations	14			3 130					3 130
Partial cash distribution of share premium	14		(37 166)						(37 166)
- Other transactions with shareholders or owners	12								
Other changes in equity	11,13,1 4			39 173		(150 629)	111 456		-
<b>Balance, end of 2017</b>		47 046	306	198 022	-	152 289	(75 274)	28 450	350 839

## ZARDOYA OTIS, S.A.

### STATEMENT OF CASH FLOWS FOR THE PERIODS ENDED NOVEMBER 30, 2017 AND 2016

(Thousands of Euros - EThs)

	Note	<u>2017</u>	<u>2016</u> (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax for the period		192 062	192 603
Adjustments to profit			
Amortization/depreciation	5,6	13 031	14 267
<b>Changes in working capital and other cash flows</b>			
Inventories	9	(19 927)	(4 807)
Dividends received	22	39 325	38 871
Financial income received	22	245	319
Financial expenses paid	22	(612)	(560)
Receivables	8	(37 330)	(44 602)
Payables	15	14 278	4 134
Corporate income tax payments	21	(32 027)	(41 743)
<b>Cash flows from operating activities</b>		<u><b>169 045</b></u>	<u><b>158 482</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Payments on investments:</b>			
Fixed assets	5,6	(7 990)	(21 848)
Cash from mergers	25	308	589
Asset disposal	6	2 334	1 250
<b>Proceeds on investments</b>			
<b>Cash flows from investing activities</b>		<u><b>(5 348)</b></u>	<u><b>(20 009)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Proceeds and payments on financial liability instruments:</b>			
Bank borrowings	7	(2)	(12)
Treasury stock acquisitions	12	-	(5 293)
Non-controlling share acquisitions	15	(1 891)	(2 677)
Borrowings from group companies	12	-	626
Dividends paid	14	(150 077)	(146 151)
<b>Cash flows from financing activities</b>		<u><b>(151 970)</b></u>	<u><b>(153 507)</b></u>
<b>NET INCREASE / DECREASE IN CASH OR CASH EQUIVALENTS</b>		<u><b>11 727</b></u>	<u><b>(15 034)</b></u>
Cash or cash equivalents at the beginning of the period	10	8 791	23 825
Cash or cash equivalents at the end of the period	10	20 518	8 791

## **ZARDOYA OTIS, S.A.**

### **NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED NOVEMBER 30, 2017**

(Thousands of euros - EThs)

#### **1. General information**

Zardoya Otis, S.A. (the "Company") was incorporated on May 9, 1934 as a corporation and has its registered office at Golfo de Salónica, 73, Madrid, where the effective centre of its administration and management is located.

Its corporate purpose, as described in article 4 of its Bylaws, consists of:

a) The manufacture, design and development, installation, repair, maintenance and sale of engines, elevators, goods elevators, platforms, escalators and moving walkways, vertical evacuation sleeves, cable cars, automatic doors and garage doors, irrespective of the use and characteristics thereof, the importation and exportation of machinery and equipment related to the foregoing, parts and components previously assembled or otherwise, and any equipment the purpose of which is to transport people or things. The construction and assembly of metallic structures, building works and other ancillary building items.

b) The administration, promotion and management of industrial, agricultural or service companies, together with the participation in already existing or newly-created companies, either through their governing bodies or by holding shares.

c) The activities that comprise the corporate purpose may be carried on by the Company indirectly, in full or in part, by means of holding interests in companies with an identical or analogous purpose.

United Technologies Holding S.A., incorporated in France, held a majority interest of 50.01% of the Company's shares at the end of the reporting period. Said company belongs to the UTC Group, incorporated in the United States of America (Notes 11 and 27). Zardoya Otis, S.A. is listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges.

These annual financial statements and the consolidated annual financial statements for the year ended November 30, 2017 were formulated by the Board of Directors on February 20, 2018 and are pending the approval of the General Shareholders' Meeting. Nevertheless, Management considers that the aforementioned annual financial statements will be approved as presented. These annual financial statements will be filed at the Madrid Companies Registry.

## 2. Bases of presentation

The annual financial statements have been prepared on the basis of the Company's accounting records and are presented in accordance with current mercantile legislation and the standards contained in the General Accounting Plan approved by Royal Decree 1514/2007, together with the amendments to the latter included in Royal Decree 1159/2010 and Royal Decree 602/2016, in order to show a true and fair view of the Company's equity, financial position and results, as well as the accuracy of the cash flows shown on the statement of cash flows. These financial statements show a true and fair view of the equity, the financial position at November 30, 2017, the results of the Company's operations, the changes in equity and the cash flows in the Company in the period ended at said date. Likewise, these annual financial statements were prepared under the going concern principle.

On the same date, the Company's Board of Directors approved the consolidated annual financial statements separately. In comparison with these individual financial statements, the consolidated assets, equity and profit for the period are, applying the criteria of International Financial Reporting Standards, as follows:

EThs	2017	2016
Total assets	713 371	709 550
Equity	440 992	437 576
Profit for period	153 487	153 445

On December 17, 2016, the Official State Gazette published Royal Decree 602/2016, which amended the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 of November 16; the General Chart of Accounts for Small and Medium-sized Companies, approved by Royal Decree 1515/2007 of November 16; the Rules on Preparation of the Consolidated Annual Financial Statements, approved by Royal Decree 1159/2010 of September 17; and the Rules on Adaptation of the General Chart of Accounts to Non-profit Entities, approved by Royal Decree 1491/2011 of October 24.

The content of this Royal Decree must be applied in the annual financial statements for reporting periods commencing on or after January 1, 2016. The Company has applied it to the reporting period commencing December 1, 2016.

The changes affect mainly the following items of these annual financial statements:

- a) Intangible assets (previously considered to have an indefinite useful life).
- b) Goodwill.

c) Reserve for goodwill.

The principal differences between the accounting and classification policies used in the 2016 reporting period and those applied in 2017 that have affected the Company are the following:

In accordance with point 2 of the Sole Transitional Provision and the Second Additional Provision of Royal Decree 602/2016, the Company has elected to calculate the effect of the change in the useful lives of intangible assets that were previously considered to have an indefinite useful life and, likewise, the goodwill as from the acquisition dates of these assets against reserves, including the reserve for goodwill, and adjusting the comparative information. This means that, with each one of the items on the statement of financial position, the income statement, the statement of changes in equity, the statement of cash flows and the notes to the annual financial statements, in addition to the figures for the 2017 reporting period, those for the preceding period are included, obtained by applying the alternative option contained in Royal Decree 602/2016. Consequently, the figures for these items in the preceding period differ from those contained in the annual financial statements approved for 2016, which were drawn up in accordance with the accounting policies and rules in force in said period.

For these purposes, in relation to goodwill or intangible assets with indefinite useful lives originating prior to the first application of the 2007 General Chart of Accounts, the acquisition date used in the calculation was December 1, 2008, at which time the amortization of these assets ceased, applying the equivalence option for the transition to General Chart of Accounts approved by Royal Decree 1514/2007 of November 16.

The amortization charge that results from applying this criterion to the initial value of the asset has been reduced by the impairment recognized since the acquisition date as from which the ten year period is calculated.

The changes to the comparative figures may be summarized as follows:

	2016 (*)	2016 (Restated)
Noncurrent assets	469 131	447 449
Total assets	648 524	626 842
Equity	364 166	343 484
Amortization of fixed assets	(10 060)	(14 267)
Profit for the period	154 836	150 629

(\*) Approved on February 21, 2017.

The preparation of annual financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.



The accounting estimates, in consequence, may be different to the final result of the circumstances assessed. These judgements and estimates are constantly reviewed and are based principally on historical experience and expectations of future events that are deemed reasonable.

### **Contracts in progress**

Contracts in progress are measured at the cost incurred plus the expected profit margin, based on the percentage of completion of the contract, in proportion to the difference between the total estimated cost and the contract price agreed upon with the customers. Said margin is reviewed in accordance with the actual progress of the work and the costs still to be incurred, by means of periodic re-estimations, so that the margin of profit or loss that will result at the end of the contracts will not differ substantially from the margins applied while the contracts were in progress.

### **Income tax and deferred tax assets**

Calculating income tax requires interpretations of the tax legislation applicable to the Company. Furthermore, there are several factors, linked principally, but not exclusively, to changes in the tax laws and changes in the interpretations of the tax laws currently in force, that require company Management to make estimates. Likewise, the Company evaluates the recoverability of deferred tax assets on the basis of the existence of future taxable income against which it will be possible to offset said assets. Deferred taxes are calculated on the basis of the temporary differences that arise between the tax bases of assets and liabilities and their carrying amounts in the annual financial statements. Deferred taxes are determined using tax rates that have been or are about to be approved at the date of the statement of financial position and are expected to apply when the related deferred tax asset is realized or deferred tax liability is settled. Deferred tax assets are recognized to the extent that it is likely that future taxable income will be available against which to offset the temporary differences and are reviewed in accordance with any legal changes or circumstances that may affect their recoverability.

### **Employee benefits**

The asset or liability recognized in the statement of financial position in relation to defined-benefit pension plans is the present value of the defined benefit obligations at the reporting date less the fair value of the assets attached to the plan, together with adjustments for unrecognized actuarial losses and gains and costs of past services. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

## **Estimated impairment loss on goodwill and intangible assets**

The Group tests the goodwill and the maintenance portfolios for impairment on an annual basis, to see whether there have been any losses, in accordance with the accounting policy described in Note 3 below. The recoverable amounts of the cash-generating units have been determined on the basis of calculations of their value in use. These calculations require the use of estimates.

## **Grouping of items**

To facilitate an understanding of the statement of financial position, income statement, statement of changes in equity and statement of cash flows, these statements are presented in groups, the required analysis being included in the Notes to the Financial Statements.

### **3. Accounting policies**

#### **3.1 Intangible assets**

##### **a) Goodwill**

Goodwill represents the amount by which the cost of the business combination exceeds the fair value of the net identifiable assets acquired in the transaction at the acquisition date. Consequently, goodwill is only recognized when it has been acquired in return for a consideration and relates to the future economic profits on assets that it has not been possible to identify individually and recognize separately.

Goodwill recognized separately is amortized over a life of ten years on a straight-line basis. Additionally, it is subject to annual impairment tests, being measured at cost less accumulated impairment losses. When the carrying amount of an asset is higher than its estimated recoverable amount, its value is immediately reduced to the recoverable amount. Impairment losses recognized in the goodwill are not reversed in subsequent years.

The goodwill is allocated to the Cash-Generating Units (CGUs) in order to test for impairment. The allocation is made to the CGUs that are expected to benefit from the business combination on which the goodwill arose. In this regard, since Company business constitutes a single integrated production process, Zardoya Otis, S.A. is considered a cash-generating unit since it is the smallest identifiable group of assets that

generates independent cash inflows.

b) Research and development costs

Research or development expenses incurred in a project are recognized as an expense when incurred. Development costs previously recognized as an expense are not recognized as an asset in a later period.

c) Maintenance contracts and other related intangible assets

This item includes principally the amounts relating to the cost of taking over elevator maintenance contracts that are acquired either directly as a contract portfolio or within an overall business combination. It is amortized on a straight-line basis over a term considered equivalent to an estimated useful life of between 10 and 20 years, depending on the characteristics of the portfolio. Impairment testing is carried out regularly whenever there are factors that indicate a possible impairment loss.

Trademarks and other agreements derived from the acquisition of maintenance portfolios are presented at their historical cost. They have a defined useful life and their carrying amount is acquisition cost less accumulated amortization.

### **3.2 Property, plant and equipment**

The items classified as property, plant and equipment are recognized at their acquisition price or production cost less the accumulated depreciation and the accumulated amount of any losses recognized.

The costs of expanding, modernizing or improving property, plant and equipment are capitalized when they represent an increase in capacity or productivity or a lengthening of the asset's useful life.

Costs of major repairs are capitalized and are depreciated over their estimated useful lives, while recurring maintenance expenses are charged to the income statement in the year in which they are incurred.

The depreciation of property, plant and equipment, with the exception of land, which is not depreciated, is calculated using the straight-line method in accordance with the estimated useful lives, taking any impairment actually suffered as a result of operation, use and enjoyment into account. The estimated useful lives are:

	Years of estimated useful life
Buildings	33
Machinery and tools	8,10,13 & 4
Furniture, accessories and equipment	10, 4 & 13
Transport fleet	5 & 6

The residual value and useful life of the assets are reviewed at each reporting date and adjusted if necessary.

When the carrying amount of an asset is higher than its estimated recoverable amount, its value is immediately reduced to its recoverable amount.

Losses and gains on sales of property, plant and equipment are measured by comparing the proceeds from the sale with the carrying amount and are recorded in to the income statement.

### **3.3 Impairment losses on non-financial assets**

Assets that are amortized are tested for impairment when any event or change in circumstances indicates that their carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, defined as the higher of the fair value of the asset or its value in use. To measure impairment losses, assets are grouped at the lowest level with identifiable separate cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed at each reporting date to see whether the loss has reversed.

### **3.4 Financial assets**

#### **a) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included in current assets, except for maturities longer than 12 months after the reporting date, which are classified as noncurrent assets. Loans and receivables are included in “Credits to group companies” and “Trade and other receivables” on the statement of financial position.

These financial assets are initially measured at their fair value, including any transaction costs that can be directly allocated to them, and subsequently at their amortized cost, recognizing the interest accrued in

accordance with the effective interest rate, defined as the discount rate that makes the carrying value of the instrument equal to the totality of its estimated cash flows until maturity. Notwithstanding the foregoing, credits for trading operations maturing at no more than one year are measured, both when initially recognized and subsequently, at their face value, provided that the effect of discounting the flows is not significant.

At each reporting date, the necessary impairment losses are recognized if there is objective evidence that not all the amounts owing will be collected. The amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate at the time of initial recognition. The impairment losses and, if applicable, the reversal thereof, are recognized in the income statement.

Financial assets are removed from the statement of financial position when all the risks and rewards of ownership of the asset are transferred. In the specific case of receivables, this is deemed to take place, in general, when the risks of late or non-payment have been transferred and financial institution finances the amount directly to the customer.

b) Investments in the equity of group companies

These are measured at their cost less, if applicable, the accumulated amount of all the impairment adjustments. Notwithstanding, when there had been an investment before the company was classified as a group company, the cost of the investment is considered to be its carrying amount before the classification as a group company. Previous impairment losses recognized directly in the equity remain there until they are de-recognized.

If there is objective evidence that the carrying amount is not recoverable, the relevant impairment loss is recognized for the difference between the carrying amount and the recoverable amount, defined as the higher of the fair value less selling costs and the present value of the cash flows derived from the investment. Unless there is other evidence of the recoverable amount, the equity of the company in which the investment is held, adjusted by any tacit capital gains that may exist at the measurement date, is used when estimating the impairment of these investments. The impairment loss and, if applicable, the reversal thereof, are recognized in the income statement of the period in which they take place.

### **3.5 Inventories**

#### a) Inventories

These are measured at the lower of market value and average acquisition or manufacturing cost, which includes any costs directly allocable to the product and the relevant part of the indirect costs allocable to the products in question, to the extent that said costs relate to the manufacturing period.

When the net realizable value of the inventories is lower than their costs, the relevant adjustments to their value will be made and recognized in the income statement. If the circumstances that caused the value adjustment cease to exist, the adjustment is reversed and recognized as revenue in the income statement.

#### b) Cost in progress

Cost in progress contracts are measured by adding the expected profit margin to the cost incurred. The former is obtained in accordance with the percentage of completion of the work in progress, in proportion to the estimated total cost and the selling price contractually agreed with the customers.

### **3.6 Advance billing**

This relates to the billing issued to customers in accordance with their contractual conditions when the work has not yet been completed.

### **3.7 Equity**

The share capital is represented by ordinary shares. The costs of share issuance are presented directly against equity as a decrease in the reserves.

The share premium reserve account corresponds to freely-available reserves.

As a general rule, unless there is a more reliable measurement, the fair value of the equity instruments or financial liabilities issued in consideration of a business combination will be their quoted price if said instruments are listed on an active market.

When treasury shares are acquired, the consideration paid, including any directly allocable incremental cost, is deducted from the equity until the shares are written off, reissued or sold. When these shares are sold or subsequently reissued, any amount received, net of any directly-allocable incremental

transaction cost, it is included in equity.

### **3.8 Financial liabilities**

The debts and payables heading includes debits for trading operations and debits for non-trading operations. These debts are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the reporting date.

These debts are initially recognized at their fair value adjusted by directly-allocable transaction costs and subsequently recorded at their amortized cost using the effective interest rate method. Said effective interest rate is the discount rate that makes the carrying amount of the instrument equal to the flow of future payments expected until the liability matures.

Notwithstanding the foregoing, debits for trading operations that mature at no more than one year and that do not have a contractual interest rate are measured, both initially and subsequently, at their face value when the effect of not discounting the cash flows is not significant.

### **3.9 Current and deferred taxes**

The income tax expense is the amount that is accrued in the period for this item and includes both the current and deferred tax expense. It is recorded in the income statement. Notwithstanding, the tax effect relating to items that are recognized directly in equity is recorded in equity.

Current tax assets and liabilities are measured as the amounts it is expected to pay to or recover from the tax authorities under the current legislation or any legislation that has been approved but not yet published at the reporting date.

Deferred taxes are measured, in accordance with the liability method, on the temporary differences that arise between the tax bases of the assets and liabilities and their carrying amounts. However, if the deferred taxes arise from the initial recognition of an asset or liability in a transaction other than a business combination that, at the moment of the transaction, does not affect either the accounting profit or loss or the tax base, they are not recognized. Deferred tax is measured by applying the legislation and tax rates that are approved or about to be approved at the reporting date and that are expected to be applicable when the relevant deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is like that there will be future tax profits against which the temporary differences may be offset.

### **3.10 Provisions and contingent liabilities**

Provisions are recognized when the Company has a legal or constructive current obligation as the result of past events, it is likely that an outflow of resources will be necessary to settle the obligation and the amount can be estimated reliably.

Provisions are measured as the present value of the payments that are expected to be necessary to settle the obligation using a before-tax rate that reflects the present market's estimates of the time value of money and the specific risks of the obligation. Adjustments to the provision to update it are recognized as financial expenses when accrued.

Provisions maturing at one year or less with an insignificant financial effect are not discounted.

When it is expected that part of the payment necessary to settle a provision will be reimbursed by a third party, the reimbursement is recognized as an independent asset, provided that it is almost certain to be received.

Possible obligations arising as a consequence of past events the materialization of which depends on whether, irrespective of the Company's wishes, one or more future events occur, are considered contingent liabilities. These contingent liabilities are not accounted for, although details thereof are presented in the Notes.

### **3.11 Business combinations**

In business combinations originating from the acquisition of shares in the capital of a company, the Company recognizes the investment as established for investments in the equity of group companies (Note 3.4.b).

In the case of business combinations arising from the acquisition of all the assets and liabilities of a company -or of a part thereof that forms one or more businesses- and operations of merger, spin-off and/or non-monetary contribution of a business, they are recorded in accordance with the acquisition method. If merger or spin-off transactions between group companies exist, they are recorded as established for transactions between related parties (Note 3.14).



### **3.12 Revenue recognition**

- a) Revenue from the installation, assembly of elevators and exports

Sales are recognized in accordance with the estimated percentage of completion of the work, making the necessary adjustments by means of regular re-estimations, so that the profit or loss margins that will exist when the contracts end do not differ substantially from the margins applied while the contracts are current.

- b) Revenue from the rendering of maintenance service

Revenue from maintenance contracts is recognized on a straight-line basis as accrued. Billing may be monthly, quarterly, six-monthly or annually, depending on the conditions in the contracts signed with the customers, generating, if applicable, the accounting entries required to recognize advance billing.

- c) Revenue from interest

Revenue from interest is recognized using the effective interest rate method. Revenue from interest on loans that have suffered impairment losses is recognized using the effective interest rate method.

- d) Revenue from dividends

Revenue from dividends is recognized as revenue in the income statement when the right to receive the proceeds is established. Notwithstanding the foregoing, if the dividends paid come from profits generated prior to the acquisition date, they are not recognized as income and reduce the carrying amount of the investment.

### **3.13 Leases**

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement in the period in which they accrue on a straight-line basis over the period of the lease.

### **3.14 Related-party transactions**

In general, transactions between group companies are initially recognized at their fair value. When applicable, if the agreed price differs from the fair value, the difference is recognized in accordance with the true economic characteristics of the transaction. They are subsequently measured in

accordance with the provisions of the applicable standards.

Notwithstanding the foregoing, in transactions of merger, spin-off or non-monetary contribution of a business, the Company applies the following criterion:

- a) In transactions between group companies in which the parent company and its subsidiary are involved directly or indirectly, the elements that form the business acquired are measured at the amount at which they are stated in the consolidated annual financial statements of the group or subgroup.
- b) When the parent company of the group or subgroup and its subsidiary are not involved, the annual financial statements to be used are those of the largest group or subgroup with a Spanish parent in which the elements that form the business are included.

Any difference that may arise in either of these cases is recognized in the reserves.

### **3.15 Welfare commitments**

These are the welfare commitments acquired with current or retired employees, which are in all cases complementary to those provided by the Social Security.

According to Royal Decree 1588/1999, which approved the Implementing Regulation on Pension Commitments between companies and employees, pension commitments acquired by companies must be externalized through a group life insurance policy or an employment system pension plan or both. In accordance with the amendment introduced by Law 14/2000 concerning the transitional period for the formalization or adaptation of the aforementioned, on November 7, 2002 and November 14, 2002, respectively, the Company signed, with two insurance companies, the framework agreements regulating the technical, economic and legal conditions of group life insurance policies to arrange the pension commitments acquired by the company with its current and retired employees. In December 2011, Zardoya Otis, SA made the last payment for the financing of the aforementioned framework agreement.

The net liability or asset recognized in the statement of financial position in respect of the future payment commitments acquired by the Company in relation to the payment of supplements, other retirement benefits and life insurance premiums in accordance with the benefits agreed by the Company is the present value of the obligations at the reporting date less the fair value of the assets attached to the plan, together with adjustments for unrecognized

actuarial losses and gains and costs for past services. The defined benefit obligation is measured annually by independent actuaries using the projected unit credit method.

Any variation in the calculation of the present value of the remuneration commitments or, if applicable, the assets attached to the plan at the reporting date due to actuarial gains and losses is recognized directly in equity, as reserves, in the period in which it arises. For these purposes, the gains or losses are solely any variations that arise from changes in actuarial assumptions or experience adjustments.

At November 30, 2017, the actuarial calculations were updated using financial/actuarial assumptions that included an discount rate of between 1.50% and 2.15% per year (between 1.30% and 2.77% in 2016), mortality tables PERMF 2000P in both 2017 and 2016, and income growth tables in line with the normal practice in the environment. Likewise, in 2017 and 2016, the actuarial calculations considered an estimated retirement age of between 65 and 67 years for the commitments.

There is also a defined-contribution plan, the annual contributions of which form part of employee benefit expenses.

As stated in Note 27, there are benefits for certain Company executives that depend on their performance and the attainment of joint objectives of Zardoya Otis, Otis and United Technologies Corporation (UTC), based on the UTC long-term incentive plan, which includes UTC share-based compensation schemes. The cost is included under the employee benefit expense heading, generating a credit account with UTC Group companies (presented as other provisions in the statement of financial position).

### **3.16 Severance payments**

The Company recognizes these benefits when it has made a demonstrable commitment in accordance with a detailed formal plan with no possibility of withdrawal. Benefits that will not be paid in the twelve months following the reporting date are discounted back to their present value.

### **3.17 Foreign currency transactions**

- a) Functional and presentation currency

The Company's annual financial statements are presented in euros, which is the Company's presentation and functional currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency losses and gains resulting from settlement of these transactions and conversion of monetary assets and liabilities denominated in foreign currencies at year-end rates are recognized in the income statement, unless they are deferred in the equity, such as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items such as equity instruments held at fair value through profit and loss are presented as part of the gain or loss in the fair value. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in equity.

### **3.18 Joint ventures**

The Company recognizes the proportional part it holds in the jointly-controlled assets and jointly-incurred liabilities in accordance with its percentage interest, as well as the assets attached to the joint venture that are under its control and the liabilities incurred as a result of the joint venture.

Likewise, the applicable portion of the revenue generated and expenses incurred by the joint venture is recognized in the income statement. Additionally, expenses incurred in relation to the interest in the joint venture are recognized.

Unrealized gains or losses that arise on reciprocal transactions are eliminated in proportion to the interest held, as are the amounts of reciprocal assets, liabilities, revenues, expenses and cash flows.

## **4. Financial risk management**

### **4.1 Financial risk factors**

The Company's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Company's global risk management program is focused on the uncertainty of the financial markets and tries to minimize potential negative effects on the Company's financial profitability.

Risk management is controlled by Company Management in accordance with policies approved by the Board of Directors. Management assesses and

hedges the financial risks in close collaboration with the operating units of the rest of the Group in order to:

- Ensure that the most important risks are identified, assessed and managed.
- Ensure an appropriate operating segregation of the risk management functions.
- Ensure that the risk exposure level accepted by the Company in its operations is in line with the risk profile.

a) Market risk

(i) Foreign exchange

The Company operates internationally and, therefore, is occasionally exposed to foreign exchange risk, principally on transactions in US Dollars. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. However, said transactions are not significant and the effect of a change in the interest rate would not have a material effect on the financial reporting at November 30, 2017.

To control the foreign exchange risk on significant future commercial transactions for the import of materials, the Company uses forward contracts negotiated with the UTC Group Treasury Center.

As the parent company of Otis Maroc, S.A., whose registered office is in Morocco, the Company has considered the risk arising from possible future fluctuations in the euro/dirham exchange rate, which would affect future cash flows related to any dividends that said company might distribute.

In relation to commercial export and/or import transactions, the Company is exposed to an insignificant foreign exchange risk. At November 30, 2017, there were balances payable in foreign currencies other than the euro the equivalent value of which is euros was EThs 879 (EThs 754 in 2016). There were no receivable balances in currencies other than the euro.

(ii) Price risk

The Company has limited exposure to price risk for quoted raw materials.

Additionally, the Company does not hold investments in companies

outside the Group and, therefore, is not exposed to securities price risk.

(iii) Cash flow interest rate risk and fair value interest rate risk

As the Company does not hold significant remunerated assets, the revenues and cash flows from its operating activities are fairly independent of market interest rate fluctuations.

The Company's interest rate risk arises on long-term borrowings at variable interest rates, the interest rates applied to the loans from financial institutions being subject to the fluctuations of the Euribor.

As stated in Note 7, at the 2017 and 2016 reporting dates, the Company did not hold any borrowings at a fixed interest rate.

b) Credit risk

The Company has no significant risk concentrations with customers and there are no significant old credit balances (Note 8). The Company has policies in place to ensure that installation sales are made to customers with appropriate credit histories and, in addition, regular debt-monitoring procedures are conducted by the departments involved in debt collection.

The Company has policies in place to limit the amount of risk with any one financial institution. The credit risk arises from cash and cash equivalents, financial instruments, deposits with financial institutions, debt available for sale and accounts receivable. The banks and financial institutions with which the Group works are of recognized prestige and currently hold high credit ratings in the market.

The amounts of trade receivables are shown in the statement of financial position net of the provision for impairment. At November 30, 2017, said provision was EThs 51 408 (EThs 54 339 in 2016) (Note 8). The Company estimates the provisions required in accordance with the age of the debt and experience in earlier years, in line with the previous segregation of the customer portfolio and the current economic environment. According to said analysis, financial assets aged over six months but not deemed to be impaired at November 30, 2017 and 2016 were as follows:

	2017	2016
Between 6 months and 1 year	5 328	4 347
Between one and two years	1 152	1 377
More than two years	-	-
EThs	6 480	5 724

Amounts receivable for exports relate to balances with related companies (Otis Group) and the amounts shown as trade receivables, trade bills receivable and accounts with Zardoya Group companies relate principally to transactions carried out in national territory, for which the Company has assessed the credit capacity of each one of the debtors.

As stated in Note 10, at November 30, 2017 and 2016, the Company did not hold any current deposits with financial institutions.

c) Liquidity risk

Conservative liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. In this respect, the group Treasury Department aims to maintain flexibility in funding by keeping committed credit lines available.

The Company monitors the capital on the basis of the leverage ratio. This ratio is calculated by dividing the net debt by the total capital. The net debt is calculated as total borrowings less cash and cash equivalents. The total capital is calculated as the equity on the statement of financial position plus the net debt.

At November 30, 2017, cash and cash equivalents represented EThs 20 518 (EThs 8 791 in 2016), including amounts held as cash, in Banks and as current deposits with financial institutions.

The change in the Statement of Cash Flows in relation to operating, investing and financing activities is shown below:

	2017	2016
Cash at the beginning of the period	8 791	23 825
Cash flows from operating activities	169 045	158 482
Cash flows from investing activities	(5 348)	(20 009)
Cash flows from financing activities	(151 970)	(153 507)
Cash at the end of the period	20 518	8 791

d) Capital risk

The objective of the Company and its subsidiaries in relation to capital management is to ensure a financial structure that optimizes the cost of capital and maintains the financial position and to be able to make the creation of value for the shareholders compatible with the cost of covering financial needs.

Zardoya Otis, S.A. considers leverage as a capital management indicator. It is calculated by dividing the net debt by the total capital. The net debt is calculated as total bank borrowings less cash and cash equivalents. The total capital is calculated as the equity on the statement of financial position plus the net debt.

	2017	2016
Debt with financial institutions (current and noncurrent)	155	155
Other financial liabilities (current and noncurrent)	1 135	4 467
Cash and cash equivalents	(20 518)	(8 791)
Other current financial assets	(143)	(775)
Net financial debt	(19 371)	(4 944)
Equity	350 839	342 484
Leverage (*)	-5,52%	-1,44%

(\*) (Net financial debt / (Net financial debt + Equity))

At November 30, 2017, this net financial debt represented -0.12 of EBITDA (-0.03 in 2016). (EBITDA: operating profit + amortization/depreciation + impairment of investments in Group companies).



## 4.2 Estimation of fair value

The carrying amounts of the credits and debits arising from commercial transactions are assumed to be similar to their fair values. The fair value of the financial liabilities is estimated, for the purposes of presenting financial information, by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

## 5. Intangible assets

Details of the items included in “Intangible assets” and the movement on these items are as follows:

	Maintenance contracts	Goodwill	Other intangible assets	Total
Cost	50 653	36 110	8 122	94 885
Accumulated amortization	(21 809)	(25 277)	(2 757)	(23 970)
<b>Balance at November 30, 2015</b>	<b>28 844</b>	<b>10 833</b>	<b>5 365</b>	<b>45 042</b>
Other additions	793	-	1 718	2 511
Provision for amortization	(2 878)	(3 611)	(2 314)	(8 803)
<b>Net carrying amount</b>	<b>26 759</b>	<b>7 222</b>	<b>4 769</b>	<b>38 750</b>
Cost	51 446	36 110	7 679	95 235
Accumulated amortization	(24 687)	(28 888)	(2 910)	(56 485)
<b>Balance at November 30, 2016</b>	<b>26 759</b>	<b>7 222</b>	<b>4 769</b>	<b>38 750</b>
Other additions	697	-	1 957	2 654
Retirements	(70)	-	-	(70)
Provision for amortization	(2 911)	(3 611)	(2 553)	(9 075)
<b>Net carrying amount</b>	<b>24 475</b>	<b>3 611</b>	<b>4 173</b>	<b>32 259</b>
Cost	52 073	36 110	7 918	96 101
Accumulated amortization	(27 598)	(32 499)	(3 745)	(63 842)
<b>Balance at November 30, 2017</b>	<b>24 475</b>	<b>3 611</b>	<b>4 173</b>	<b>32 259</b>

### a) Goodwill

Details of goodwill are as follows:

	Period	Carrying amount 2017	Carrying amount 2018
Sadet y Huesca	2000	45	89
Elevamar	2001	37	73
Gonzalo	2002	31	62
Artzai	2002	23	46
Valenciana de Ascensores S.L.	2004	63	125

Manelso S.L.	2007	348	695
De Vega S.A.	2008	1 646	3 292
Ascensores Saez S.L.	2008	764	1 530
Jobensa S.L.	2009	127	254
Ascensores Vascos S.L.	2009	115	232
Técnicos de Ascensores Reunidos S.A.	2009	263	526
Ascensores González S.L.	2009	149	298
TOTAL		3 611	7 222

The recoverable amount of an acquisition is determined by comparison with calculations of the value in use. These calculations use cash flow projections for a 5-year period.

The key assumptions used to measure the value in use are:

- Cash flows: they are measured on the basis of the gross margin, which, in turn, is estimated on the basis on past performance and expectations of future evolution, consistently with the evolution expected within the Group.
- Growth rate: up to maximum of 2.9%. The growth rate employed for the projection subsequent to the period under consideration is 2%, in line with the rate used in similar industries for the countries in which the Group operates.
- Discount rate: around 6.01% (6.50% in 2016), it is revised annually and applied to the pre-tax cash flows.

In 2017 and 2016, the impairment tests conducted did not give rise to any losses that should be recognized in the accounts.

b) Maintenance contracts

Details of maintenance contracts acquired are as follows:

	Period	Net carrying amount 2017	Net carrying amount 2016
Zergonsa	2006	-	114
Aspe – Las Palmas	2007	393	588
Omega Sur:	2008	594	764
Ascensores Vascos.	2009	3 873	4 248
Jobensa	2009	1 302	1 560
Grupo Lagi	2009	5 441	6 091
Técnicos de Ascensores Reunidos S.A.	2009	6 094	6 620
Ascensores González S.L.	2009	5 093	5 517
Aspe – Ibiza	2010	427	511
Arrazola / Jeysan / SLV3	2016	561	746
Hemen	2017	697	-
TOTAL		24 475	26 759

The useful lives of these contracts are estimated at between 10 and 20 years and their value is amortized on a straight-line basis over said period. The amortization charge in the period 2017 was EThs 2 911 (EThs 2 878 in 2016). As of November, 30, 2017, the original cost of these portfolios was 52 073 (EThs 51 446 in 2016)

c) Other intangible assets with indefinite useful lives

In 2015, the company Grupo Ascensores Enor, S.A. was merged by absorption. Said company was dissolved without liquidation and the totality of its equity was transferred en bloc to the absorbing company, Zardoya Otis, S.A. Other intangible assets include the market value of the trademark Enor for EThs 5 961 (EThs 5 961 in 2016) and the carrying amount of EThs 4 173 (EThs 4 769 in 2016).

## 6. Property, plant and equipment

Details of the items included in property, plant and equipment and movement on these items are as follows:

	Land and buildings	Machinery	Furniture, accessories & equipment	Total
Cost	53 467	34 583	52 621	140 671
Accumulated depreciation	(9 363)	(27 267)	(46 206)	(82 836)
<b>Balance at November 30, 2015</b>	<b>44 104</b>	<b>7 316</b>	<b>6 415</b>	<b>57 835</b>
Additions	3 838	1 562	231	5 631
Merger (Note 25)	-		16	16
Retirements	(242)	(1 914)	(306)	(2 462)
Provision for depreciation	(1 706)	(2 059)	(1 700)	(5 464)
Derecognition of depreciation	141	1 652	278	2 071
	2 031	(759)	(1 481)	(209)
Cost	57 063	34 231	52 562	143 856
Accumulated depreciation	(10 928)	(27 674)	(47 628)	(86 230)
<b>Balance at November 30, 2016</b>	<b>46 135</b>	<b>6 557</b>	<b>4 934</b>	<b>57 626</b>
Additions	58	1 544	1 647	3 249
Merger (Note 25)		756		756
Retirements	(1 336)	(14 309)	(7 552)	(23 197)
Provision for depreciation	(918)	(1 867)	(1 171)	(3 957)
Derecognition of depreciation	1 336	14 309	7 552	23 197
Other movements			(169)	(169)
Cost	55 785	22 222	46 657	124 664
Accumulated depreciation	(10 510)	(15 232)	(41 416)	(67 158)
<b>Balance at Nov. 30, 2017</b>	<b>45 275</b>	<b>6 990</b>	<b>5 241</b>	<b>57 506</b>

### a) Impairment losses

In the years 2017 and 2016, no significant impairment losses were recognized or reversed for any individual item of property, plant and equipment.

### b) Revaluations carried out under Royal Decree-Law 7/1996 of June 7

In its annual financial statements as of November 30, 1996, the Company restated its balances in accordance with Royal Decree-Law 7/1996, giving rise to a net value increase of EThs 4 056 in the Company's property, plant and equipment. The total amount of the restatement is shown in the accounts, as provided for in Royal Decree-Law 7/1996, as an increase in the value of the

restated assets, with its balancing item in the revaluation reserve account, net of the applicable taxes, for an amount of EThs 3 934.

At November 30, 2017, the aforementioned restatement had an impact of EThs 269 (EThs 288 in 2016) on the net carrying amount of property, plant and equipment. Consequently, the effect of this restatement on the provision for the year 2017 was EThs 19 (EThs 19 in 2016).

c) Fully-depreciated assets

At November 30, 2017 and 2016, the following items of property, plant of equipment had been fully depreciated but were still in use:

	2017	2016
Buildings	4 351	3 363
Plant and machinery	24 034	23 661
Other installation, tools and furniture	14 870	18 705
Other items of PPE	10 657	15 938
EThs	53 912	61 667

d) Insurance

It is the Company's policy to take out all the insurance policies deemed necessary to cover any possible risks which could affect, among other items, the property, plant and equipment.

e) Acquisition commitments

As of November 30, 2017, there were firm purchase commitments for the acquisition of property, plant and equipment for an amount of EThs 2 729 (EThs 335 in 2016), EThs 714 of which had been settled in advance (EThs 188 in 2016).

## 7. Analysis of financial instruments

### 7.1 Analysis by category

The carrying amount of each one of the categories of financial instruments established in the rules on recognizing and measuring “financial instruments, except for investments in the equity of group companies” (Note 7.3) was as follows:

Financial assets	2017		2016	
	Equity instruments	Credits, derivatives, other	Equity instruments	Credits, derivatives, other
Noncurrent:				
Loans & receivables (Note 8)		3 444		3 897
Other	24	555	24	559
<b>TOTAL</b>	<b>24</b>	<b>3 999</b>	<b>24</b>	<b>4 456</b>
Current				
Trade & other receivables (Note 8)	-	109 513	-	103 677
Credits to Group companies (Note 8)	-	-	-	-
Cash & cash equivalents (Note 10)	-	20 518	-	8 791
Other	-	143	-	775
<b>TOTAL</b>	<b>-</b>	<b>130 174</b>	<b>-</b>	<b>113 243</b>

Financial liabilities	2017		2016	
	Debt with financial institutions	Derivatives Other	Debt with financial institutions	Derivatives Other
Noncurrent				
Debits and payables (Note 15)	-	953	-	922
Borrowings from financial institutions (Note 7)	-	-	-	-
Loans from Group companies (Notes 15 & 27)	-	37 031	-	28 006
<b>TOTAL</b>	<b>-</b>	<b>37 984</b>	<b>-</b>	<b>28 928</b>
Current				
Debits & payables (Note 15)	-	147 223	-	129 753
Borrowings from financial institutions (Note 7)	155	-	155	-
Debt with Group companies (Notes 15 & 27)	-	69 493	-	77 171
Other	-	169	-	169
<b>TOTAL</b>	<b>155</b>	<b>216 185</b>	<b>155</b>	<b>207 093</b>

## 7.2 Analysis by maturity

The noncurrent financial assets include trade bills receivable maturing at more than one year, which total EThs 3 444 (EThs 3 897 in 2016). Details by year of maturity are as follows:

	2017	2016
At two years	3 440	3 194
At three years	207	659
At more than 3 years	15	44
EThs	3 444	3 897

Financial liabilities include current and noncurrent debt for business combination commitments with the following maturities:

Period 2017	Current	Noncurrent		
		2019	2020	Total
Acquisitions prior to 2017	691	444	-	444
Acquisitions 2017		-	-	-
Total	691	444	-	444

Period 2016	Current	Noncurrent		
		2018	2019	Total
Acquisitions prior to 2016	3 700	360	-	360
Acquisitions 2016	407	-	-	-
Total	4 107	360	-	360

At November 30, 2017 and 2016, the carrying amount of current borrowings from financial institutions was equal to their fair value, since the impact of applying a discount was not significant.

Period 2017	Current	Non-current		
		2018	2019	Total
Borrowings from financial institutions	155	-	-	-
Total	155	-	-	-

Period 2016	Current	Non-current		
		2018	2019	Total
Borrowings from financial institutions	155	-	-	-
Total	155	-	-	-

As of November 30, 2017, there were financial assets (collection rights from customers) of EThs 32 540 (EThs 23 212 in 2016) that had been derecognized from the statement of financial position because the risks of late or non-payment had been transferred.

### 7.3 Holdings in Group companies

#### 2017:

On March 7, 2017, Zardoya Otis, S.A. acquired 7.23% of shares in the subsidiary Electromecánica Hemen Elevadores, S.L. from non-controlling interests. This transaction meant that the percentage held by Zardoya Otis, S.A. in Hemen Elevadores, S.L. changed, rising from 92.77% to 100%.

On May 17, 2017, Zardoya Otis, S.A. acquired 2.19% of the shares in the subsidiary Acresca Cardellach, S.L. from non-controlling interests. This transaction meant a change in Zardoya Otis, S.A.'s holding in Acresca Cardellach, S.L., which rose from 94.57% to 96.76%.

Also during 2017, the Company sold Ascensores Castalia S.L., which was acquired by the subsidiary Ascensores Pertor, S.L. This transaction did not imply any change in the consolidated group of which Zardoya Otis, S.A. is the parent.

#### 2016:

On February 25, 2016, the subsidiary Otis Elevadores, Lda. increased its capital through a non-monetary contribution whereby Zardoya Otis, S.A. contributed its shareholding in Enor – Elevacao e Equipamentos Industriales, Lda. for a value of EThs 19 916.

On March 22, 2016, the Board of Directors of Zardoya Otis, S.A. and the Administrator of Admotion, S.L.U. (Admotion) approved a merger project. At the end of 2016, the company Admotion was dissolved but not liquidated and the totality of its equity was transferred to Zardoya Otis, S.A., the absorbing company, which held 100% of its shares.

In addition, on March 22, 2016, the Board of Directors of Zardoya Otis, S.A. and the Administrator of Ascensores Eguren, S.A.U. (Eguren) approved a



merger project. At the end of the 2016 reporting period, Eguren was dissolved but not liquidated and the totality of its equity was transferred to Zardoya Otis, S.A., the absorbing company, which held 100% of its shares.

During the period 2016, the Company acquired Ascensores Castalia S.L., engaged in the maintenance and repair of elevators in Spain. This acquisition was carried out through a share exchange, using the treasury shares held by Zardoya Otis, S.A. at the transaction date.

On June 16, 2016, Zardoya Otis, S.A. acquired 4.66% of the shares of Puertas Automáticas Portis, S.L. from non-controlling interests. This transaction led to a change in the percentage held by Zardoya Otis, S.A. in Puertas Automáticas Portis, S.A., which rose from 95.36% to 100%.

On September 6, 2016, the subsidiary Ascensores Ingar, S.A. increased its capital by EThs 10 903. The new shares in the company and the related share premium were fully subscribed and paid up by Zardoya Otis, S.A. in cash.

Holdings in group companies are represented by the Company's investments in the following companies:

November 30, 2017								
Company	Registered office	Percentage direct or indirect holding or voting rights	Carrying amount of holding	Provision for impairment	Capital	Reser-ves	Net profit/(loss) for period	Dividends received in period (Note 22)
Ascensores Ingar, S.A.	Granada	100	15 936	1 630	1 000	9 965	425	-
Cruxent – Edelma S.L.	Barcelona	100	26 505	-	120	13 295	1 643	1 465
Ascensores Serra, S.A.	Gerona	75	605	-	240	1 158	1 946	1 399
Otis Elevadores, Lda.	Portugal	100	31 658	-	21 241	39 849	14 831	14 809
Ascensores Pertor, S.L.	Valencia	94,13	17 393	-	51	13 484	2 236	3 127
Acreca Cardellach, S.L.	Barcelona	96,76	19 515	-	10 808	24 620	2 898	2 867
Puertas Automáticas Portis, S.L.	Madrid	100	18 977	-	336	18 669	2 515	3 090
Zardoya Otis (Gibraltar) Limited.	Gibraltar	100	-	-	1	-	41	-
Conservación de Aparatos Elevadores Express, S.L.	Madrid	100	1 771	-	1 771	11 043	2 843	2 334
Otis Maroc, S.A.	Morocco	100	21 949	1 983	330	4 965	1 404	915
Montes Tallón S.A.	Alicante	52	16 716	5 893	97	7 245	29	-
Ascensores Enor, S.A.	Pontevedra	100	117 100	-	2 661	16 009	7 373	6 786
Electromecánica del Noroeste, S.A.	Pontevedra	100	16 525	-	1 000	15 323	84	-
Electromecánica Hemen Elevadores, S.L.	Vitoria	100	10 790	-	4	2 869	1 057	774
Ascensores Aspe, S.A.	Balearic Islands	100	10 234	-	205	1 812	413	1 759
EThs			325 674	9 506				39 325

November 30, 2017

Company	Registered office	Percentage direct or indirect holding or voting rights	Carrying amount of holding	Provision for impairment	Capital	Reser-ves	Net profit/(loss) for period	Dividends received in period Note 22
Ascensores Ingar, S.A.	Granada	100	15 936	1 630	1 000	9 161	(429)	-
Cruxent – Edelma S.L.	Barcelona	100	26 505	-	120	14 644	1 834	1 788
Ascensores Serra, S.A.	Gerona	75	605	-	240	1 158	1 865	1 508
Mototracción Eléctrica Latierro, S.A.	Vitoria	100	4 073	-	313	6 389	500	-
Otis Elevadores, Lda.	Portugal	100	31 658	-	21 241	38 027	15 214	19 964
Ascensores Pertor, S.L.	Valencia	94,13	17 393	-	51	18 834	2 329	2 811
Acresa Cardellach, S.L.	Barcelona	94,57	18 025	-	10 808	27 733	3 378	2 418
Puertas Automáticas Portis, S.L.	Madrid	100	18 977	-	336	25 973	2 340	1 036
Zardoya Otis (Gibraltar) Limited.	Gibraltar	100	-	-	-	7	27	-
Conservación de Aparatos Elevadores Express, S.L.	Madrid	100	1 771	-	1 771	15 593	3 043	3 329
Otis Maroc, S.A.	Morocco	100	21 949	1 983	330	5 449	926	-
Montes Tallón S.A.	Alicante	52	16 716	5 893	97	7 386	161	-
Ascensores Enor, S.A.	Pontevedra	100	117 100	-	2 390	3 840	5 931	6 016
Electromecánica del Noroeste, S.A.	Pontevedra	100	16 525	-	1 000	3 557	470	-
Electromecánica Hemen Elevadores, S.L.	Vitoria	92,77	9 888	-	4 147	3 383	372	564
Elevadores Castalia S.A.	Castellón	100	4 667	-	60	268	(43)	-
Ascensores Aspe. S.A.	Balearic Islands	100	10 234	-	205	3 011	559	527
EThs			332 012	9 506				39 961

The principal activity of the different companies that form the Group is the manufacture and installation of elevators and the maintenance thereof (Note 1), except for Puertas Automáticas Portis, S.L. (sale, installation, repair and maintenance of automatic doors).

## 8. Loans and receivables

	2017	2016
<b>Noncurrent loans and receivables:</b>		
Noncurrent trade bills receivable (Note 7)	3 444	3 897
<b>Trade and other receivables</b>		
Trade receivables	78 646	78 414
Current trade bills receivable	23 687	20 973
Provisions for impairment	(51 408)	(54 339)
Receivables from Group companies (Note 27)	12 846	9 181
Receivables from related parties (Note 27)	36 322	40 540
Other receivables	9 420	8 908
Public authorities	12 902	9 694
EThs	122 415	113 371

At November 30, 2017 and 2016, the Company had no customers whose sales concentrated 5% of the sales for the period.

Trade receivables that mature at less than six months ago are not deemed to be impaired, unless the customer is subject to insolvency proceedings or other litigation. At November 30, 2017, balances aged less than six months were

EThs 63 843 (EThs 57 142 in 2016).

Ageing of trade receivables (other than doubtful debts with customers who are subject to insolvency proceedings or other litigation) was as follows:

	2017	2016
Between 6 months and 1 year	6 029	4 904
Between 1 and 2 years	2 547	3 090
More than 2 years	2 374	4 941
EThs	10 950	12 935

Movement on the provision for impairment losses on trade receivables was as follows:

	2017	2016
Starting balance	54 339	52 266
Provision made	575	836
Reversal of used provisions	(2 741)	(686)
Reversal of unused provisions	(765)	(1 402)
Mergers	-	3 325
EThs	51 408	54 339

The recognition and reversal of the impairment losses on trade receivables is included in “Impairment losses and change in trade provisions” in the income statement. Usually, amounts charged to the impairment account are written off when there is no expectation of recovering more cash. The net reversal of the provision in 2017 was 0.03% of the Company’s sales (2016: 0.01%).

The rest of the accounts included in “Loans and receivables” did not suffer any impairment.

The maximum credit risk exposure at the date of presentation of the information is the fair value of each one of the categories of receivables mentioned above. The Company does not hold any guarantees as security.

## 9. Cost in progress and advance billing

	2017	2016
Costs of contracts in progress	55 559	35 921
Total contracts in progress	55 559	35 921
Advance billing (Note 15)	(70 108)	(51 670)
EThs	(14 549)	(15 749)

Advance billing is included under the heading “Trade and other payables” in the statement of financial position.

Additionally, the inventories heading includes other materials for a value of EThs 19 055 (EThs 18 766 in 2016).

The cost of contracts in progress includes EThs 2 707 (EThs 418 in 2016) and advance billing includes EThs 2 261 (EThs 2 470 in 2016) for export contracts with companies related to the Otis Group.

## 10. Cash and cash equivalents

	2017	2016
Cash and banks	20 518	8 791
Current deposits with financial institutions	-	-
EThs	20 518	8 791

The effective interest rate on current deposits with financial institutions varied between 0.02% and 0.05% (2016: 0.10% and 0.65%) and the average term of these deposits was less than one month.

As of November 30, 2017 and 2016, the Company did not hold any restricted amounts in banks.

## 11. Capital

The share capital is represented by 470,464,311 ordinary bearer shares with a par value of 0.10 euros each, fully paid up and distributed as follows:

Owner	Shares		% interest	
	2017	2016	2017	2016
United Technologies Holdings, S.A.	235,279,377	235,279,377	50.01	50.01
Euro-Syns, S.A.	54,392,423	53,802,775	11.56	11.44
Other non-controlling interests	180,792,511	181,382,159	38.43	38.55
Treasury shares	0,00	0,00	0.00	0.00
TOTAL	470,464,311	470,464,311	100.00	100.00

There is no other individual shareholder with a holding of more than 10%.

All the Company's shares are of the same class and have the same voting rights.

All the shares of Zardoya Otis, S.A. are listed on the Madrid, Bilbao, Barcelona and Valencia Stock Exchanges.

As of November 30, 2017, interim dividends of EThs 75 274 (EThs 73 819 in 2016) had been declared charged to the period ended on said date. These

interim dividends were paid (Note 14) for shares 1 to 470,464,311. Additionally, a partial monetary distribution of the share premium took place on July 11, 2017 for shares 1 to 470,464,311 for a gross amount of EThs 37 166. Treasury shares held at said date were excluded.

2016:

At the General Shareholders' Meeting of Zardoya Otis, S.A. on May 19, 2016, were adopted, among others, the following agreements:

Bonus issue charged to freely-available reserves, in the proportion of one new share for every twenty-five old shares in issue, for an amount of 1,809,478.10 euros euros, by means of the issue of 18,094,781 shares. When this capital increase had been completed, the share capital rose to 47,043.10 euros, represented by 470,464,311 shares with a par value of 0.10 euros each. The new shares were entitled to the dividends paid after the closing date of the capital increase and, therefore, received the second quarterly dividend charged to the 2016 profit, which was distributed on October 10, 2016.

The increase was carried out between July 14, 2016 and July 29, 2016, inclusive. The new shares were listed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, effective September 19, 2016.

**12. Treasury stock**

At November 30, 2017, Zardoya Otis, S.A. did not hold any of its own shares (0 at the end of 2016).

**13. Reserves**

a) Reserves

	2017	2016
- Legal reserve	9 785	9 409
- Reserve for goodwill	3 611	7 222
- Voluntary reserves	171 761	129 353
- Reserve 1 <sup>st</sup> implantation	188	188
- Merger reserve	12 677	9 547
<b>EThs</b>	<b>198 022</b>	<b>155 719</b>

The legal reserve has been set aside in accordance with article 274 of the Capital Companies Law, which states that, in all cases, an amount equal to 10 percent of the profit for the year will be allocated to this reserve until a figure equal to at least 20 percent of the share capital is reached. It cannot be distributed and, if it is used to offset losses in the event that sufficient other available reserves do not exist for this purpose, it must be replenished with future profits.

Until the 2016 reporting period, the reserve for goodwill was set aside, in accordance with the provisions of article 273.4 of the Capital Companies Law, as a frozen reserve equivalent to the goodwill that appears in the assets. A portion of the profit representing at least 5 percent of the amount of the goodwill had to be used for this purpose. The reserve for goodwill, which had a balance of EThs 13 253 at December 1, 2016, was used to calculate the accumulated amortization of the goodwill at said date. At the end of the 2017 reporting period, EThs 3 611 had still to be amortized. This amount will be amortized in 2018.

#### 14. Profit for the period

##### a) Proposed distribution of the profit

The proposed distribution of the profit for 2017 to be put to the General Meeting of Shareholders is as follows:

	2017	2016 (*)
<b>Available for distribution</b>		
Profit for the period	152 289	154 836
EThs	152 289	154 836
<b>Application</b>		
Legal reserve	377	376
Reserve for goodwill	-	1 806
Voluntary reserves	39 001	41 197
Dividends	112 911	111 457
EThs	152 289	154 836

(\*) Distribution of the profit for 2016 approved by the General Shareholders' Meeting of Zardoya Otis, S.A. on May 24, 2017.

##### b) Dividend and partial cash distribution of share premium:

In 2016 and 2017, three quarterly dividends were paid and there was a partial monetary distribution of the share premium, as follows:

1st Dividend 0.080 euros gross per share, charged to the year 2016. Declared on March 30, 2016 and paid out on April 11, 2016. 36 189  
 Shares: 452,369,530 (Treasury stock: 11,547 shares).  
 Total = 36,189,562.41 euros

Partial distribution of share premium 0.080 euros gross per share. Declared on May 20, 2016 and paid out on July 11, 2016. 36 189  
 Shares: 452,369,530 (Treasury stock: 587,874 shares).  
 Total = 36,189,562.41 euros

<u>2nd Dividend</u> 0.080 euros gross per share, charged to the year 2016. Declared on September 22, 2016 and paid out on October 10, 2016. Shares: 470,464,311 (Treasury stock: 79,066 shares). Total = 37,637,144.88 euros	37 637
Dividend at end of period	110 015
<u>3rd Dividend</u> 0.080 euros gross per share, charged to the year 2016. Declared on December 14, 2016 and paid out on January 10, 2017. Shares: 470,464,311 (Treasury stock: 0 shares). Total = 37,637,144.88 euros	37 637
<b>TOTAL 2016</b>	<b>147 652</b>
<u>1st Dividend</u> 0.080 euros gross per share, charged to the year 2017. Declared on March 30, 2017 and paid out on April 10, 2017. Shares: 470,464,311 (Treasury stock: 0 shares). Total = 37,637,144.88 euros	37 637
<u>Partial distribution of share premium</u> 0.079 euros gross per share. Declared on May 24, 2017 and paid out on July 10, 2017. Shares: 470,464,311 (Treasury stock: 0 shares). Total = 37,166,680.57 euros	37 166
<u>2nd Dividend</u> .080 euros gross per share, charged to the year 2017. Declared on September 18, 2017 and paid out on October 10, 2017. Shares: 470,464,311 (Treasury stock: 0 shares). Total = 37,637,144.88 euros	37 637
Dividend at end of period	112 440
<u>3rd Dividend</u> 0.080 euros gross per share, charged to the year 2017. Declared on December 12, 2016 and paid out on January 10, 2018. Shares: 470,464,311 (Treasury stock: 0 shares). Total = 37,637,144.88 euros	37 637
<b>TOTAL 2017</b>	<b>150 077</b>

The following table shows the existence of sufficient profit in the period to allow the distribution of the interim dividends that took place on the aforementioned dates and the provisional statement of account supporting the existence of sufficient liquidity to allow the distribution of the aforementioned interim dividends.

	<b>Dividend:</b>		
	<b>1st February</b>	<b>2nd August</b>	<b>3rd November</b>
Gross profit since December 1, 2016	52 463	149 842	192 062
Estimate of corporate income tax payable	(9 414)	(28 515)	(39 773)
Available net profit	43 049	121 327	152 289
Amount distributed previously	-	37 637	75 274
Amount proposed and distributed	37 637	37 637	37 637
Liquidity in cash	18 266	46 406	20 518
Temporary financial investments	-	-	-
Current trade bills receivable	21 474	20 384	23 687
Current loans	14 807	6 971	12 846
Net liquidity	54 546	73 761	57 051

The amounts to be distributed did not exceed the profit obtained since the end of the preceding period after deducting the estimated corporate income tax payable on said profit, in accordance with the provisions of article 277 of the Capital Companies Law.

## 15. Debits and payables

	2017	2016
<b>Noncurrent debits and payables:</b>		
Loans with Group companies (Note 27)	37 031	28 006
Other payables (Note 7)	953	922
<b>EThs</b>	<b>37 984</b>	<b>28 928</b>
<b>Current debt with group and associated companies</b>		
Group company payables (Note 27)	69 493	77 171
<b>Current debits and payables:</b>		
Trade payables	24 694	22 006
Invoices not yet received	7 855	9 700
Other payables	9 794	16 844
Employees	18 774	20 233
Advance billing (Note 9)	70 108	51 670
Related-party payables (Nota 27)	10 228	9 300
Current tax liability	5 770	30
Other payables to public authorities (Note 21)	14 175	13 130
<b>EThs</b>	<b>161 398</b>	<b>142 913</b>

At the 2017 reporting date, the Company held a payable of EThs 37 031 (2016: EThs 28 006) with Otis Portugal for a long-term loan. The conditions of the loan are comparable to those the Company would obtain from a non-related party. In the 2017 reporting period, the Company repaid EThs 9 000.

The carrying amount of noncurrent debt is approximately equal to its fair value, since the effect of discounting is not significant.

a) Information on delays in payments to suppliers. Third Additional Provision “Reporting duties” of Law 15/2010 of July 5.

In compliance with the law 15/2010 of July 5, the Company reports that during the 2017 reporting period the total payments made to suppliers amounted to EThs 297 693 (2016: EThs 273 794), thus meeting the requirements of said



legislation.

	<b>2017</b>	<b>2016</b>
	<b>Days</b>	<b>Days</b>
Average payment period to suppliers	52	50
Ratio of transaction paid	52	51
Ratio of transactions for which payment is outstanding	47	46
	<b>Euros</b>	<b>Euros</b>
Total payments made	297 693	273 794
Total outstanding payments	24 694	22 006

## 16. Accruals

The accrual heading in the liabilities includes principally the accounting accrual of the amounts billed in advance to maintenance customers.

	<b>2017</b>	<b>2016</b>
Advance maintenance billing	15 262	15 711
EThs	15 262	15 711

## 17. Provisions

The balances of the provisions recognized were as follows:

	<b>2017</b>	<b>2016</b>
<b>Noncurrent:</b>		
Welfare commitments (Notes 18 & 27)	8 608	7 339
	8 608	7 339
<b>Current:</b>		
Delayed sales costs	2 978	1 891
Provision for risks	5 855	9 652
Guarantees	258	47
Other	505	382
EThs	9 596	11 972

The provision for delayed sales costs relates to costs incurred in work that had already been completed but where the relevant charges from third parties had not yet been received. The risks provided for relate to litigations and other identified risks inherent to the Company's activity.

## 18. Welfare commitments

Post-employment commitments acquired with Group employees, consisting of payment of supplements to Social Security benefits, other retirement benefits and life insurance premiums, which are drawn up in group insurance policies and classified as defined-benefit plans.

The liability recognized on the statement of financial position for the defined-benefit plans is the present value of the obligation at the reporting date less the

fair value of the assets attached to the plan. The defined-benefit obligation is calculated annually, after the wage adjustment process has been completed in October, by independent actuaries, using the projected unit credit method. The income statement shows an expense of EThs 1 978 (2016: EThs 1 378) for this item, which is included as an employee benefit expense.

Obligations (assets) in statement of financial position	2017	2016
Current employees	(4 141)	(2 673)
Retired employees	-	-
<b>EThs</b>	<b>(4 141)</b>	<b>(2 673)</b>

The amounts recognized on the statement of financial position were determined as follows:

	2017	2016
Present value of the obligations financed	38 920	39 843
Fair value of assets attached to the plan	(43 061)	(42 516)
<b>EThs</b>	<b>(4 141)</b>	<b>(2 673)</b>

The evolution of the present value of the defined-benefit obligation and the fair value of the assets attached to the plan in the period was as follows:

	Obligation recognized	Plan assets
<b>At November 30, 2015</b>	<b>36 058</b>	<b>(40 630)</b>
Service cost	1 975	-
Interest cost	830	-
Return on assets	-	(961)
Benefits paid	(903)	903
Contributions	-	(220)
Actuarial losses/gains	2 632	(2 290)
Settlements	(749)	251
<b>At November 30, 2016</b>	<b>39 843</b>	<b>(42 516)</b>

	Obligation recognized	Plan assets
<b>At November 30, 2016</b>	<b>39 843</b>	<b>(42 516)</b>
Service cost	2 233	-
Interest cost	679	-
Return on assets	-	(732)
Benefits paid	(805)	805
Contributions	-	(433)
Actuarial losses/gains	(2 712)	(301)

Settlements	(317)	116
<b>At November 30, 2017</b>	<b>38 920</b>	<b>(43 061)</b>

The main actuarial assumptions applied were the following:

	2017	2016
The discount rate varies in accordance with the term of the commitment between	1.52% - 1.58%	1.30%-2.75%
Life tables	PERMF 2000P	PERMF 2000P
Wage increase	2.15%	2.75%
Estimated average early retirement age	65 to 67 years	65 to 67 years

The amounts recognized in profit and loss are as follows:

	2017	2016
Current service cost	2 233	1 976
Interest cost	679	829
Expected return on plan assets	(732)	(961)
Settlements	(201)	(466)
Total (included in personnel expenses)	1 978	1 378

Amounts of the present value of the defined-benefit obligations and fair value of plan assets for the current period and the three immediately preceding periods are:

	2017	2016	2015	2014
Current service cost	38 920	39 843	36 058	39 640
Interest cost	(43 061)	(42 516)	(40 630)	(41 674)

The Group's best estimate of the contributions to be paid in the reporting period ended November 30, 2018 is EThs 2 005 (2016: 2 232).

The actuarial gains and losses shown in the statement of recognized income and expenses, recognized in equity for EThs 3 013 (an actuarial loss of EThs 342 in 2016), relate principally to the effects of experience with the group on which the calculation was based, being the sum of an actuarial loss of EThs 243 (2016: actuarial losses of EThs 335); an actuarial gain of EThs 3 023 (2016: actuarial gain of EThs 184); attributable to deviations in wages, which differed from expectations, and persons who joined or left the plan, thus increasing or decreasing the obligation; and a variation of EThs 233 (2016: EThs: 34) related to changes in the rates of and returns on the funds.

Additionally, there is a defined-contribution plan, the annual cost of which is

included under the heading "Employee benefit expenses" for an amount of EThs 649 (2016: EThs 608).

Obligations to employees include other commitments of EThs 8 608 (2016: EThs 7 739).

## 19. Deferred taxes

Details of deferred taxes are as follows:

	2017	2016
to be recovered after more than 12 months	20 851	20 786
to be recovered within 12 months	599	626
EThs	21 450	21 412

Movement on deferred tax assets and liabilities in the period was as follows:

EThs	Welfare commitments	Amortization/depreciation fixed assets	Other	Total
<b>At November 30, 2015</b>	9 385	8 710	2 828	20 923
Charged/credited to income statement:				
Deferred tax assets	(577)	(181)	628	(130)
Deferred tax liabilities		(61)	-	(61)
Change in tax rates				
Business combinations			680	680
<b>At November 30, 2016</b>	8 808	8 468	4 136	21 412
Charged/credited to income statement:				
Deferred tax assets	5	634	(601)	38
Deferred tax liabilities				
Change in tax rate				
Business combinations				
<b>At November 30, 2017</b>	8 813	9 102	3 535	21 450

All the deferred tax assets shown on the statement of financial position at November 30, 2017 and 2016 relate to temporary differences and other tax reductions.

## 20. Income and expenses

### a) Net revenue

The net revenue from the Company's ordinary activities was distributed as follows:

	2017	2016
New installations	34 606	33 864
Service	362 002	356 930
Exports	193 298	179 224
Other sales	317	273
EThs	590 223	570 291

The majority of export sales were made to Otis Elevator Group companies.

### b) Goods, raw materials and other consumables used

	2017	2016
Purchases	215 717	197 650
Change in inventories (Note 9)	(391)	(2 817)
	215 326	194 833

### c) Employee benefit expenses

	2017	2016
Wages, salaries and similar	125 428	123 278
Welfare charges	43 176	42 513
Pension contributions and provisions (Note 18)	1 978	1 378
	170 582	167 169

As from the 2011 reporting period, a long-term UTC incentive scheme has also been included for certain Zardoya Otis executives who are likewise considered as UTC Group executives. This scheme includes UTC share-based payments (Note 27). The expense recognized for this item in 2017 was EThs 660 (2016: EThs 789).

The item "Staff welfare expenses and other" included severance payments of EThs 1 934 in 2017 (2016: EThs 4 422).

The average number of employees during the period (reporting date), distributed by category and gender, was as follows:

	2017			2016		
	Men	Women	Total	Men	Women	Total
Managers	41	4	45	38	3	41
Administration/workshop/field supervisors	328	21	349	339	20	359
Engineers, university graduates and other experts	102	31	133	108	34	142
Administrative and technical personnel	317	238	555	310	230	540
Other workers	2100	18	2 118	2 074	18	2 092
EThs	2 888	312	3 200	2 869	305	3 174

The average number of persons with a degree of disability of 33% or more employed by Zardoya Otis, S.A. in the reporting periods 2017 was 27 (25 men and 2 women) and in 2016 22 (20 men and 2 women).

d) External services

Details of external services are as follows:

	2017	2016
Leases	12 592	13 195
Repairs and maintenance	1 832	1 637
Insurance premiums	135	582
Advertising, publicity	1 991	1 976
Transport	7 312	8 337
Supplies and other services	12 626	13 415
Independent professionals	2 191	2 354
Other	1 837	2 641
EThs	40 516	44 137

At November 30, 2017, lease expenses included the costs incurred for royalties under the agreement signed with Otis Elevator Company for an amount of EThs 10 001 (EThs 10 134 in 2016), corresponding to 3.5% of the Service activity. In addition, in 2017, the amount of EThs 3 421 (EThs 2 950 in 2016), corresponding to 3.5% of the net billing on installation contracts, was recorded under the cost in progress heading.

## 21. Income tax and tax situation

The reconciliation between the net revenue and expenses for the period and the corporate income tax base is as follows:

2017	Income statement		Revenue and expenses allocated directly to equity	
	Increases	Decreases	Increases	Increases
Balance revenue & expenses for period	192 062			
Foreign source income		(15 724)		
Local source income		(23 601)		
Permanent differences	360			
Temporary differences				
-originating in the period		(5 119)		
-originating in previous periods	5 269			
Tax base (taxable profit)	197 691	(44 444)		

2016	Income statement		Revenue and expenses allocated directly to equity	
	Increases	Decreases	Increases	Increases
Balance revenue & expenses for period	192 603			
Foreign source income		(19 964)		
Local source income		(19 997)		
Permanent differences	251			
Temporary differences				
-originating in the period		(795)		
-originating in previous periods	4 663			
Tax base (taxable profit)	197 517	(40 756)		

Current income tax expense is calculated as follows:

	2017	2016
Tax base (taxable profit)	153 247	156 761
Gross tax payable (2017: 25%; 2016: 28%)	38 312	43 893
Tax credit for intercompany double taxation	-	(1 120)
Investment tax credit	-	-
Other tax credits	(515)	(1 000)
Current tax	37 797	41 773

Corporate income tax expense comprises:

	2017	2016
Current tax	37 797	41 773
Business combinations	-	-
Tax from previous periods (tax audit)	2 014	10
Deferred tax (Note 19)	(38)	191
EThs	39 773	41 974

At the reporting date, EThs 32 027 (EThs 41 743 in 2016) had been paid on account of the final corporate income tax payable.

In the 2015 and 2016 periods, the Company received notification that the Tax Agency would commence inspections in relation to corporate income tax, value-added tax and personal income tax for the accounting periods 2011, 2012, 2013, 2014 and 2015. In 2017, these inspections concluded with no impact on the profit for the period and the periods up to November 30, 2015 were closed for inspection purposes.

As a consequence of, among other items, possible different interpretations of current tax legislation, additional liabilities could arise as the result of an inspection. However, the directors consider that, to the best of their knowledge should any such liabilities arise, they would not have a significant effect on the annual financial statements.

#### Balances with the Public Treasury

	2017	2016
Provision for corporate income tax	37 797	41 773
Payments on account of corporate income tax	(32 027)	(41 743)
<b>Balances receivable</b>		
Social Security	12	15
Withholding tax	245	76
Input VAT	5 208	4 315
Previous year corporate income tax	7 437	5 288
<b>EThs</b>	12 902	9 694
<b>Balances payable</b>		
Public Treasury, withholding tax operated	2 236	2 175
Public Treasury, output VAT	3 525	2 654
Social Security	8 414	8 301
Public Treasury, VAT payable	-	-
<b>EThs</b>	14 175	13 130

## 22. Financial profit

	2017	2016
<b>Financial income:</b>		
Holdings in equity instruments		
- Group companies (Notes 7, 27)	39 325	39 961
- Third parties	24	29
Marketable securities and other financial instruments		
- Group companies		
- Third parties	221	321
	39 570	40 311
<b>Financial expenses:</b>		
Debt with Group companies	(524)	(460)



Debt with third parties	(88)	(99)
	(612)	(559)
<b>Foreign exchange differences</b>	57	24
<b>Financial profit</b>	39 015	39 776

## 23. Contingencies

### Guarantees committed with third parties

The Company has contingent liabilities in respect of bank guarantees and other guarantees arising in the ordinary course of business. It is not foreseen that any material liabilities will arise from the contingent liabilities. The Company furnished guarantees amounting to EThs 8 294 in the ordinary course of business (EThs 8 395 in 2016).

As the result of a disciplinary procedure initiated by the National Commission on Competition (CNC), now the National Commission on Markets and Competition (CNMC), against several companies in the elevator industry, a fine of EThs 2 845 was imposed on Zardoya Otis, S.A. in September 2013. A bond was deposited in order to appeal against the administrative decision before the Contentious-Administrative Chamber of the National Court, which duly delivered judgment. An appeal against said judgment has been filed before the Supreme Court, which has given it leave to go ahead. The bond will remain in force until the Supreme Court hands down its judgment.

## 24. Commitments

### a) Purchase/sale commitments

At the reporting date, the Company had signed purchase contracts for the following items and amounts:

	2017	2016
Property, plant and equipment	225	335
Intangible assets		-
<b>TOTAL</b>	225	335

### b) Lease commitments

The Group leases commercial premises, offices and warehouses under lease agreements, for which different conditions have been established. The estimated annual cost of all the lease payments committed under these lease agreements was EThs 2 535 (EThs 2 353 in 2016).

Likewise, there were other operating lease commitments, principally for vehicles. The annual estimated cost of these commitments was EThs 3 659 (EThs 3 370 in 2016).

## **25. Business combinations - mergers**

### **2017:**

During 2017, the company Mototracciones Eléctrica Latierro, S.L.U. was dissolved without liquidation and the entirety of its equity was transferred to Zardoya Otis, S.A., the absorbing company, which already held 100% of Latierro's shares.

Details of the assets and liabilities included are as follows:

Cash and cash equivalents	308
Credits with Group companies	6 458
Fixed assets	756
Deferred tax asset	-
Receivables	78
Payables	398
Merger reserves	3 130

### **2016:**

On March 22, 2016, the Board of Directors of Zardoya Otis, S.A. and the Administrator of Admotion, S.L.U. (Admotion) approved a merger project. At the end of 2016, the company Admotion was dissolved but not liquidated and the totality of its equity was transferred to Zardoya Otis, S.A., the absorbing company, which held 100% of its shares.

Details of the assets and liabilities included are as follows:

Cash and cash equivalents	512
Noncurrent financial investments	3
Investments in group companies	-
Fixed assets	8
Deferred tax assets	680
Receivables	705
Payables	1 326
Inventories	555
Merger reserves	314

In addition, on March 22, 2016, the Board of Directors of Zardoya Otis, S.A. and the Administrator of Ascensores Eguren, S.A.U. (Eguren) approved a merger project. At the end of the 2016 period, Eguren was dissolved but not

liquidated and the totality of its equity was transferred to Zardoya Otis, S.A., the absorbing company, which held 100% of its shares.

Details of the assets and liabilities included are as follows:

Cash and cash equivalents	77
Noncurrent financial investments	3
Investments in group companies	10 234
Property plant and equipment	8
Deferred tax assets	891
Receivables	1 055
Payables	2 075
Intangible assets	-
Merger reserves	681

On June 21, 2016, the Company acquired Ascensores Castalia S.L., engaged in the maintenance and repair of elevators in Spain. This acquisition was carried out through a share exchange, using the treasury shares held by Zardoya Otis, S.A. at the transaction date (Note 12).

## 26. Board of Directors and Senior Management

a) Compensation of the members of the Board of Directors and Senior Management:

The global remuneration for all items accrued during the year by the members of the Board of Directors was EThs 2 084 (1 676 in 2016) and included the following items:

	2017	2016
Fixed compensation	281	249
Variable compensation	230	100
Bylaw-stipulated items	1 200	1 200
Other long-term benefits	306	70
Pension plan contributions	67	57
TOTAL	2 084	1 676

In 2017, the compensation accrued by senior management was EThs 244 (EThs 201 in 2016).

At the 2017 and 2016 reporting dates, the Company had not granted any advances or credits to the members of the Board of Directors or Senior Management.

The members of the Company's Board of Directors or Senior Management did not receive any remuneration from profit sharing or premiums.

b) Conflicts of interest of the directors

Complying with the duty to avoid situations where there is a conflict with the Company's interests, the directors who held office on the Board of Directors during the period met the obligations set forth in article 228 of the Revised Text of the Capital Companies Law. Likewise, both they and persons related to them refrained from entering into the situations of conflict of interest provided for in article 229 of said Law, except in cases where the relevant authorization had been obtained.

**27. Other related-party transactions**

United Technologies Holdings S.A. (incorporated in France) held 50.01% of the Company's shares at the reporting date. The ultimate group parent is United Technologies Corporation (incorporated in the United States), the parent company of Otis Elevator Company.

The following transactions were carried out with related parties:

<b>(a) transactions with Zardoya Otis Group companies</b>		
	<b>2017</b>	<b>2016</b>
Sales	26 198	25 609
Purchases	18 701	36 695
Dividend income	39 325	39 961
Receivables (Note 8)	12 846	9 181
Credits granted	-	-
Payables (Note 15)	69 493	77 171
Noncurrent loans	37 031	28 006

<b>(b) transactions with Otis Group companies</b>		
	<b>2017</b>	<b>2016</b>
Royalties	13 423	13 084
Billing of costs of engineering development center to Otis	3 899	3 092
Sales and other revenue	169 871	165 649
Purchases and other costs	(44 333)	(34 181)
Receivables	36 322	40 540
Payables	10 228	9 300

The Company periodically requests the opinion of an expert of recognized prestige concerning the pricing policy established for the transactions with other Otis entities, in order for it to be reviewed by the Audit Committee.

Zardoya Otis, S.A. has been party to a technical assistance agreement, "Intellectual Property License Agreement", with Otis Elevator Company since 1999. This agreement allows the Company to use the trademarks and have access to Research and Development activities and global product development. The cost of this agreement is a royalty of 3.5% of sales to end customers, excluding sales between group companies.

Additionally, in September 2010, a "Recharge Agreement" was signed with United Technologies Corporation (UTC), which concerned the possibility that certain Zardoya Otis, S.A. executives who were also considered to be UTC group executives, since they held important management responsibilities, should benefit, depending on their performance and the attainment of joint objectives of Zardoya Otis, Otis and United Technologies Corporation (UTC), from the UTC long-term incentive scheme, which includes UTC share-based compensation schemes. The Agreement is applicable to incentives assigned as from December 1, 2010. The cost, approved by the Audit Committee, is included under the employee benefit expense heading, generating a credit account with Group companies (presented as other provisions in the statement of financial position). The expense originated by this item is included under the employee benefit expense heading. For 2017, the expense was EThs 660 (EThs 789 in 2016), relating to the fair value of the assets to which it is indexed, which was EThs 4 554 (EThs 4 146 in 2016).

## **28 Environmental information**

At November 30, 2017, the Company was not aware of any contingency, risk or litigation in progress related to the protection and improvement of the environment. Therefore, the Company did not recognize any provision for environmental actions in the statement of financial position at November 30, 2017.

The Group has approved a Corporate Environmental Policy Manual that stipulates the principal procedures and actions to be followed in plants, offices, transport, Installation and Service.

The principal programs established are intended to reduce to effects of environmental pollution by:

- Control, recycling and decrease of highly contaminating waste (oils).
- Control and reduction of recyclable waste (packaging).
- Control and reduction of emissions into the air due to industrial and

combustion processes.

- Control and reduction of water and energy consumption.

The Madrid-Leganés plant was designed to minimize energy consumption by including the installation of photovoltaic panels on the roof, the carrying amount of which is EThs 4 153, with accumulated depreciation of EThs 1 742 at the reporting date.

In addition, in 2017, expenses for the removal or recycling of waste were recognized for a value of EThs 23 (2016: EThs 38).

### **29. Events after the year end**

On December 12, 2017 Zardoya Otis, S.A. declared the third interim dividend charged to the profit for the period for an amount of 0.080 euros gross per share, resulting in a total gross dividend of EThs 37 637. This dividend was paid out on January 10, 2018.

### **30. Fees of account auditors**

The fees accrued during the year by PricewaterhouseCoopers Auditores, S.L. for account auditing services, including the process audit performed in accordance with the requirements for listed groups in the USA (Sarbanes Oxley), were EThs 173 (2016: EThs 182).

Likewise, the fees accrued in the year by PricewaterhouseCoopers Auditores, S.L. due to other services rendered to the Company were EThs 52 (2016: EThs 94), while those accrued by other companies that use the PwC brand name were EThs 13 (2016: EThs 67).

**MANAGEMENT REPORT OF ZARDOYA OTIS, S.A.**  
**(INDIVIDUAL FINANCIAL STATEMENTS – REPORTING PERIOD 2017)**  
**(Thousands of euros - EThs)**

**Presentation of the Annual Financial Statements**

The annual financial statements have been prepared on the basis of the Company's accounting records and are presented in accordance with current mercantile legislation and the standards contained in the General Accounting Plan approved by Royal Decree 1514/2007, together with the amendments to the latter included in Royal Decree 1159/2010 and Royal Decree 602/2016, in order to show a true and fair view of the Company's equity, financial position and results, as well as the accuracy of the cash flows shown on the statement of cash flows.

**Business evolution**

**Profit and loss**

The profit before tax of Zardoya Otis, S.A. in 2017 was 192.1 million euros (2016: 192.6 million euros) and the EBITDA (operating profit + amortization/depreciation + impairment of investments in group companies) was 165.9 million euros (2016: 166.1 million euros).

**Total sales**

The total sales of Zardoya Otis S.A. were 590.2 million euros in 2017. New sales billing represented 5.86% of total billing in 2017, while the Service activity accounted for 61.39% and Exports for 32.6%.

**Employee headcount**

The headcount of Zardoya Otis, S.A. at the 2017 reporting date was 3,200 persons.

**Dividends**

At November 30, 2017, interim dividends had been declared for the period ended on said date for an amount of EThs 75,274 (EThs 73,819 in 2016). These interim dividends were paid for shares 1 to 470,464,311. Additionally, the share premium was partially distributed to shares 1 to 470,464,311 on July 10, 2017, for a gross amount of EThs 37,166. Treasury shares held at said date were excluded.

The total amount of the dividends (including the third interim dividend for the year, declared in December 2017 as an event after the end of the reporting period) and the partial cash distribution of the share issue premium in 2017 amounts to 150.1 Million Euros, which represents an increase of 1.6% compared to those paid in 2016 and together represents a pay-out of 98.25% of the consolidated result attributed to the parent company, Zardoya Otis, SA; thus continuing the policy followed by the Company to distribute a figure close to 100% pay-out.

## **Evolution of capital**

### **Treasury stock**

At November 30, 2017, Zardoya Otis, S.A. did not hold any treasury stock (0 at the end of 2016).

### **Evolution of Zardoya Otis on the Securities Markets**

The quoted price at the end of 2017 was 9.12 euros per share, representing an increase of 13.5% on the adjusted value at the end of 2016, while the IBEX up by 7.4%.

### **General Description of the Company's Risk Policy**

The Company's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, fair-value interest risk and price risk), credit risk, liquidity risk and cash-flow interest rate risk. The Company's global risk management program is focused on the uncertainty of the financial markets and tries to minimize any potential adverse effects on the Company's financial profitability.

Risk management is controlled by company Management in accordance with policies approved by the Company's Board of Directors. Management assesses and hedges financial risks in close collaboration with the operating units of the rest of the Group, in order to:

- Ensure that the most important risks are identified, assessed and managed.
- Ensure an appropriate operating segregation of risk management functions.
- Ensure that the risk exposure level accepted by the Group in its operations is in line with its risk profile.

In Note 4 to the 2017 Annual Financial Statements of Zardoya Otis, S.A., the information concerning the following risks is presented:

- a) Market risk:
  - (a) Exchange rate risk
  - (b) Price risk
  - (c) Cash-flow and fair-value interest rate risk
- b) Credit risk
- c) Liquidity risk
- d) Capital risk

The Audit Committee is responsible for periodically reviewing the internal control and risk management systems, so that the main risks are properly identified, managed and disclosed, through control devices that allow the main potential risks of the Company and its Group to be assessed and the evaluation of the risk control systems, adapted to the risk profile of the Company and its Group.

Zardoya Otis, S.A. has an Internal Audit Department, with systems and processes that are intended to evaluate, monitor, mitigate or reduce the Company's main risks by preventive measures and alerts of possible situations of risk. The Company has the risks that affect assets and liabilities covered by the appropriate insurance policies. Likewise, it has processes that ensure control of any risk that may stem from trading operations.



Conservative liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The Company has no significant concentrations of risk with customers and there are no significant old credit balances. Nevertheless given the deterioration in the national economic situation, the Group has policies in place to ensure that installation sales are made to customers with appropriate credit histories and, in addition, regular debt-monitoring procedures are conducted by the departments involved in debt collection.

### **Average payment period to suppliers**

In relation with the provider of Law 3/2004 and Law 15/2010 on measures to combat late payment in commercial operations, the Law 31/2014, of December 3, amended Law 15/2010 in relation to the information to be included in the report to request the average period of payment to suppliers. In this way, the average payment period in 2017 to suppliers is below 60 days. The Company has planned measures that are aimed at maintaining compliance with the law, among which are maintaining the adequacy of the average payment period for its operations with group companies and associated with the provisions of the regulations and compliance with the agreements and commercial relationships with external suppliers.

### **Research and Development expenses**

The Company follows the policy of recognizing research costs in the income statement in the period in which they are incurred, as stated in its accounting policies and principles. At November 30, 2017, the income statement included expenses of EThs 1,957 for this ítem (2016: EThs 2,160):

### **Significant events as of November 30, 2017**

On March 7, 2017, Zardoya Otis, S.A. acquired 7.23% of shares in the subsidiary Electromecánica Hemen Elevadores, S.L. from non-controlling interests. This transaction meant that the percentage held by Zardoya Otis, S.A. in Hemen Elevadores, S.L. changed, rising from 92.77% to 100%.

On May 17, 2017, Zardoya Otis, S.A. acquired 2.19% of the shares in the subsidiary Acresca Cardellach, S.L. from non-controlling interests. This transaction meant a change in Zardoya Otis, S.A.'s holding in Acresca Cardellach, S.L., which rose from 94.57% to 96.76%.

Also during 2017, the Company sold Ascensores Castalia S.L., which was acquired by the subsidiary Ascensores Pertor, S.L. This transaction did not imply any change in the consolidated group of which Zardoya Otis, S.A. is the parent.

## **Events after the end of the reporting period**

On December 12, 2017 Zardoya Otis, S.A. declared the third interim dividend charged to the profit for the period for an amount of 0.080 euros gross per share, resulting in a total gross dividend of EThs 37 637. This dividend was paid out on January 10, 2018.

## **Annual Corporate Governance Report**

The Annual Corporate Governance Report for the 2017 reporting period forms part of this Management Report.

## **Zardoya Otis, S.A. and subsidiaries**

Audit Report,  
Consolidated Annual Accounts and  
Consolidated Directors' Report  
at 30 November 2017



*This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

## *Audit report on the consolidated annual accounts issued by an independent auditor*

To the shareholders of Zardoya Otis, S.A.:  
*Report on the consolidated annual accounts*

### *Opinion*

We have audited the consolidated annual accounts of Zardoya Otis, S.A. (the parent company) and subsidiaries (the Group), consisting of the consolidated balance sheet at 30 November 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated annual accounts for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the Group's consolidated equity and financial position at 30 November 2017 and the consolidated results of its operations and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

### *Basis for opinion*

Our audit has been carried out in accordance with prevailing Spanish auditing regulations. Our responsibilities under said regulations are described below under Responsibilities of the auditor in relation to the audit of the consolidated annual accounts.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, applicable to our audit of the consolidated annual accounts in Spain, as required by auditing regulations. In this respect, we have not provided any services other than audit services, nor have any situations or circumstances arisen that, in accordance with those regulations, might have undermined said independence.

We consider that the audit evidence obtained provides a sufficient and appropriate basis for our opinion.

### *Key audit matters*

Key audit matters are those that, in our professional judgment, were of most significance in the audit of the consolidated annual accounts of the current period. These matters have been addressed in the context of our audit of the consolidated annual accounts as a whole and in the preparation of our opinion thereon, and we do not express a separate opinion on these matters.

Key audit matters	How the matter was addressed in the audit
<p><i>Revenue recognition</i></p> <p>According to Note 22 to the accompanying consolidated annual accounts, the Group basically has three types of revenue from: a) provision of services, mainly contracts for the maintenance, modernisation and repair of elevators; b) installation and assembly; and c) exports.</p> <p>Note 2.20 indicates that revenues from maintenance contracts are recognised on a straight-line basis as they accrue. Revenue may be billed monthly, quarterly, half-yearly or annually depending on the terms of the contracts, advance payment being recognised, as applicable, to reflect accrual correctly. This type represents the most significant portion of the Group's revenue.</p> <p>According to Note 2.20, elevator installation and assembly revenue is recognised based on the estimated percentage of completion of the work. This area requires judgements and estimates. Specifically, management periodically re-estimates the margin, estimating costs yet to be incurred such that the project's final margin does not differ substantially from the margin at contract inception.</p> <p>Special attention is paid during the audit to the revenue recognition process to assure that the Group's consolidated revenue is duly supported. We consider the recognition of revenue as a result of transactions actually effected and within the period audited to be a key audit matter.</p>	<p>We describe, understand, assess and validate the relevant transactions and controls that support the revenue cycle, as well as the general IT controls and those of the entity's control environment.</p> <p>Additionally, substantive tests of detail are carried out on revenue recognised during the year, using sampling techniques for different transaction types. Specifically, these refer to:</p> <ul style="list-style-type: none"> <li>• Recognition of revenue from the installation and assembly of elevators, as well as modernisations and repairs, for which we test the periodic re-estimation of margins for a sample of projects.</li> <li>• Recognition of revenue from maintenance contracts, checking the contractual documentation, the proper recognition of revenue and invoice collection for a sample of transactions.</li> </ul> <p>We check a sample of transactions showing revenue not collected at the year end, through third-party confirmation or alternative audit procedures using the relevant documentary support. We also check that the revenue has been accounted for in the correct period.</p> <p>We perform a computer-assisted audit test designed to detect unusual items. For the items that affect revenue recognition, we have verified the supporting documents to verify that they are correctly recognised.</p> <p>We have checked the sufficiency of the information disclosed in the consolidated annual accounts.</p> <p>On the basis of our tests, our audit objectives have been fulfilled for this key matter.</p>

Key audit matters	How the matter was addressed in the audit
<p data-bbox="272 461 842 488"><i>Recovery of value of goodwill</i></p> <p data-bbox="272 517 842 663">The Group records goodwill totalling €147 million, as described in Note 6 to the consolidated annual accounts. Management is required to assess goodwill impairment on an annual basis.</p> <p data-bbox="272 696 842 1055">The Group has identified three cash generating units (CGU) on a market and geographical basis to which goodwill is allocated. This goodwill is tested for impairment by means of a comparison between carrying value for consolidation purposes and recoverable value. Management uses the discounted cash flow valuation method for this purpose. Key assumptions include: the discount rate, the period envisaged and the growth rate used for the projection subsequent to the envisaged period.</p> <p data-bbox="272 1088 842 1211">Other sensitive aspects that are included in the projections are the growth of the portfolio of maintenance contracts in the period envisaged and the Group's expense and cost structure.</p> <p data-bbox="272 1245 842 1323">It is a key audit area due to the size of the item and management's judgements and estimates, which affect forecast flows.</p>	<p data-bbox="847 517 1477 663">When testing the analysis of the recovery of the value of goodwill, we draw on our knowledge to conclude on whether the valuation method and the key assumptions employed by management are suitable. In particular:</p> <ul data-bbox="847 696 1477 1547" style="list-style-type: none"> <li data-bbox="847 696 1477 763">• We verified that short-term revenue growth rates are consistent with recent years.</li> <li data-bbox="847 786 1477 875">• We confirm that long-term growth rates are consistent with long-term economic forecasts.</li> <li data-bbox="847 898 1477 987">• We check the reasonableness and consistency of future margins based on current and past performance.</li> <li data-bbox="847 1010 1477 1178">• We evaluate the reasonableness of the discount rate used to determine the present value of the CGUs considering, among other matters, the cost of capital for the Group and comparable organisations.</li> <li data-bbox="847 1200 1477 1267">• We verify the arithmetic calculations included in the valuation.</li> <li data-bbox="847 1290 1477 1391">• We verify the origin of the information used in the valuations, checking that the forecasts are approved by management.</li> <li data-bbox="847 1413 1477 1547">• We verify management's sensitivity analysis for discount rates and growth rates, evaluating in which other stress conditions impairment could arise.</li> </ul> <p data-bbox="847 1581 1477 1637">We have also checked the sufficiency of the information disclosed in the annual accounts.</p> <p data-bbox="847 1671 1477 1756">As a result of our tests, we consider that management's estimates sufficiently cover the amount recognised as goodwill.</p>

Key audit matters	How the matter was addressed in the audit
<p><i>Recovery of the value of intangible assets with finite useful lives</i></p> <p>The Group records intangible assets with finite useful lives totalling €178 million, as described in Note 6 to the consolidated annual accounts.</p> <p>This item basically includes amounts relating to the cost of elevator equipment maintenance contracts acquired as a portfolio of contracts or as part of a business combination. The item is made up of a variety of portfolios in terms of both geographic location and acquisition date. They are amortised on a straight-line basis over a period deemed to be equivalent to their estimated useful life (from 10 to 20 years, depending on the features of the maintenance contract portfolio).</p> <p>The amortisation charged is assessed regularly by analysing the useful life of the assets and, if applicable, impairment testing is performed where there are factors that indicate a possible loss of value. For this purpose, management takes into account the rate of cancellations and customer churn.</p> <p>It is a key audit area due to the size of the item and management's judgements and estimates, which affect forecast flows.</p>	<p>For the acquisitions of maintenance contract portfolios, we check the key supporting documents, such as contracts and purchase deeds, asset valuations at the time of purchase and other relevant documents.</p> <p>As regards possible impairment, amortisation and useful lives of the intangible assets:</p> <ul style="list-style-type: none"> <li>• We check that the evolution of net contract loss rates is consistent.</li> <li>• We verify the evolution of maintenance contract prices.</li> <li>• We assess the reasonableness of the relevant margins and profits.</li> </ul> <p>We have also checked the sufficiency of the information disclosed in the annual accounts.</p> <p>Our tests have revealed a solid basis supporting the useful lives and recoverable amounts of the assets.</p>

### *Other information: Consolidated Directors' Report*

The other information only relates to the consolidated directors' report for 2017, the preparation of which is the responsibility of the parent company's administrators and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated Directors' Report. Our responsibility for the consolidated directors' report, in accordance with the requirements of accounting legislation, consists of evaluating and reporting on the consistency of the consolidated directors' report with the consolidated annual accounts based on the knowledge of the company obtained in the performance of the audit of said consolidated accounts, without including any information other than that obtained as evidence during the audit. Likewise, our responsibility is to evaluate and report on whether the content and presentation of the consolidated directors' report comply with applicable regulations. If we conclude that there are material misstatements on the basis of our work, we are required to report them.

On the basis of the work performed, as described in the preceding paragraph, the information contained in the consolidated directors' report is consistent with that of the consolidated annual accounts for 2017 and its content and presentation comply with application legislation.

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### *Responsibility of the directors and the audit committee in relation to the consolidated annual accounts*

The directors of the parent company are responsible for drawing up and signing the accompanying consolidated annual accounts such that they present fairly the Group's consolidated equity, financial situation and results in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for the internal control which they consider necessary to enable the preparation of consolidated annual accounts free from material misstatements, due to fraud or error.

In the preparation of the consolidated annual accounts, the parent company's directors are responsible for assessing the Group's capacity to continue as a going concern, disclosing, as appropriate, any going concern-related issues and applying the going-concern accounting principle, unless the directors intend to wind up the Group or discontinue its operations, or unless no other realistic alternative exists.

The parent company's audit committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

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### *Auditors' responsibilities in relation to the audit of the consolidated annual accounts*

Our objectives are to obtain reasonable assurance that the consolidated annual accounts as a whole are free from material misstatement due to fraud or error, and to issue an audit report containing our opinion.

Reasonable assurance is a high degree of assurance but does not guarantee that an audit conducted in accordance with current Spanish auditing regulations will always detect a material misstatement when such exists. Misstatements may be due to fraud or error and are regarded as material if, individually or in aggregate, it may reasonably be foreseen that they will influence the business decisions taken by users on the basis of the consolidated annual accounts.

As part of an audit conducted in accordance with prevailing Spanish audit regulations, we apply our professional judgement and maintain an attitude of professional scepticism throughout the audit. In addition:

- We identify and assess the risks of material misstatement in the consolidated annual accounts due to fraud or error; we design and apply audit procedures to respond to those risks and obtain sufficient and adequate audit evidence to provide a basis for our opinion. The risk of not detecting material misstatement due to fraud is higher than in the case of a material misstatement due to error, as fraud may involve collusion, falsification, deliberate omissions, intentionally erroneous statements or the circumvention of internal control.
- We obtain knowledge of internal control mechanisms relevant for the audit in order to design the audit procedures which are appropriate depending on the circumstances, and not with the intention of expressing an opinion on the efficiency of the Group's internal control system.
- We assess whether the accounting policies applied are adequate and the reasonableness of the accounting estimates and the relevant information disclosed by the parent company's directors.



- We conclude as to whether the utilisation by the parent company's directors of the going concern principle is appropriate and, basing ourselves on the audit evidence obtained, we conclude as to whether there is or not any material uncertainty in relation to the events or conditions that could generate significant doubts as to the Group's capacity to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our audit report to the corresponding information disclosed in the consolidated annual accounts or, if those disclosures are unsuitable, to express a modified opinion. Our conclusions are based on audit evidence obtained up to the date of our audit report. However, future events or conditions could cause the Group to cease to be a going concern.
- We evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosed information, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that succeeds in expressing a true and fair view.
- We obtain sufficient and adequate evidence in relation to the financial information of the companies or the business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for managing, overseeing and performing the group audit. We are solely responsible for our audit opinion.

We liaise with the parent company's audit committee in relation to, among other matters, the planned scope and timing of the audit and the significant audit findings, as well as any major internal control weakness that we identify in the course of our audit.

We also provide the parent company's audit committee with a statement to the effect that we have complied with applicable ethical requirements, including those of independence, and we have notified the Audit Committee of any issues that could reasonably pose a threat to our independence and, if appropriate, the relevant safeguards.

Among the matters notified to the parent company's audit committee, we determine those that have been of the greatest significance in the audit of the consolidated annual accounts for the current period and which therefore are key audit matters.

We describe these matters in our audit report unless legal or regulatory provisions prohibit the public disclosure of the matter concerned.

### *Information on other legal and regulatory requirements*

#### *Additional report for the parent company's audit committee*

The opinion expressed in this report is consistent with the content of our additional report for the parent company's audit committee dated 20 February 2018.

#### *Term of engagement*

We were appointed auditors of the Group for a one-year period at the annual general meeting of shareholders held on 24 May 2017.

We were previously appointed under resolutions adopted by general shareholders' meetings for a period of three years and have been auditing the annual accounts uninterruptedly since the year ended 30 November 1990.



Zardoya Otis, S.A. and subsidiaries

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*Services provided*

Non-auditing services provided to the Group are disclosed in Note 37.b to the consolidated annual accounts.

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PricewaterhouseCoopers Auditores, S.L. (S0242)

Original Spanish version signed by  
Rafael Pérez Guerra (20738)

27 March 2018

**ZARDOYA OTIS S.A.  
AND SUBSIDIARIES**

Consolidated Annual Financial Statements  
at November 30, 2017

## ZARDOYA OTIS S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT NOVEMBER 30, 2017 AND 2016 (Thousands of euros - EThs)

		2017	2016
	<b>ASSETS</b>		
	<b>Noncurrent assets</b>		
	Property, plant & equipment (Note 5)	60 093	60 601
	Intangible assets (Note 6)	177 749	185 459
	Goodwill (Note 6)	146 551	145 444
	Financial investments (Note 7)	718	728
	Deferred tax assets (Note 18)	23 994	23 205
	Other noncurrent assets (Notes 7 & 19)	8 125	7 379
		<b>417 230</b>	<b>422 816</b>
	<b>Current assets</b>		
	Inventories (Note 9)	33 658	30 545
	Financial receivables (Note 7)	224	1 409
	Trade and other receivables (Notes 7 & 8)	201 405	192 436
	Cash and cash equivalents (Notes 7 & 10)	60 854	62 344
		<b>296 141</b>	<b>286 734</b>
	<b>Total assets</b>	<b>713 371</b>	<b>709 550</b>

Notes 1 to 37 form an integral part of these Consolidated Annual Financial Statements.

## ZARDOYA OTIS S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT NOVEMBER 30, 2017 AND 2016 (Thousands of euros - EThs)

		2017	2016
	<b>EQUITY</b>		
	Share capital (Note 11)	47 046	47 046
	Share Premium	306	37 472
	Legal reserve (Note 13)	9 785	9 409
	Reserves in subsidiaries & other reserves (Note 14)	295 448	250 838
	Retained earnings (Note 15)	152 744	152 626
	Interim dividends paid (Note 29)	(75 274)	(73 819)
	Foreign exchange differences	(489)	(5)
	Non-controlling interests (Notes 2 & 15)	11 426	14 009
	<b>Total equity</b>	<b>440 992</b>	<b>437 576</b>
	<b>LIABILITIES</b>		
	<b>Noncurrent liabilities</b>		
	Other payables (Notes 7 & 16)	2 648	3 850
	Provisions for other liabilities and expenses (Note 21)	10 084	8 370
	Deferred tax liabilities (Note 18)	24 263	26 792
		<b>36 995</b>	<b>39 012</b>
	<b>Current liabilities</b>		
	Trade and other payables (Notes 7,16)	216 544	216 429
	Current tax liabilities (Note 17)	7 856	3 072
	Borrowings (Notes 7,20)	323	324
	Provisions for other liabilities and expenses (Note 21)	10 661	13 137
		<b>235 384</b>	<b>232 962</b>
	<b>Total liabilities</b>	<b>272 379</b>	<b>271 974</b>
	<b>Total equity and liabilities</b>	<b>713 371</b>	<b>709 550</b>

Notes 1 to 37 form an integral part of these Consolidated Annual Financial Statements.

**ZARDOYA OTIS S.A. AND SUBSIDIARIES**  
**CONSOLIDATED INCOME STATEMENTS FOR THE PERIODS ENDED**  
**NOVEMBER 30, 2016 AND 2015**  
**(Thousands of euros - EThs)**

		<b>2017</b>	<b>2016</b>
	Sales (Note 22)	778 282	746 041
	Other revenue	1 448	2 656
	Raw materials and consumables used (Note 24)	(257 376)	(228 121)
	Employee benefit expense (Note 23)	(246 532)	(241 373)
	Amortization, depreciation and impairment losses (Note 5 & 6)	(19 942)	(21 647)
	Other net expenses (Note 25)	(54 992)	(51 399)
	<b>Operating profit</b>	<b>200 888</b>	<b>206 157</b>
	Financial income (Note 26)	621	768
	Financial costs (Note 26)	(394)	(173)
	Net foreign exchange differences (Note 26)	70	28
	<b>Other gains and losses</b>	<b>129</b>	<b>1 050</b>
	<b>Profit before tax</b>	<b>201 314</b>	<b>207 830</b>
	Income tax expense (Note 27)	(47 827)	(54 385)
	<b>Profit for period</b>	<b>153 487</b>	<b>153 445</b>
	<b>Profit from continuing operations after tax (Note 15)</b>	<b>153 487</b>	<b>153 445</b>
	<b>Attributable to:</b>		
	Shareholders of the Company (Note 15)	152 744	152 626
	Non-controlling interests (Note 15)	743	819
	<b>Earnings per share for the profit on continuing operations attributable to the shareholders of the Company in the period (euros per share) (Note 28)</b>		
	- Basic	0.32	0.33
	- Diluted	0.32	0.33

Notes 1 to 37 form an integral part of these Consolidated Annual Financial Statements.

## ZARDOYA OTIS S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIODS ENDED NOVEMBER 30, 2017 AND 2016

(Thousands of euros - EThs)

	2017	2016
<b>Profit for the period (Note 15)</b>	<b>153 487</b>	<b>153 445</b>
<b>Other comprehensive income:</b>		
<b>Items that can be transferred to profit and loss</b>		
Exchange rate differences	(485)	(56)
<b>Items that will not be reclassified to profit and loss</b>		
Actuarial gain or (loss)	3 013	(341)
Other comprehensive income for the period, net of taxes		
<b>Total comprehensive income for the year, net of taxes</b>	<b>156 015</b>	<b>153 048</b>
Attributable to:		
– Shareholders of parent company	155 272	152 229
– Non-controlling interests	743	819

Notes 1 to 37 form an integral part of these Consolidated Annual Financial Statements.

## ZARDOYA OTIS S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIODS ENDED NOVEMBER 30, 2017 AND 2016 (Thousands of euros - EThs)

	Attributable to shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Legal reserve	Treasury stock	Accumulated foreign exchange differences	Reserves in consolidated companies and other reserves	Accumulated gains		
<b>Balance at November 30, 2015</b>	<b>45 237</b>	<b>73 615</b>	<b>9 047</b>	<b>(92)</b>	<b>51</b>	<b>196 467</b>	<b>93 763</b>	<b>15 714</b>	<b>433 802</b>
Comprehensive profit for the period (Note 15)			362		(56)	41 167	152 285	819	153 048
Distribution of profit 2015 (Note 15)						(150 878)	(150 878)		(109 349)
Dividend relating to 2015 (Note 29)						109 349	109 349		109 349
Capital increase (Note 11)	1 809					(1 809)			-
Other equity transactions (Note 12)				(5 293)					(5 293)
Other equity transactions (Note 12)				491		135			626
Business combinations				4 894		(226)			4 668
Dividend 2016 (Note 29)							(110 008)		(110 008)
Partial monetary distribution of share premium (Note 29)		(36 143)							(36 143)
Transactions with non-controlling interests (Notes 2, 6)						(598)		(1 344)	(1 942)
Other movements								(1 181)	(1 181)
<b>Balance at November 30, 2016</b>	<b>47 046</b>	<b>37 472</b>	<b>9 409</b>	<b>-</b>	<b>(5)</b>	<b>235 134</b>	<b>94 511</b>	<b>14 009</b>	<b>437 576</b>
Comprehensive profit for the period (Note 15)			376		(485)	40 452	155 755	743	156 013
Distribution of profit 2016 (Note 15)						(152 285)	(152 285)		(111 457)
Dividend relating to 2016 (Note 29)						111 457	111 457		111 457
Dividend 2016 (Note 29)							(112 911)		(112 911)
Partial cash distribution of share premium (Note 29)		(37 166)							(37 166)
Transactions with non-controlling interests (Notes 2, 6)						806		(2 250)	(1 444)
Other movements								(1 076)	(1 076)
<b>Balance at November 30, 2017</b>	<b>47 046</b>	<b>306</b>	<b>9 785</b>	<b>-</b>	<b>(490)</b>	<b>276 392</b>	<b>96 527</b>	<b>11 426</b>	<b>440 992</b>

Notes 1 to 37 form an integral part of these Consolidated Annual Financial Statements.



## ZARDOYA OTIS S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIODS ENDED NOVEMBER 30, 2017 AND 2016

(Thousands of euros - EThs)

	<u>2017</u>	<u>2016</u>
<b>Net profit</b>	<b>152 744</b>	<b>152 626</b>
Adjustments to profit:		
Amortization/depreciation/provisions (Notes 5,6,8)	17 865	19 017
Taxes (Note 27)	47 827	54 385
Other losses and gains (Note 26)	297	(485)
Gains/(losses) on sales of fixed assets	127	1 050
Tax paid in period (Note 27)	(42 677)	(56 276)
Change in working capital	(13 055)	(7 816)
Profit attributable to non-controlling interests (Note 15)	743	819
<b>Cash flows from operating activities (Note 30)</b>	<b>163 871</b>	<b>163 320</b>
Investment in property, plant & equipment/intangible assets(Notes 5 & 6)	(4 086)	(9 853)
Acquisition of subsidiaries (Notes 6 & 33)	(9 469)	(7 515)
Acquisition of other financial assets	-	-
Cash from business combinations (Note 33)	163	3 095
Cash receipts from asset disposal (Nota 5)	-	1 250
<b>Cash flows from investing activities</b>	<b>(13 392)</b>	<b>(13 023)</b>
Dividends paid (Note 29)	(150 077)	(146 151)
Acquisition of treasury stock (Note12)	-	(5 293)
Treasury stock sales (Nota12)	-	626
Bank borrowings (Received/Paid) (Note 20)	(1)	(11)
Payment for acquisition of non-controlling interests	(1 891)	(2 677)
<b>Cash flow from financing activities</b>	<b>(151 969)</b>	<b>(153 506)</b>
<b>Variation in cash and cash equivalents</b>	<b>(1 490)</b>	<b>(3 209)</b>
Cash and cash equivalents at the beginning of the period (Note 10)	62 344	65 553
Cash and cash equivalents at the end of the period (Note 10)	60 854	62 344

Notes 1 to 37 form an integral part of these Consolidated Annual Financial Statements.

**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE PERIODS  
2017 AND 2016  
(Thousands of euros – EThs)**

**1. General information**

The main business activity of Zardoya Otis S.A. (the Company) and its subsidiaries (together, the Group) is the manufacturing and installation of elevators, the provision of the related maintenance service and the export of equipment for installation abroad. The Group has manufacturing plants in Madrid and San Sebastian and a Modernization Centre in Vigo (Pontevedra).

ZARDOYA OTIS, S.A. is a company incorporated and registered in Madrid. The address of its registered office is Golfo de Salonica, 73, Madrid.

United Technologies Holding S.A., incorporated in France, holds an interest in the Group of 50.01% of the Company's shares. The Company is part of the UTC Group, incorporated in the United States of America (Notes 11 and 34). The Company is listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges.

These Consolidated Annual Financial Statements were approved by the Board of Directors on February 20, 2018 and are pending the approval of the Annual General Shareholders' Meeting. Nevertheless, Management considers that the above mentioned financial statements will be approved as presented.

**2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented.

**2.1 Bases of presentation**

The Consolidated Financial Statements of the Group as of November 30, 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) adopted for application in the European Union and in force at that date.

The Group's Consolidated Annual Financial Statements at November 30, 2017 include the figures for the preceding year to allow a comparison to be made. Likewise, they have been prepared up under the going concern principle. They will be formulated by the Board of Directors on February 20, 2018. The Consolidated Annual Financial Statements for 2016 were approved at the General Shareholders' Meeting of May 24, 2017.

The Consolidated Annual Financial Statements have been prepared using the historical cost method, modified by recognition criteria for available-for-sale assets. Assets and liabilities (including derivative instruments) at fair value through profit and loss.

The preparation of consolidated annual financial statements under IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Group's accounting policies.

The accounting estimates, in consequence, can be different to the final result of the circumstances evaluated. Both judgements and estimates are constantly reviewed and are based principally on historical experience and expectations of future events deemed reasonable.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated annual financial statements are:

***(a) Contracts in progress***

Contracts in progress are measured at the cost incurred plus the expected profit margin, based on the percentage of completion of the contract, in proportion to the difference between the total estimated cost and the contract price agreed upon with the customers. Said margin is reviewed in accordance with the actual progress of the work and the costs still to be incurred, by means of periodic re-estimation, so that the margin of profit or loss that will result at the end of the contracts will not differ substantially from the margins applied while the contracts were in progress. (Note 2.13.b and 2.20.a).

***(b) Employee benefit expenses***

The liability recognized in the statement of financial position in respect of defined-benefit pension plans is the present value of the defined-benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined-benefit obligation is calculated annually by independent actuaries using the projected unit credit method. (Note 2.18)

***(c) Estimated impairment loss on goodwill and other intangible assets***

The Group tests goodwill and units under maintenance for impairment annually, in accordance with the accounting policy described in Note 2.6. The recoverable amounts of the cash-generating units are determined on the basis of calculating the value in use. These calculations require the use of estimates.

***(d) Deferred taxes***

Deferred tax is calculated on the basis of the temporary differences that arise between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates that have been or are about to be approved at the end of the reporting period and are expected to apply when the related deferred tax asset is realized or deferred tax liability is settled. Deferred tax assets are recognized to the extent that it is likely that future taxable income will be available against

which to offset the temporary differences and are reviewed in accordance with any legal changes or circumstances that may affect their recoverability (Note 2.17).

## **2.2 Consolidation principles**

Subsidiaries are all companies in which the Group has the power to govern the financial and operating policies, which, in the latter case, implies a shareholding of more than half the voting rights. When assessing whether the Group controls another entity, the existence of any potential voting rights that are exercisable or convertible is considered. Subsidiaries are fully consolidated from the date on which control is transferred to the Group unless the information provided by the company is not sufficiently reliable and its effect on the consolidated accounts is not material. They are de-consolidated from the date that control ceases.

The Annual Consolidated Financial Statements have been prepared applying the full integration method to the accounting records of Zardoya Otis, S.A. and its subsidiary companies, by including all the items on the statement of financial position and profit and loss items arising from the accounting records. Certain reclassifications deemed advisable have been made in order to improve the presentation of the Consolidated Financial Statements and the related non-controlling interests.

Non-controlling interests in the profit or loss and equity of subsidiaries are shown separately in the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of financial position, respectively.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration for the acquisition of a subsidiary is the fair value of the assets transferred, liabilities incurred and shares in the equity issued by the Group at the acquisition date. The consideration transferred also includes the fair value of any asset or liability that comes from an acquisition agreement. Identifiable assets acquired and identifiable liabilities and contingent liabilities accepted in a business combination are measured initially at their acquisition-date fair values. For each business combination, the Group may elect to recognize any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share in the net identifiable assets of the acquiree. Goodwill is measured as the amount by which the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree exceeds the acquisition-date net amounts of the identifiable assets acquired and the identifiable liabilities assumed. If this amount is lower than the fair value of the net assets of the acquiree, the difference is recognized as a gain directly in profit and loss. The costs related to acquisitions are recognized as expenses in the period incurred.

Transactions between Group companies and balances and unrealized gains on transactions between Group entities are eliminated. Likewise, unrealized losses are also eliminated.

**(a) Subsidiaries**

The list of subsidiaries and information thereon is as follows:

<b>Company and registered office</b>	<b>Activity</b>	<b>2017</b>		<b>2016</b>		<b>Parent company</b>
		<b>%</b>	<b>Carrying amount (EThs)</b>	<b>%</b>	<b>Carrying amount (EThs)</b>	
Ascensores Ingar, S.A. (Granada)	Installation of elevators	100%	14 306	100%	14 306	Zardoya Otis S.A.
(+) Cruxent-Edelma, S.L. (Barcelona)	Installation & Service of Elevators	100%	26 504	100%	26 504	Zardoya Otis S.A.
(+) Ascensores Serra, S.A. (Gerona)	Installation & Service of Elevators	75%	605	75%	605	Zardoya Otis S.A.
(+) Mototracción Eléctrica Latierro, S.A. (Vitoria)	Manufacturing elevator engines	-	-	100%	4 073	Zardoya Otis S.A.
(+) Puertas Automáticas Portis, S.L. (Madrid)	Installation and Service of Automatic Doors	100%	18 977	100%	18 977	Zardoya Otis S.A.
(+) Otis Elevadores, Lda. (Portugal)	Installation & Service of Elevators	100%	31 658	100%	31 658	Zardoya Otis S.A.
Masel Otis Elevadores de Madeira, Lda. (Portugal)	Installation & Service of Elevators	60%	2 104	60%	2 104	Otis Elevadores, Lda.
(+) Ascensores Pertor, S.L. (Valencia)	Installation & Service of Elevators	94,13%	17 393	94,13%	17 393	Zardoya Otis S.A.
(+) Acresa Cardellach, S.L. (Barcelona)	Installation & Service of Elevators	96,76%	19 515	94,57%	18 025	Zardoya Otis S.A.
Zardoya Otis (Gibraltar) Limited. (Gibraltar)	Installation & Service of Elevators	100%	-	100%	-	Zardoya Otis S.A.
(+) Conservación de Aparatos Elevadores Express, S.L. (Madrid)	Installation & Service of Elevators	100%	1 771	100%	1 771	Zardoya Otis S.A.
(+) Otis Maroc, S.A. (Morocco)	Installation & Service of Elevators	100%	19 966	100%	19 966	Zardoya Otis S.A.
Ascensores Aspe S.A (Balearic Islands)	Installation & Service of Elevators	100%	9 122	100%	9 122	Zardoya Otis S.A.
(+) Montes Tallón, S.A (Alicante).	Installation and Service of Elevators	52%	10 823	52%	10 823	Zardoya Otis, S.A.
(+) Ascensores Enor S.A. (Pontevedra)	Installation & Service of Elevators and Automatic Doors	100%	117 100	100%	117 100	Zardoya Otis, S.A.
(+) Electromecanica del Noroeste S.A (Pontevedra)	Installation & Service of Elevators	100%	16 525	100%	16 525	Zardoya Otis, S.A.
(+) Enor Elevacao e Equipamentos Industriais Lda (Portugal)	Installation & Service of Elevators	100%	19 916	100%	19 916	Otis Elevadores, Lda. (Portugal)
Electromecánica Hemen Elevadores, S.L.. (Vitoria)	Installation & Service of Elevators	100%	10 798	92,77%	9 888	Zardoya Otis, S.A.

Companies acquired by the CGU Spain (Puertollano, Sevilla, Malaga, Castellon, Madrid)	Installation & Service of Elevators	100%	11 054	-	18 737	Companies belonging to the CGU Spain (**)
Companies acquired by the CGU Spain (Sevilla y Malaga)	Installation & Service of Elevators	100%	3 514	-	-	Companies belonging to the CGU Spain (**)
Companies acquired by the CGU Portugal	Installation & Service of Elevators	100%	2 688	-	-	Companies belonging to the CGU Portugal (**)

(+) Companies audited by PwC in 2017

(\*) Merged with Zardoya Otis, S.A. (period 2017)

(\*\*) Companies acquired by Group entities belonging to the CGUs Spain and Portugal which are expected to be merged in forthcoming years

Note: the carrying amount corresponds to the carrying amount of the investment in the Company holding the interest.

The following transactions and changes to the Group took place in 2016:

On February 25, 2016, the subsidiary Otis Elevadores, Lda. Increased its capital through a non-monetary contribution whereby Zardoya Otis, S.A. contributed its shareholding in Enor – Elevacao e Equipamentos Industriais, Lda. This transaction did not affect the consolidation perimeter, since the Group kept the same percentage interest.

On March 22, 2016, the Board of Directors of Zardoya Otis, S.A. and the Administrator of Admotion, S.L.U. (Admotion) approved a merger project. At the end of 2016, the company Admotion was dissolved but not liquidated and the totality of its equity was transferred to Zardoya Otis, S.A., the absorbing company, which held 100% of its shares.

Also on March 22, 2016, the Board of Directors of Zardoya Otis, S.A. and the Administrator of Ascensores Eguren, S.A.U. (Eguren) approved a merger project. At the end of the 2016 period, Eguren was dissolved but not liquidated and the totality of its equity was transferred to Zardoya Otis, S.A., the absorbing company, which held 100% of its shares.

At the date of approval of this annual financial statements, the companies belonging to the CGU Zardoya Otis Group (Spain) have acquired companies engaged in elevator maintenance and repair in Spain. This information is included in Note 22 of these annual financial statements.

As stated in Note 11, the General Shareholders' Meeting held on May 19, 2016 passed a resolution to increase the share capital through bonus issue charged to available reserves. To execute this resolution, 18,094 shares were issued for a value of 1,809,478.10 euros. The increase took place from July 14, 2016 to July 29, 2016, inclusive.

On June 16, 2016, Zardoya Otis, S.A. acquired 4.66% of the shares of Puertas Automáticas Portis, S.L. from non-controlling interests. This transaction led to a change in the percentage held by Zardoya Otis, S.A. in Puertas Automáticas Portis, S.A., which rose from 95.36% to 100%.

Transactions with non-controlling interests are included in the financial statements and are treated in accordance with Group policy thereon, with no impact on the consolidated profit for the period.

If these transactions had taken place at the beginning of the period, the effect on the key figures of the consolidated income statement and consolidated statement of financial position would not have been significant.

The following transactions and changes to the consolidated Group took place in 2017:

On March 7, 2017, Zardoya Otis, S.A. acquired 7.23% of shares in the subsidiary Electromecánica Hemen Elevadores, S.L. from non-controlling interests. This transaction meant that the percentage held by Zardoya Otis, S.A. in Hemen Elevadores, S.L. changed, rising from 92.77% to 100%.

On May 17, 2017, Zardoya Otis, S.A. acquired 2.19% of the shares in the subsidiary Acresca Cardellach, S.L. from non-controlling interests. This transaction meant a change in Zardoya Otis, S.A.'s holding in Acresca Cardellach, S.L., which rose from 94.57% to 96.76%.

The above transactions with non-controlling interests are included in the consolidated figures for the period commencing in December 2016 and will be treated in accordance with Group policy thereon, with no impact on the consolidated profit for the period.

Companies belonging to the CGU Zardoya Otis Group (Spain) and the CGU Zardoya Otis (Portugal) acquired companies engaged in elevator maintenance and repair. This information is included in Note 7.

In 2017, the companies Elevación y Servicio I.M. 2000 S.L, Ascensores Puertollano S.L and Montajes Stelokotu S.L, acquired in 2016 and belonging to the CGU Zardoya Otis (Spain), prepared a merger project with other Group companies. In the course of the period, they were dissolved without liquidation and the entirety of their respective equities was transferred to the absorbing company.

If these transactions had been carried out at the beginning of the period, the effect on the main figures of the consolidated income statement and statement of financial position would not have been significant.

***(b) Transactions and non-controlling interests***

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases of non-controlling interests, the difference between any consideration paid and the relevant share acquired in the carrying amount of the net assets of the subsidiary is deducted from the equity. Gains or losses on sales of minority interests are also recorded in equity. The disposal of minority interests and the difference between the consideration received and the related proportion of minority interests are also recognized in equity.

## **2.3 Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that differ from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that differ from those of segments operating in other economic environments. Each of the defined segments is allocated the costs that it has incurred directly. Each of the defined segments has its own functional structure. Common or shared costs are allocated based on the time or degree of usage of the resources. Information on operating segments is reported in accordance with the management information produced on a monthly basis, which is reviewed by Management regularly and by the Board of Directors at each of its meetings.

## **2.4 Foreign currency translation**

### ***(a) Functional and reporting currency***

The Consolidated Annual Financial Statements are presented in thousands of euros. The euro is the Group's functional and reporting currency.

The items included in the financial statements of each one of the Group companies are measured using the currency of the principal economic environment in which the company operates ("the functional currency"). The Consolidated Financial Statements are presented in thousands of euros, which is the Group's reporting currency.

### ***(b) Transactions and balances***

Foreign currency transactions are translated into euros using the exchange rates prevailing at the dates of the transactions. Foreign currency losses and gains resulting from settlement of these transactions and conversion of monetary assets and liabilities denominated in foreign currencies at year-end rates are recognized in profit and loss. Exchange rate gains and losses relating to loans and cash and cash equivalents are shown in the income statement under "financial income and expenses".

### ***(c) Group companies***

Gains and losses and the financial situation of Group companies (none of which has the currency of a hyperinflationary economy) with a functional currency other than the currency in which the financial statements are presented are translated into the latter as follows:

- i) The assets and liabilities of each statement of financial position presented are translated at the closing exchange rate on the reporting date.
- ii) The income and expenses of each income statement are translated at the average exchange rates (unless this average is not a fair reflection of the accumulated effect of the rates existing on the transaction dates, in which case the income and expenses are converted at the transaction date),
- iii) All exchange rate differences are recognized as a separate component in other comprehensive income.



Upon consolidation, the exchange differences that arise on the translation of a net investment in foreign companies are taken to the shareholders' equity. When sold, these exchange differences are recognized in profit or loss as part of the loss or gain on the sale.

Adjustments to goodwill and fair value that arise on the acquisition of a foreign company are treated as assets and liabilities of the foreign company and are translated at the exchange rate on the reporting date.

## 2.5 Property, plant and equipment

The land and buildings comprise the Group Company's production centers. All property, plant and equipment is stated at cost less accumulated depreciation and impairment, with the exception of land which is not depreciated.

Historical cost includes expenses that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit and loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or remeasured amounts to their residual values over their estimated useful lives, as follows:

Buildings	33 years
Machinery	4, 8, 10 & 13 years
Vehicles	5 & 6 years
Furniture, fittings and equipment	4, 10 & 13 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable value.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and included in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserves are transferred to reserves for retained earnings.

The value of property, plant and equipment as of November 30, 2017 includes the effect of the revaluation carried out under Spanish legislation in the year 1996 following Royal Decree 7/1996 dated June 7, which gave rise to a net value increase of ETBs 4 056 in the Company's property, plant and equipment. The total amount of the restatement was shown in the

accounts, as provided for in Royal Decree-Law 7/1996, as an increase in the value of the restated assets, with its balancing item in the revaluation reserve account, net of the applicable taxes, for an amount of EThs 3 934.

At November 30, 2017, the aforementioned restatement had an impact of EThs 269 (EThs 288 in 2016) on the net carrying amount of property, plant and equipment. Consequently, the effect of this restatement on the provision for the year 2017 is EThs 19 (EThs 19 in 2016).

This restatement was carried out only in the parent company, Zardoya Otis SA. For the purposes of the first implementation of IFRS, it was considered as acquisition cost, with no further remeasurements under IFRS.

## **2.6 Intangible assets**

### ***(a) Maintenance contracts and other related intangible assets***

The amounts relate principally to the cost of taking over elevator maintenance contract portfolios acquired either directly as a portfolio of contracts or as a consequence of a business combination. Amortization is carried out using the straight-line method, considering the estimated useful lives (10 to 20 years depending on the characteristics of the portfolio). Impairment tests are conducted regularly whenever events or changes in circumstances indicate any possible impairment.

Trademarks and other related assets resulting from portfolio acquisitions are shown at historical cost. They have a defined useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method.

### ***(b) Goodwill***

Goodwill represents the amount by which the acquisition cost exceeds the fair value of the Group's holding in the identifiable net assets of the subsidiary acquired at the acquisition date. Goodwill relating to acquisitions of subsidiaries is included in the intangible assets. Goodwill recognized separately is submitted to annual impairment tests and is measured at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on the sale of a company include the carrying amount of the goodwill associated to the company sold.

Goodwill is assigned to the cash-generating units for the purposes of testing for impairment. It is assigned to the cash-generating units that are expected to benefit from the business combination upon which the goodwill arises.

### ***(c) Research and development expenses***

Research expenditures are recognized as expenses when incurred and are not recognized as an asset. Development costs previously recognized as an expense are not recognized as an asset in a later reporting period.

## **2.7 Impairment losses on non-financial assets**

Assets with an indefinite useful life are not amortized and are tested annually for impairment. Amortizable assets are reviewed to identify, if applicable, impairment when any event or change in circumstances indicates that the carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount of the asset exceeds its recoverable value. The recoverable value is the higher of either the fair value of the asset less costs to sell or its value in use. To measure impairment losses on these assets, they are grouped at the lowest level with identifiable separate cash flows (CGUs). The possible reversal of impairment losses on non-financial assets other than goodwill that have suffered impairment is reviewed at each reporting date.

## **2.8 Financial assets**

### ***2.8.1 Classification***

Financial assets include shareholdings in companies other than subsidiaries and associates, financial assets held for investment purposes and investments held until maturity. Financial assets are recorded at their fair value, including additional direct costs. Permanent impairment is provided for as a direct reduction in the asset account.

The Group classifies its investments in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date. Guarantee and other deposits are measured at the amounts deposited.

#### ***a) Financial assets at fair value through profit and loss***

Financial assets held at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of being sold in the short term. Derivatives are also classified as held for trading unless designated as hedges. Assets in this category are classified as current assets if expected to be liquidated within twelve months. Otherwise, they are classified as noncurrent.

#### ***b) Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities longer than 12 months after the reporting date. These are classified as noncurrent assets. Loans and receivables are included in trade and other receivables on the statement of financial position and recorded at amortized cost using the effective interest method.

Financial assets are derecognised when all the risks and rewards of asset ownership are substantially transferred. In the specific case of accounts receivable it is understood that this occurs in general when the insolvency and default risks have been transferred and the amount is financed directly to the customer by the financial institution.

### ***c) Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative financial assets placed in this category or not classified in any other category. They are included as noncurrent assets unless Management intends to dispose of the investment in the 12 months following the reporting date.

### ***2.8.2 Recognition and measurement***

Acquisitions and disposals of investments are recognized on the trading date, i.e. the date on which the Group makes the commitment to acquire or sell the asset. Investments are initially recognized at their fair value plus transaction costs. Financial assets are derecognized when the rights to receive cash flows from them have expired or been transferred and the Group has substantially transferred all the risks and rewards of ownership thereof. When securities classified as available for sale are sold or incur impairment losses, the accumulated adjustments to the fair value are recognized in profit or loss as losses or gains on the securities.

### **2.9 Offsetting financial instruments**

Financial assets and financial liabilities are offset against each other and presented at the net amount on the statement of financial position when there is a legal right to offset the amounts recognized and the Group intends to liquidate the net amount or to realize the asset and settle the liability simultaneously.

### **2.10 Impairment losses on financial assets**

#### ***Assets at amortized cost***

The Group assesses financial assets or groups of financial assets for indicators of impairment at each reporting date. A financial asset or group of financial assets is impaired and suffers an impairment loss when there is objective evidence of impairment, as a result of one or more events that have occurred after the initial recognition of the financial asset, and the event causing the impairment affects the estimated future cash flows of the financial asset or group of financial assets, provided that this effect can be reliably estimated.

Other criteria that the Group uses to determine whether there is objective evidence of impairment include: significant financial difficulties of the issuer or counterparty; breach of contract, such as a default or delinquency in interest or principal payments; the probability that the borrower will enter bankruptcy or financial re-organization; the disappearance of an active market for that financial asset in question; or other observable information that indicates that there is a measurable decrease in the estimated future cash flows, even if the decrease

cannot yet be identified with individual financial assets belonging to the Group, including if, in a future period, the amount of the impairment loss decreases and the decrease can be objectively attributed to an event that has occurred after the impairment was recognized, the reversal of the previously-recognized impairment loss will be recognized in consolidated profit and loss.

### **2.11 Derivative financial instruments and hedging activity**

The Group occasionally maintains commitments in foreign currency of insignificant value originated by the acquisition of equipment to be installed in special projects. These cases are hedged by forward contracts the impact of which is included in profit and loss as financial costs, in accordance with the accrual method.

Derivatives are initially recognized at their fair value on the date on which the derivative contract is signed. After initial recognition, they are remeasured at fair value.

### **2.12 Inventories**

Inventories are measured at the lower of their net realizable value or average cost of acquisition or production. Finished goods and work in progress include costs directly attributable to the products in question as appropriate to their period of production.

The net realizable value is the estimated selling price in the ordinary course of business less the applicable variable selling costs.

When the net realizable value of the inventories is lower than their costs, the relevant adjustments to their value will be made and recognized in profit and loss. If the circumstances that caused the value adjustment cease to exist, the adjustment is reversed and recognized as revenue in profit and loss.

### **2.13 Trade and other receivables**

#### ***(a) Trade receivables***

Trade receivables are recognized initially at fair value, and subsequently at their amortized cost in accordance with the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due in accordance with the original terms of the receivables. The amount of the provision is recognized in profit and loss.

#### ***(b) Contracts in progress***

Contracts in progress are valued at the cost incurred plus the expected profit margin, based on the percentage of completion of the contract, in proportion to the difference between the total estimated cost and the contract price agreed with the customer.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which cost incurred plus recognized profit (less recognized losses) exceed progress billing and, as a liability, the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses). Progress billings not yet paid by customers and amounts withheld are included within trade and other receivables.

#### **2.14 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term, highly-liquid investments with original maturities of three months or less and cash placements maturing at 30 days, in accordance with the contract for the provision of financial services signed with United Technologies Treasury Center and United Technologies Corporation (the parent company of Otis Elevator Company) for the provision of services and optimization of the placement of cash surpluses, forward contracts and other services. Bank overdrafts are classified as borrowings in the current liabilities.

#### **2.15 Share capital, share premium and treasury stock**

##### **- Share capital and share premium**

Ordinary shares are classified as equity. Incremental costs directly attributable to issuing new shares or options are shown in equity as a deduction, net of taxes, from the revenue obtained.

The share premium corresponds to reserves freely available for distribution.

As a general rule and unless there's a more reliable measurement, the fair value of the equity instruments or financial liabilities issued as consideration in a business combination is their quoted price, if such instruments are listed on an active market.

##### **- Treasury stock**

When shares of the Group parent are acquired, the consideration paid, including any directly attributable incremental cost, is deducted from equity until the shares are written off, reissued or sold. When the shares are sold or reissued subsequently, any amount received, net of any directly attributable incremental cost of the transaction, is recognized in equity.

#### **2.16 Trade payables**

Trade payables are payment obligations for goods or services that have been acquired from vendors in the ordinary course of operations. Payables are classified as current liabilities if payment is due at one year or less (or matures in the normal operating cycle, if longer). Otherwise, they are shown as noncurrent liabilities.

Trade payables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method.

## **2.17 Current and deferred taxes**

The consolidated income statement for the period includes the corporate income tax expense, which is calculated considering the corporate income tax accrued during the year and the effect of deferral of the differences arising between the taxable income and the book profit before tax that will reverse in future years, together with the tax credits and allowances applied by Group companies. Deferred tax is calculated on the basis of the temporary differences that arise between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates that have been or are about to be approved at the reporting date and are expected to apply when the related deferred tax asset is realized or deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is likely that future tax profit will be available to offset the temporary difference.

Deferred tax assets and deferred tax liabilities are offset when, and only when, there is a legally-recognized right to offset the current tax assets against the current tax liabilities and when the deferred tax assets and the deferred tax liabilities derive from corporate income tax levied by the same tax authority and they refer either to the same company or taxpayer or to different companies or taxpayers that intend to settle their current tax assets and liabilities for the net amount.

When there is a change in the tax rates, the deferred tax assets and liabilities are re-estimated. These amounts are charged to profit and loss or other comprehensive income, depending on the account to which the original amount was charged or credited.

## **2.18 Employee benefits**

### **(a) Welfare commitments**

In accordance with Royal Decree 1588/1999, whereby the Regulations on Pension Commitments between companies and employees were approved and which provided that pension commitments acquired by companies must be externalized and arranged through a group life insurance policy or pension plan or both, and the amendment introduced by Law 14/2000 concerning the transitional period for the formalization or adaptation of said policies and/or plans, on November 7, 2002 and November 14, 2002, respectively, the Company signed, with two insurance companies, the framework agreements regulating the technical, economic and legal conditions of the group insurance policies in order to arrange the pension commitments acquired by the company with its current and retired employees. In December 2011, Zardoya Otis, S.A. made the last payment for the financing of the agreement signed.

The liability recognized in the statement of financial position in respect of the defined-benefit pension plans is the present value of the defined-benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses recognized in the consolidated comprehensive income statement and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the

projected unit credit method. The present value of the defined benefit obligation is calculated by discounting the estimated future cash outflows using the interest rate on high-quality corporate bonds denominated in the same currency as that in which the benefits will be paid and maturing at similar terms as the obligation.

There is also a defined-contribution plan the annual premium of which is included as employee expenses. Once the contributions have been paid, the Group holds no additional payment obligations. Contributions are recognized as employee expenses annually.

As stated in Note 34, there are benefits for certain Company executives that depend on their performance and the attainment of joint objectives of Zardoya Otis, Otis and United Technologies Corporation (UTC), based on the UTC long-term incentive plan, which includes UTC share-based compensation schemes. The cost is included under the employee benefit expense heading, generating a credit account with UTC Group companies (presented as other provisions in the statement of financial position).

#### **(b) Severance payments**

The Group recognizes these benefits when it has made a demonstrable commitment in accordance with a detailed formal plan with no possibility of withdrawal. Benefits that will not be paid in the twelve months following the reporting date are discounted back to their present value.

### **2.19 Provisions**

Provisions are recognized when the Group has a legal or constructive current obligation as the result of past events, it is likely that an outflow of resources will be necessary to settle the obligation and the amount can be estimated reliably.

Provisions are measured as the present value of the payments that are expected to be necessary to settle the obligation using a before-tax rate that reflects the present market's estimates of the time value of money and the specific risks of the obligation. Adjustments to the provision to update it are recognized as financial expenses when accrued.

Provisions maturing at one year or less with an insignificant financial effect are not discounted.

When it is expected that part of the payment necessary to settle a provision will be reimbursed by a third party, the reimbursement is recognized as an independent asset, provided that it is almost certain to be received.

Possible obligations arising as a consequence of past events the materialization of which depends on whether, irrespective of the Group's wishes, one or more future events occur, are considered contingent liabilities. These contingent liabilities are not accounted for, although details thereof are presented in the Notes.

### **2.20 Revenue recognition**

Revenue comprises the fair value for the sale of goods and services, net of value-added tax,



rebates and discounts and after sales within the Group have been eliminated. Revenue is recognized as follows:

***(a) Revenue from installation and assembly contracts***

Revenue from elevator installation and assembly is recognized based on the estimated percentage of completion. Periodic corrections are made to the estimates so that the margin of profit or loss that will result at the end of the contracts will not differ substantially from the margins applied while the contracts were in progress.

***(b) Revenue from maintenance contracts***

Revenue from maintenance contracts is apportioned on a straight-line basis as it is earned. Invoicing may be on a monthly, quarterly, six monthly or annual basis depending on the terms laid down in the agreements signed with the customers. The necessary entries are made to recognize advance invoicing.

***(c) Interest revenue***

Interest income is recognized using the effective interest rate method.

**2.21 Dividend distribution**

Dividend distribution to the Company's shareholders is recognized as a liability on the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

**2.22 Borrowings**

Borrowings are initially recognized at fair value net of any transaction costs incurred. Subsequently, they are measured at their amortized cost and any differences between the funds obtained (net of the costs necessary to obtain them) and the repayment value is recognized in profit and loss over the life of the debt, applying the effective interest rate method.

Commissions paid on the granting of credit lines are recognized as transaction costs of the loan to the extent that it is probable that any or all of the lines will be used. In these cases, the commissions are deferred until the line is used. To the extent that there is no evidence that the line is likely to be used, the commission is capitalized as an advance payment for liquidity services and is amortized over the period for which the credit line is available.

Borrowings are classified as current liabilities unless the Group has the unconditional right to defer settlement for at least twelve months after the reporting date.

**2.23 Leases**

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit and loss on a straight-line basis over the period of

the lease.

## 2.24 Earnings per share

Basic earnings per share are calculated by dividing:

- The profit attributable to Company shareholders, excluding any cost of servicing the equity other than ordinary shares;
- Between the weighted average number of ordinary shares in issue during the period, adjusted by the incentives issued on ordinary shares during the period, excluding treasury stock.

For the diluted earnings per share, the figures used to determine the basic earnings per share are adjusted to take the following into account:

- The effect after tax of interest gains and other financial costs associated to ordinary shares with potential diluting effects, and
- The weighted average number of ordinary shares that would have been in issue if all the ordinary shares with potential diluting effects had been converted.

## 2.25 New Standards and IFRIC Interpretations

The IASB has approved and published certain accounting standards, amendments to existing ones and interpretations that came into force in the reporting period:

a.- Standards that came into force in the period:

The Group has been applying these rules to transactions since December 1, 2016, with no significant effect on the Group's financial statements.

IFRS 2 "Share-Based Payments": Definition of "vesting conditions".

IFRS 3 "Business Combinations": Accounting for a contingent consideration in a business combination.

IFRS 8 "Operating Segments": Disclosure in relation to the aggregation of operating segments and reconciliation of all the assets assigned to the segments reported with the entity's assets.

IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets": Proportionate restatement of accumulated depreciation when the revaluation model is used.

IAS 24 "Related Party Disclosures": Entities that provide the services of key management personnel as related parties.

IAS 19 (Amendment) "Defined Benefit Plans: Employee Contributions": The current amendment also distinguishes between contributions linked to service only in the period in which they arise and those linked to service in more than one period.

IFRS 11 (Amendment) “Accounting for acquisitions of interests in joint operations”: Requires the acquirer of an interest in a joint operation that constitutes a business to apply the principles on business combination accounting under IFRS

IAS 16 (Amendment) and IAS 38 (Amendment) “Clarification of Acceptable Methods of Depreciation and Amortization”: This amendment clarifies that revenue-based methods are not appropriate for calculating the depreciation or amortization of an asset because the revenue generated by activity that includes the use of an asset usually represents factors other than the consumption of the economic benefits embodied in the asset. This amendment will come into force for annual periods commencing on or after January 1, 2016 and will apply prospectively.

Improvement Project, Cycle 2012 – 2014: The amendments affect IFRS 5, IFRS 7, IAS 19 and IAS 34 and will apply to annual periods commencing on or after January 1, 2016. The main amendments refer to:

IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”: Changes in disposal methods.

IFRS 7, “Financial Instruments: Disclosures”: Continuing involvement in servicing contracts.

IAS 19, “Employee Benefits”: Determination of the discount rate for post-employment obligations.

IAS 34, “Interim Financial Reporting”: Disclosure of information elsewhere in the interim financial report.

IAS 1 (Amendment) “Disclosure Initiative”: The amendments clarify that companies should use professional judgement to determine where and in what order the information in the financial statements is presented. The amendments to IAS 1 are mandatory for annual periods starting on or after January 1, 2016.

IAS 27 (Amendment) “Equity Method in Separate Financial Statements”: An entity that elects to change to the equity method will apply the amendments for annual periods commencing on or after January 1, 2016 in accordance with IAS 8 “Accounting Policies: Changes in Accounting Estimates and Errors”. Earlier adoption is permitted.

The Group has been applying these rules to transactions since December 1, 2016, with no significant effect on the Group’s financial statements.

b.- Standards that are mandatory for reporting periods commencing on or after January 1, 2015 that the Group has not adopted early and which are not expected to have any significant effects on the financial statements in the period in which they are adopted:

IFRS 15 “Revenue from Contracts with Customers”: In May 2014, the IASB and the FASB jointly issued a converged Standard in relation to the recognition of revenue from contracts with customers. Under this Standard, revenue is recognized when a customer acquires control of the good or service sold, i.e. when it has both the capacity to both direct the use of and obtain the benefits from the good or service. This IFRS includes new guidance to determine whether

revenue should be recognized over time or at the specific moment. IFRS 15 has broad reporting requirements concerning both revenue recognized and revenue expected to be recognized in the future in relation to existing contracts. Likewise, it requires quantitative and qualitative reporting on the significant judgements made by Management when determining the revenue to be recognized and on possible changes in these judgements. IFRS 15 will apply to annual periods commencing on or after January 1, 2018. The Group is evaluating the possible effects of applying this Standard and has not identified, for the time being, any significant impacts on the financial statements in the period in which it is adopted. The main impacts if this Standard had been applied at the end of 2017 are shown below:

	<u>2017</u>	<u>2017 (*)</u>
Total equity	440 992	440 827

(\*) Including the impacts of the early adoption of IFRS 15 “Revenue from Contracts with Customers” in 2017.

IFRS 9 “Financial Instruments”: This refers to the classification, measurement and recognition of financial assets and liabilities. The full version of IFRS 9 was published in July 2014 and replaces the guidance contained in IAS 39 on the classification and measurement of financial instruments. IFRS 9 maintains, but simplifies, the mixed measurement model and establishes three main measurement categories for financial assets: amortized cost, fair value through changes in profit and loss and fair value through changes in other comprehensive income. The classification depends on the entity’s business model and the characteristics of the financial asset’s contractual cash flows.

c.- Standards that have not yet come into force, but which may be adopted earlier than the periods beginning on or after January 1, 2015 and which we have not identified yet significant effects the financial statements in the period in which they are adopted.

IFRS 16 “Leases”: In January 2016, the IASB published a new Standard on leases, which replaces IAS 17 “Leases”, as the result of a joint project with the FASB. The IASB and FASB have reached the same conclusions in many areas related to accounting for a lease, the requirement, as a general rule, to include leases in the statement of financial position and the measurement of lease liabilities. The IASB and FASB also agreed not to include substantial changes to accounting by the lessor, maintaining requirements similar to those of the legislation that was previously in force. There continue to be differences between the IASB and the FASB regarding recognition and presentation of lease-related expenses in the income statement and the statement of cash flows. The Group is evaluating the possible effects of applying this Standard and has not identified any significant impacts on the results in the period in which it is adopted.

IAS 12 (Amendment) “Recognition of Deferred Tax Assets for Unrealized Losses”: This amendment clarifies how to recognize deferred tax assets related to debt instruments measured at fair value. Decreases in the carrying amount below the cost of a fixed-rate debt instrument held at fair value, where the tax base is cost, give rise to deductible temporary differences.

The amendment will apply for annual periods commencing on or after January 1, 2017.

IAS 7 (Amendment) "Disclosure Initiative – Amendments to IAS 7": This narrow-scope amendment includes a requirement for additional disclosures in the financial statements to allow users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendment will apply to annual periods commencing on or after January 1, 2017, although early adoption is permitted.

Additionally, during 2017 transitional guidance was published on interpretations of international standards that have not yet come into force and that the Group has not adopted early.

### **3. Financial risk management**

#### **Financial risk factors**

The Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's global risk management program is focused on the uncertainty of the financial markets and trying to minimize the potential negative effects on the Group's financial profitability.

Risk management is controlled by Group Management in accordance with policies approved by the parent company's Board of Directors. Management assesses and hedges financial risks in close collaboration with the Group's operating units, in order to:

- Ensure that the most important risks are identified, assessed and managed.
- Ensure an appropriate operating segregation of the risk management functions.
- Ensure that the risk exposure level accepted by the Group in its operations is in line with its risk profile.

#### **(a) Market risk**

##### **(i) Foreign exchange risk**

The Group operates internationally and is occasionally exposed to foreign exchange risk arising from transactions in US dollars. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. However, these transactions are not significant and the effect of a change in the interest rate would not have a material effect on the Group's financial statements at November 30, 2017.

To hedge the foreign exchange risk on future commercial transactions for the import of materials, Group companies use forward contracts negotiated with UTC Treasury Center.

The Group holds an investment in foreign currency, Otis Maroc S.A., the net assets of which are

exposed to the risk of foreign exchange differences. Although their value is approximately seven million euros, the effect of a change in the exchange rate is not expected to have a material effect on the Group's financial statements.

In relation to export and import trading transactions, the Group is exposed to exchange rate risk, which is not significant. At November 30, 2017, there were balances payable in foreign currencies other than the euro for a value equivalent to EThs 879 (EThs 754 in 2016).

(ii) Price risk

The Group has only limited exposure to commodity price risk.

Additionally, Group companies do not hold investments in companies outside the Group and, therefore, the Group is not exposed to securities price risk.

**(b) Credit risk**

The Group has no significant concentrations of risk with customers and there are no significant old credit balances (Note 8). The Group has policies in place to ensure that installation sales are made to customers with appropriate credit histories and, in addition, regular debt-monitoring procedures are conducted by the departments involved in debt collection

To minimize credit risk, the Group has risk management policies in place to limit the amount of risk with any one financial institution. The credit risk arises from cash and cash equivalents, financial instruments, deposits with financial institutions, debt available for sale and accounts receivable. The banks and financial institutions with which the Group works are of recognized prestige and hold high credit ratings.

The amounts of trade receivables are shown in the statement of financial position net of the provision for impairment. At November 30, 2017, said provision was EThs 89 041 (EThs 94 659 in 2016) (Note 8). The Company estimates the provision in accordance with the age of the debt and experience in earlier years, in line with the previous segregation of the customer portfolio and the current economic environment. The analysis of financial assets aged over six months but not deemed to be totally impaired at November 30, 2017 and 2016 is as follows:

	<b>2017</b>	<b>2016</b>
Between 6 months & 1 year	11 817	11 968
Between 1 & 2 years	8 055	9 646
More than 2 years	-	-
EThs	<u>19 872</u>	<u>21 614</u>

Amounts receivable for exports relate to balances with related companies (Otis Group).

As stated in Note 10, at November 30, 2017 and 2016, the Group held short-term deposits with financial institutions of EThs 16 034 and EThs 26 695, respectively, As stated above these deposits are placed with prestigious financial institutions in Spain and Portugal.

### ***c) Liquidity risk***

Conservative liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

At November 30, 2017, cash and cash equivalents represented EThs 60 854 (EThs 62 344 in 2016), including amounts held as cash, in banks and as current deposits with financial institutions.

The change in the statement of cash flows in relation to operating, investing and financing activities is shown below:

	<u>2017</u>	<u>2016</u>
<b>Cash at beginning of period</b>	<b>62 344</b>	<b>65 553</b>
Cash flows from operating activities	163 871	163 320
Cash flows from investing activities	(13 392)	(13 023)
Cash flows from financial activities	(151 969)	(153 506)
<b>Cash at end of period</b>	<b><u>60 854</u></b>	<b><u>62 344</u></b>

### ***(d) Cash flow and fair value interest rate risk***

As the Group does not hold important remunerated assets, income and cash flows from operating activities are substantially independent of changes in market interest rates.

The Group does not use financial derivatives to hedge rate risks derived from its activity..

The Group's interest rate risks arise on noncurrent borrowings indexed to variable interest rates. The variable interest rate applied to the loans from financial institutions is subject to the fluctuations of the Euribor.

As stated in Note 20, at the 2017 and 2016 reporting dates, the Group did not hold any borrowings at a fixed interest rate.

### ***(e) Capital risk management***

The Group's objectives in relation to capital management are to safeguard its capacity to continue as a going concern, to have the capacity to fund its internal growth or external growth through acquisitions, to obtain adequate yields for the shareholders and to maintain an optimal capital structure that includes equity, the generation of its own cash from the business in each reporting period and, as far as necessary, borrowings at the lowest cost possible.

The Group considers the leverage as a capital management indicator. It is calculated by dividing the net debt by the total capital. The net financial debt is calculated as total borrowings plus other financial liabilities less cash and cash equivalents less current financial assets.

	<b>2017</b>	<b>2016</b>
Borrowings (current and noncurrent)	323	324
Other current & noncurrent financial liabilities	7 675	13 709
Cash and cash equivalents	(60)	(62 344)
	854)	
Net financial debt	(52)	(48 311)
	856)	
Equity	440	437 576
	992	
Leverage (*)	<b>-0,14</b>	<b>-0,12</b>

(\*) (Net financial debt / (Net financial debt + equity)).

At November 30, 2017, this net debt represented -0.2756 of EBITDA (2016: -0.2121) (Ebitda: operating profit + depreciation + amortization).

#### 4. Segment reporting

Zardoya Otis has determined achieving Service Excellence as its main goal. From this standpoint, the objective is to satisfy vertical transport users throughout the full cycle of the product, starting with the design and manufacture of elevators, integrating the technological advances that have made the Group the market leader, applied not only to new, but also to existing buildings, and including their maintenance and replacement. In consequence, installation (and replacement) and maintenance of elevators are not considered separate segments but complementary products and services of the same nature, with an integrated production cycle, addressed to the same type of customers and with a single distribution network, that represent a single business segment for the Group, managed as such and subject to similar risks and opportunities. Therefore, geographical differentiation has been identified as the primary segment, considering the markets of Spain and Portugal and also Morocco / North Africa, as they have independent supervision, as stated in IFRS 8.

As stated in Note 2.3, the distinction between segments relates to the structure of the management information that is produced on a monthly basis, regularly reviewed and used as a basis for decision-making by Management and the Board of Directors.



2017			Assets			Liabilities
	Sales	Operating profit	Total	Amortization/	Noncurrent	
				depreciation charge	investments in assets	
Zardoya Otis Group – Spain	712 565	179 906	599 977	19 028	10 165	225 155
Otis Elevadores Group and Enor - Portugal	60 651	20 673	72 929	814	2 889	26 233
Otis Maroc – Morocco	17 157	1 849	40 465	100	351	20 991
Elimination intra-group transactions	(12 091)	(1 540)	-	-	-	-
<b>Consolidated</b>	<b>778 282</b>	<b>200 888</b>	<b>713 371</b>	<b>19 942</b>	<b>13 405</b>	<b>272 379</b>

  

2016			Assets			Liabilities
	Sales	Operating profit	Total	Amortization/	Noncurrent	
				depreciation charge	investments in assets	
Zardoya Otis Group – Spain	681 802	184 426	593 886	20 981	26 996	222 630
Otis Elevadores Group and Enor - Portugal	56 708	21 061	71 003	575	212	27 286
Otis Maroc – Morocco	16 888	1 381	44 661	91	111	22 058
Elimination intra-group transactions	(9 357)	(711)	-	-	-	-
<b>Consolidated</b>	<b>746 041</b>	<b>206 157</b>	<b>709 550</b>	<b>21 647</b>	<b>27 319</b>	<b>271 974</b>

Additionally separate information on the parent company is shown below:

2017	Sales	Operating profit	%	Fixed assets acquired
	Zardoya Otis S.A. (aggregate of 99 branches)	590 223	154 155	25,93
Spanish Group companies - Elevators (15 companies)	155 731	25 751	16,54	4 262
Otis Elevadores Group and Enor Elevadores– Portugal	60 651	20 673	34,09	2 889
Otis Maroc – Morocco	17 157	1 849	10,78	351
<b>Group total</b>	<b>823 762</b>	<b>202 428</b>	<b>24,43</b>	<b>13 405</b>
Eliminations – intra-group transactions	(45 480)	(1 540)	-	-
<b>Consolidated</b>	<b>778 282</b>	<b>200 888</b>	<b>25,67</b>	<b>13 405</b>

  

2016	Sales	Operating profit	%	Fixed assets acquired
	Zardoya Otis S.A. (aggregate of 99 branches)	570 357	153 773	26,96
Spanish Group companies - Elevators (16 companies)	164 392	30 653	18,64	18 905
Otis Elevadores Group and Enor Elevadores– Portugal	56 708	21 061	37,14	212
Otis Maroc – Morocco	16 888	1 381	8,18	111
<b>Group total</b>	<b>808 345</b>	<b>206 868</b>	<b>25,59</b>	<b>27 319</b>
Eliminations – intra-group transactions	(62 304)	(711)	-	-
<b>Consolidated</b>	<b>746 041</b>	<b>206 157</b>	<b>27,63</b>	<b>27 319</b>

## 5. Property, plant and equipment

Details of the different categories of property, plant and equipment and movement on these accounts are shown below:

	Land & Buildings	Machinery	Furniture, fittings & equipment	Total
<b>As of November 30, 2015</b>				
Cost	59 549	43 400	73 734	176 683
Accumulated depreciation	(15 452)	(36 011)	(64 384)	(115 846)
Impairment loss	-	-	-	-
Net carrying amount	<b>44 097</b>	<b>7 389</b>	<b>9 351</b>	<b>60 837</b>
<b>2016</b>				
Business combinations (Note 33)	-	-	116	116
Increases	3 838	1 580	1 255	6 673
Decreases	(242)	(2 028)	(1 697)	(3 967)
Depreciation charge	(1 732)	(2 737)	(2 149)	(6 618)
Eliminations from depreciation	141	1 766	1 653	3 560
Impairment losses recognized in period	-	-	-	-
Impairment losses reversed	-	-	-	-
Other movements	-	-	-	-
	2 005	(1 419)	(822)	(236)
<b>As of November 30, 2016</b>				
Cost	63 145	42 952	73 408	179 505
Accumulated depreciation	(17 043)	(36 982)	(64 880)	(118 904)
Impairment loss	-	-	-	-
Net carrying amount	<b>46 102</b>	<b>5 970</b>	<b>8 528</b>	<b>60 601</b>
<b>2017</b>				
Business combinations (Note 33)	-	-	59	59
Increases	58	1 544	2 909	4 511
Decreases	(1 336)	(14 309)	(8 128)	(23 773)
Depreciation charge	(922)	(1 870)	(1 861)	(4 653)
Eliminations from depreciation	1 336	14 309	7 866	23 511
Impairment losses recognized in period	-	-	-	-
Impairment losses reversed	-	-	-	-
Other movements	720	-	(882)	(162)
	(144)	(326)	(37)	(507)
Cost				
Accumulated depreciation	61 867	30 187	68 248	160 302
Impairment loss	(15 909)	(24 543)	(59 757)	(100 209)
Net carrying amount	-	-	-	-
Cost	<b>45 958</b>	<b>5 644</b>	<b>8 491</b>	<b>60 093</b>

The property, plant and equipment figures include assets in progress for a total value of EThs 714 in 2017 and EThs 138 in 2016.

The principal property, plant and equipment consists of buildings and installations related to the Leganés plant (2008) for EThs 24 130 (EThs 23 345 in 2016) and those acquired in 2013, which relate to the value of the land and building located in the Valladares Technical and Logistical Park (Vigo), where the industrial building, the production facilities and the offices of the subsidiaries Ascensores Enor, S.A. and Electromecánica del Noroeste, S.A. are located. These facilities were inaugurated in 2009, At the reporting date, their carrying amount was EThs 13 248 (EThs 13 833 in 2016).

At November 30, 2017 and 2016, the following items of property, plant and equipment had been fully depreciated:

	<b><u>Thousands of euros</u></b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>
Land and buildings	5 476	4 763
Vehicles and machinery	29 786	29 413
Furniture, fittings and equipment	29 042	39 380
EThs	<b><u>64 725</u></b>	<b><u>73 556</u></b>

Of the total property, plant and equipment net of depreciation, the value of which is EThs 60 093, a total of EThs 449 is in Portugal and a total of EThs 549 in Morocco (EThs 323 and EThs 297, respectively, in 2016). There is no other property, plant and equipment outside Spanish territory.

It is the Group's policy to take out all the insurance policies deemed necessary to cover any possible risks which could affect, among other things, property, plant and equipment. At November 30, 2017 and 2016 none of the Group's financial liabilities were secured by property, plant and equipment and, therefore, all the property, plant and equipment were free of any charges.

## 6. Intangible assets

Details of the main categories of intangible assets and the movement on these accounts are shown below:

EThs	Maintenance contracts	Goodwill	Other	Total
<b>As of November 30, 2015</b>				
Cost	303 771	147 150	13 968	464 889
Accumulated amortization	(123 436)	-	(7 972)	(131 408)
Impairment loss	-	(8 054)	-	(8 054)
Net carrying amount	<b>180 335</b>	<b>139 096</b>	<b>5 996</b>	<b>325 427</b>
<b>2016</b>				
Increases	802	-	1 738	2 540
Business combinations (Note 33)	11 642	6 348	-	17 990
Decreases	(145)	-	-	(145)
Amortization charge	(13 303)	-	(1 726)	(15 029)
Eliminations from amortization	121	-	-	121
	(883)	6 348	12	5 477
<b>As of November 30, 2016</b>				
Cost	316 070	153 498	15 706	485 274
Accumulated amortization	(136 619)	-	(9 698)	(146 317)
Impairment loss	-	(8 054)	-	(8 054)
Net carrying amount	<b>179 451</b>	<b>145 444</b>	<b>6 008</b>	<b>330 903</b>
<b>2017</b>				
Increases	60	-	1 979	2 039
Business combinations (Note 33)	5 689	1 107	-	6 796
Decreases	(250)	-	-	(250)
Amortization charge	(13 331)	-	(1 974)	(15 305)
Eliminations from amortization	114	-	-	114
	(7 718)	1 107	5	(6 606)
<b>As of November 30, 2017</b>				
Cost	321 571	154 605	17 685	493 861
Accumulated amortization	(149 836)	-	(11 672)	(161 507)
Impairment loss	-	(8 054)	-	(8 054)
Net carrying amount	<b>171 735</b>	<b>146 551</b>	<b>6 013</b>	<b>324 300</b>

It is a common Group practice, when there are operating reasons that justify it, to take advantage of business combinations synergies through the legal integration by merger or liquidation of the entity acquired into the CGU to which it belongs. In this regard, since Group business constitutes a single integrated production process, it is considered a CGU inasmuch as it is the smallest identifiable group of assets that generates independent cash inflows.

As may be seen in Note 2.2, in 2017 and 2015, several transactions were carried out with non-controlling interests and mergers took place between Group companies, with effects on Group decision-making and management. In this respect, the Group's cash generation and both financial and operational decision-making falls into three CGUs: Zardoya Otis Spain Group, Zardoya Otis Portugal Group and Zardoya Otis Morocco Group. The CGUs are aligned with the financial, operating and strategic information that is used as a basis for decision-making by the Management and Directors of the Group parent.

At November 30, 2017 and 2016, goodwill with an indefinite useful life was assigned to the Group's cash generating units (CGUs) as follows:

	<b>2017</b>	<b>2016</b>
Zardoya Otis Group (Spain)	117 764	116 657
Zardoya Otis Group (Portugal)	13 168	13 168
Zardoya Otis Group (Morocco)	15 619	15 619
<b>EThs</b>	<b>146 551</b>	<b>145 444</b>

At November 30, 2017 and 2016, maintenance contracts with defined useful lives were assigned to the Group's cash generating units (CGUs) as follows:

	<b>2017</b>	<b>2016</b>
Zardoya Otis Group (Spain)	164 184	173 360
Zardoya Otis Group (Portugal)	7 284	5 305
Zardoya Otis Group (Morocco)	267	786
<b>EThs</b>	<b>171 735</b>	<b>179 451</b>

In 2017 and 2016, the Group carried out business combinations described in Note 33.

For significant business combinations, the Group requires an external company of recognized prestige to verify the fair value of the net assets acquired. The recoverable amount at the time of the business combination for each CGU is determined by using cash-flow projections of financial budgets approved by Management for a maximum 15-year period, based on past performance and market development expectations.

Maintenance contracts are measured applying the free discounted cash flow method, adjusted by the customer cancellation and turnover rate according to the information and statistics held by Group Management and on the basis of the verification of the existence and current validity of the contracts.

To calculate the discount rate, the Group uses the long term bond rate, growth expectations, the CGU's effective tax rate and the Group's cost of debt. The perpetuity rate is in line with the rate used by similar industries in the countries in which the Group operates. Information on the assumptions used at the date the business combinations took place for each Cash Generating Unit are as follows:

	Period of years budgeted	Perpetuity rate	<i>Discount rate (acquisition date)</i>
Zardoya Otis Group (Spain)	5 to 15	2.0 %	From 7.5% to 9,7%
Zardoya Otis Group (Portugal)	5 to 15	2.0 %	9,72 %
Zardoya Otis Group (Morocco)	15	2.0 %	8.2 %

The discount rate used is after tax and is independent of the specific capital structure of Zardoya Otis, S.A. and its subsidiaries, which do not have significant financial debt, assuming the discount rate structure of the international group and the sector.

The goodwill included in the net value of the assets of each CGU is tested for impairment, consisting of a comparison between the carrying amount for consolidation purposes and the recoverable value (value in use) applying the key assumptions: period considered, discount rate and growth rate employed for the projection beyond the period considered.

For impairment testing in 2017, a maximum annual growth rate of 2.9% (2.9% in 2016) was used and the

perpetuity rate was 2% (2% in 2016). The discount rate applied was 6.01% (2016: 6.50%) for the Spain CGU, 8.39% (2016: 8.82%) for the Portugal CGU and 8.13% (2016: 9.25%) for the Morocco CGU.

Apart from the discount rate, the most sensitive aspects included in the projections used, which are based on the forecasts of the international Group, sector forecasts and historical experience, are service revenue, growth in the contracts on the portfolio from the expected synergies of the business combinations and adequate maintenance of the Group's expense and cost structure.

In 2017 and 2016, the values in use of the assets of the CGUs, calculated in accordance with the aforementioned model, were, in all cases, higher than the net carrying amounts recognized in these Consolidated Annual Financial Statements. Therefore, no impairment has been recognized. Likewise, it is considered that any possible reasonable variations that may be undergone by the key assumptions upon which the determination of the recoverable amounts of the CGUs was based would not change the conclusions drawn on the measurement of the assets.

Regarding the aforementioned sensibility analysis, the following table shows the analysis of to the CGU Zardoya Otis Group Morocco, since this was the only CGU the goodwill of which was suffered impairment in the period 2016 and, therefore, would be the best adjusted.

Period 2017: (Millions of euros)

Discount rate	Growth				
	1.00%	1.50%	2.00%	2.50%	3.00%
11.00%	21.8	22.6	23.6	24.6	25.8
10.34%	23.4	24.4	25.5	26.8	28.2
8.13%	31.1	33.0	35.2	37.8	40.8
8.00%	31.7	33.7	36.0	38.7	41.9

Regarding CGUs Zardoya Otis Spain Group and Portugal, their values in use significantly exceed the consolidated carrying amount of each one of them. Even if the assumptions considered (discount rate, projected period growth and perpetuity growth rate) were to change significantly, the value in use would still be higher than their respective consolidated carrying amounts.

In 2017, the trade and other payables heading included an obligation of EThs 12 535 (2016: 12 855) related to the share purchase agreement signed in 2011 with the sellers of Montes Tallón. This obligation is updated, since the risks and rewards associated to ownership of 48% of the shares of Monte Tallón are still held by no-controlling interests. To determine the price of these shares, the same criteria as applied in the initial purchase will be used, basically, maintenance contracts and equity value. In this respect, in 2017, the change in liabilities was recognized in the consolidated income statement as financial income of EThs 320 (EThs 463 in 2016).

As stated in Note 2.2, in 2017, the non-controlling interest in the company Electromecánica Hemen Elevadores, S.L. was acquired. Payment of this acquisition was applied against the obligation of EThs 956 that was recognized at the end of 2016 in relation to the purchase and sale agreement for these shares, which stated, in respect of the non-controlling interest, that the sellers could ask Zardoya Otis, S.A. to purchase them at any time in the following five years.

As stated in the accounting policies in the Notes to the Consolidated Annual Financial Statements for 2016 and 2015 in relation to transactions and non-controlling interests, the Group applies the policy of considering transactions with non-controlling interests as transactions with holders of instruments in the Group's capital. For acquisitions of non-controlling interests, the difference between the price paid and the related proportion of the carrying amount of the subsidiary's net assets is deducted from the equity. For this reason, the obligation was recognized against reserves in consolidated companies and other reserves.

The principal assets, at carrying amount in the individual financial reporting, contributed to the consolidation by each one of the CGUs to which goodwill has been assigned are as follows:

<u>EThs period 2017</u>	<b>Zardoya Otis Group Spain</b>	<b>Zardoya Otis Group Portugal</b>	<b>Zardoya Otis Group Morocco</b>	<b>Total</b>
Maintenance contracts	164 184	7 284	267	171 735
Goodwill	117 764	13 168	15 619	146 551
Other intangible assets	6 014	-	-	6 014
Property, plant & equipment	59 095	449	549	60 093
Other noncurrent assets	31 899	938	-	32 837
Current assets	221 021	51 090	24 030	296 141
<b>Total assets</b>	<b>599 977</b>	<b>72 929</b>	<b>40 465</b>	<b>713 371</b>
Noncurrent liabilities	35 448	1 388	159	36 995
Current liabilities	189 707	24 845	20 832	235 384
<b>Total liabilities</b>	<b>225 155</b>	<b>26 233</b>	<b>20 991</b>	<b>272 379</b>
<b>Net assets</b>	<b>374 822</b>	<b>46 696</b>	<b>19 474</b>	<b>440 992</b>

<u>EThs period 2016</u>	<b>Zardoya Otis Group Spain</b>	<b>Zardoya Otis Group Portugal</b>	<b>Zardoya Otis Group Morocco</b>	<b>Total</b>
Maintenance contracts	173 360	5 305	786	179 451
Goodwill	116 657	13 168	15 619	145 444
Other intangible assets	6 008	-	-	6 008
Property, plant & equipment	59 981	323	297	60 601
Other noncurrent assets	30 272	1 040	-	31 312
Current assets	207 608	51 167	27 959	286 734
<b>Total assets</b>	<b>593 886</b>	<b>71 003</b>	<b>44 661</b>	<b>709 550</b>
Noncurrent liabilities	38 149	697	166	39 012
Current liabilities	184 481	26 589	21 892	232 962
<b>Total liabilities</b>	<b>222 630</b>	<b>27 286</b>	<b>22 058</b>	<b>271 974</b>
<b>Net assets</b>	<b>371 256</b>	<b>43 717</b>	<b>22 603</b>	<b>437 576</b>

## 7. Financial assets and liabilities by category

	Loans & receivables & other	Assets held at fair value through profit and loss	Hedging derivatives	Available for sale	Total
<b>November 30, 2017</b>					
<b>Noncurrent assets in statement of financial position</b>					
Loans and receivables (Note 8)	8 125	-	-	-	8 125
Other	718	-	-	-	718
<b>November 30, 2016</b>	<b>8 843</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8 843</b>
<b>November 30, 2017</b>					
<b>Current assets in statement of financial position</b>					
Trade and other receivables (Note 8)	187 396	-	-	-	187 396
Other	224	-	-	-	224
Cash and cash equivalents (Note 10)	60 854	-	-	-	60 854
<b>Total</b>	<b>248 474</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>248 474</b>

	Loans & receivables & other	Assets held at fair value through profit and loss	Hedging derivatives	Available for sale	Total
<b>November 30, 2016</b>					
<b>Noncurrent assets in statement of financial position</b>					
Loans and receivables (Note 8)	7 379	-	-	-	7 379
Other	728	-	-	-	728
<b>Total</b>	<b>8 107</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8 107</b>
<b>November 30, 2016</b>					
<b>Current assets in statement of financial position</b>					
Trade and other receivables (Note 8)	180 867	-	-	-	180 867
Other	1 409	-	-	-	1 409
Cash and cash equivalents (Note 10)	62 344	-	-	-	62 344
<b>Total</b>	<b>244 620</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>244 620</b>

	Liabilities held at fair value through profit and loss	Hedging derivatives	Other financial liabilities at amortized cost	Total
<b>November 30, 2017</b>				
<b>Noncurrent liabilities in statement of financial position</b>				
Borrowings from financial institutions (Note 20)	-	-	-	-
Trade and other payables	-	-	-	-
Other debts through acquisitions (Note 16)	-	-	2 648	2 648
<b>Total</b>	<b>-</b>	<b>-</b>	<b>2 648</b>	<b>2 648</b>



<b>November 30, 2017</b>				
<b>Current liabilities in statement of financial position</b>				
Borrowings from financial institutions (Note 20)	-	-	323	323
Trade and other payables (Note 16)	-	-	188 124	188 124
Other debts through acquisitions (Note 16)	-	-	5 027	5 027
<b>Total</b>	-	-	<b>193 474</b>	<b>193 474</b>

	<b>Liabilities held at fair value through profit and loss</b>	<b>Hedging derivatives</b>	<b>Other financial liabilities at amortized cost</b>	<b>Total</b>
<b>November 30, 2016</b>				
<b>Noncurrent liabilities in statement of financial position</b>				
Borrowings from financial institutions (Note 20)	-	-	-	-
Trade and other payables	-	-	-	-
Other debts through acquisitions (Note 16)	-	-	3 850	3 850
<b>Total</b>	-	-	<b>3 850</b>	<b>3 850</b>

<b>November 30, 2016</b>				
<b>Current liabilities in statement of financial position</b>				
Borrowings from financial institutions (Note 20)	-	-	324	324
Trade and other payables (Note 16)	-	-	181 904	181 904
Other debts through acquisitions (Note 16)	-	-	10 422	10 422
<b>Total</b>	-	-	<b>192 650</b>	<b>192 650</b>

## 8. Trade and other receivables

	<b>2017</b>	<b>2016</b>
Trade receivables	204 113	210 747
Less: Provision for impairment of receivables	(89 041)	(94 659)
Trade receivables– Net	115 072	116 088
Amount due from customers for contract work	27 115	14 678
Other receivables (Note 17)	8 193	7 407
Public authorities	14 008	11 569
Prepayments	695	2 043
Receivables from related parties (Note 34)	36 322	40 651
<b>Total</b>	<b>201 405</b>	<b>192 436</b>

EThs

The total amount of the costs incurred at the reporting date was EThs 90 165 (2016: EThs 62 514). This amount includes recognized profits (less recognized losses) on all contracts in progress for EThs 5 344 (2016: EThs 4 571). Amounts due from customers for contract work are shown as the net of the cost incurred at the end of the reporting period and the advance payments received from the customers, for an amount of EThs 63 050 (EThs 47 836 in 2016). At November 30, 2017, the trade receivables balance showed an amount of EThs 2 797 (2016: EThs 2 470) related to amounts withheld by customers in accordance with the conditions of their contracts.

Movement on the provision for the impairment of receivables was as follows:

	<b>2017</b>	<b>2016</b>
Beginning of period	94 659	98 295
Provision made	2 044	857
Business combinations	-	288
Applications	(4 121)	(3 488)
Provision's cancelled	(3 542)	(1 293)
EThs	89 040	94 659

The provisions and applications are including on the income statement under the heading of "Other expenses, net". The net provision provided in the period 2017 was -0.27% of Group sales (2016: -0.35%).

To provide further detail, the following is a summary of unimpaired receivables overdue by more and less than 6 months but not impaired:

### **2017**

Thousands of euros	Total	Impaired	Net	Not yet due	Due
Less than 6 months	117 430	(21 818)	95 612	52 152	43 460
Between 6 months and 1 year	14 418	(2 601)	11 817	-	11 817
Between 1 and 2 years	29 049	(21 406)	7 643	-	7 643
More than 2 years	3 917	(3 917)	-	-	-
In litigation	39 299	(39 299)	-	-	-
Total	204 113	(89 041)	115 072	52 152	62 920

### **2016**

Thousands of euros	Total	Impaired	Net	Not yet due	Due but not impaired
Less than 6 months	111 811	(17 298)	94 513	55 964	38 549
Between 6 months and 1 year	13 252	(1 285)	11 967	-	11 967
Between 1 and 2 years	34 917	(25 309)	9 608	-	9 608
More than 2 years	10 053	(10 053)	-	-	-
In litigation	40 714	(40 714)	-	-	-
Total	210 747	(94 659)	116 088	55 964	60 124

For 2017 and 2016, the carrying amount of trade and other payables does not differ significantly from their fair value.

Additionally, other noncurrent assets includes long-term promissory notes received from customers with maturity dates at more than one year for a total amount of EThs 3 984 (EThs 4 706 in 2016). The breakdown by years until maturity is as follows:

	<u>2017</u>	<u>2016</u>
Two years	3 440	4 003
Three years	442	659
More than three years	102	44
EThs	<u>3 984</u>	<u>4 706</u>

## 9. Inventories

	<u>2017</u>	<u>2016</u>
Raw materials and consumables for production	29 125	25 615
Work in progress	4 533	4 930
EThs	<u>33 658</u>	<u>30 545</u>

## 10. Cash and cash equivalents

	<u>2017</u>	<u>2016</u>
Cash and banks	44 820	35 649
Current deposits with financial institutions	16 034	26 695
EThs	<u>60 854</u>	<u>62 344</u>

The effective interest rate on current deposits with financial institutions varied from 0,02% and 0.05% (2016: from 0.10% to 0.65%) and the maturity of these deposits is less than 3 months. Unlike preceding years, at November 30, 2017 and 2016, the Group did not hold any deposits with Group companies.

Cash and borrowings include:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	60 854	62 344
Borrowings: utilization of bank credit (Note 20)	155	155

The Group holds committed credit lines for an amount sufficient to maintain flexibility in funding. Notwithstanding, these lines are only used occasionally. At the 2017 reporting date, total current borrowings balance include EThs 155 (2016: EThs 155) relating to other non-bank credits granted to the Group and to the interest calculated on acquisitions.

## 11. Capital

	No. Shares	Ordinary shares	Total
At November 30, 2015	452,369,530	452,369,530	452,369,530
Capital increase June	18,094,781	18,094,781	18,094,781
At November 30, 2016	470,464,311	470,464,311	470,464,311
Capital increase July	-	-	-
At November 30, 2017	470,464,311	470,464,311	470,464,311

The share issue carried out in 2016 was a bonus issue charged to voluntary reserves.

Owner	Shares		% interest	
	2017	2016	2017	2016
United Technologies Holdings, S.A.	235,279,377	235,279,377	50.01	50.01
Euro-Syns, S.A.	54,392,423	53,802,775	11.56	11.44
Other non-controlling interests	180,792,511	181,382,159	38.43	38.55
Treasury shares	0.00	0.00	0.00	0.00
	470,464,311	470,464,311	100.00	100.00

No other individual shareholder holds an interest of more than 10% in the capital of the parent company of the Group.

All the shares of the Group parent are of the same class and have the same voting rights.

The incremental costs directly attributable to the issuance of new shares are presented in equity as a deduction, net of taxes, from the income obtained.

### 2016:

At the General Shareholders' Meeting held on May 19, 2016, the following resolutions, among others, were adopted:

Bonus issue charged to freely-available reserves, in the proportion of one new share for every twenty-five old shares in issue, for an amount of 1,809,478.10 euros, by means of the issue of 18,094,781 shares. When this capital increase had been completed, the share capital rose to 47,046,431.10 euros, represented by 470,464,311 shares with a par value of 0.10 euros each. The increase was carried out between July 14, 2016 and July 29, 2016, inclusive. The new shares were listed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, effective September 19, 2016.

## 12. Treasury stock

At November 30, 2017, Zardoya Otis, S.A. did not hold any of its own shares (0 at the end of 2016).

## 13. Legal reserve

The legal reserve has been set aside in accordance with article 274 of the Capital Companies Law, which states that, in all cases, an amount equal to 10 percent of the profit for the year will be allocated to this reserve until a figure equal to at least 20 percent of the share capital is reached.

Unless it exceeds the aforementioned threshold, the legal reserve can only be used to offset losses, in the event that there are not sufficient other reserves available for this purpose.

Details of the legal reserve by company at November 30, 2017 and 2016 are as follows:

<u>Parent company of Group</u>		<u>2017</u>	<u>2016</u>
Zardoya Otis S.A.	EThs	9 785	9 409
 <b><u>Subsidiaries</u></b>			
Ascensores Eguren, S.A. (*)		-	-
Ascensores Ingar, S.A.		13	13
Ascensores Serra, S.A.		48	48
Cruxent-Edelma, S.L.		24	24
Mototracción Eléctrica Latierro, S.A. (*)		-	63
Grupo Otis Elevadores (Portugal)		420	420
Puertas Automáticas Portis, S.L.		68	68
Ascensores Pertor, S.L.		10	10
Conservación de Aparatos Elevadores Express, S.L.		354	354
Acrea Cardellach, S.L.		2 162	2 162
Zardoya Otis (Gibraltar) Limited		0	0
Otis Maroc, S.A.		10	10
Ascensores Aspe S.A.		41	41
Montes Tallón, S.A.		19	19
Ascensores Enor S.A.		601	601
Electromecánica del Noroeste S.A.		204	204
Enor Elevacao e Equipamentos Industriais Lda		50	50
Electromecánica Hemen Elevadores, S.L.		1	1
Companies acquired in 2016 (in process of merger)		12	38
Companies acquired in 2017 (in process of merger)		1	-

#### 14. Reserves in consolidated companies, other reserves and non-controlling interests

EThs	<u>Consolidated companies</u>	<u>Other reserves</u>	<u>Total</u>
<b>As of November 30, 2015</b>	<b>84 901</b>	<b>111 566</b>	<b>196 467</b>
Profit 2015	41 521	39 642	81 163
Dividends paid in the period	(39 998)	-	(39 998)
Capital increase	-	(1 809)	(1 809)
Other movements	(689)	-	(689)
<b>As of November 30, 2016</b>	<b>85 735</b>	<b>149 399</b>	<b>235 134</b>
Profit 2016	41 622	41 197	82 819
Dividends paid in the period	(39 352)	-	(39 352)
Capital increase	-	-	-
Other movements	806	-	806

As of November 30, 2017

88 811

190 596

279 407

Details by company of reserves in consolidated companies and other reserves as of November 30, 2017 and 2016 are as follows:

<u>Company</u>	<u>2017</u>	<u>2016</u>
Zardoya Otis S.A.	212 954	160 753
Ascensores Ingar, S.A.	(6 262)	(5 834)
Ascensores Serra, S.A.	1 166	1 167
Cruxent-Edelma, S.L.	(12 129)	(12 498)
Mototracción Eléctrica Latierro, S.A. (*)	-	2 543
Grupo Otis Elevadores (Portugal)	37 376	36 997
Puertas Automáticas Portis, S.L.	6 469	7 219
Zardoya Otis (Gibraltar) Limited	34	7
Ascensores Pertor, S.L.	6 441	7 376
Conservación de Aparatos Elevadores Express, S.L.	17 893	17 183
Acresa Cardellach, S.L.	26 041	26 287
Ascensores Aspe S.A. (subsidiary of Eguren S.A.)	(2 888)	(1 688)
Otis Maroc, S.A.	4 502	4 493
Montes Tallón S.A.	(3 027)	(2 632)
Electromecánica Hemen Elevadores, S.L.	1 048	97
Companies acquired in 2016	97	-
Enor companies	(349)	3 623
IFRS adjustments	(9 959)	(9 959)
	<u>279 407</u>	<u>235 134</u>

Details of non-controlling interests by company as of November 30, 2017 ad 2016 are as follows:

<u>Company</u>	<u>Non-controlling interests</u>		<u>Dividends paid</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Ascensores Serra, S.A.	836	815	466	502
Ascensores Pertor, S.L.	1 151	1 217	195	175
Acresa Cardellach, S.L.	1 355	2 276	96	140
Montes Tallón S.L.	6 790	7 266	-	-
Electromecánica Hemen Elevadores, S.L.	-	1 232	-	44
Masel Otis Elevadores de Madeira, Lda	1 294	1 203	319	320
EThs	11 426	14 009	1 076	1 181

## 15. Profit for the period

The contribution of each consolidated company to the net consolidated profit, including the portion relating to non-controlling interests, is as follows:

<u>Company</u>	<u>2017</u>		<u>2016</u>	
	<u>Consolidated profit</u>	<u>Attributable to non-controlling interests</u>	<u>Consolidated profit</u>	<u>Attributable to non-controlling interests</u>
EThs				
Zardoya Otis S.A.	117 481	-	118 965	-
Ascensores Ingar, S.A.	425	-	(428)	-
Ascensores Serra, S.A.	1 460	487	1 398	466

Crucent-Edelma, S.L.	1 643	-	1 834	-
Mototracción Eléctrica Latierro, S.A.	-	-	500	-
Grupo Otis Elevadores (Portugal)	14 831	410	15 214	326
Puertas Automáticas Portis, S.L.	2 515	-	2 340	-
Zardoya Otis (Gibraltar) Limited	32	-	27	-
Ascensores Pertor, S.L.	2 105	131	2 192	137
Conservación de Aparatos Elevadores Express, S.L.	2 843	-	3 044	-
Acresa Cardellach, S.L.	2 804	94	3 195	184
Otis Maroc, S.A.	1 404	-	925	-
Ascensores Aspe S.A.	413	-	560	-
Montes Tallón, S.A.	(526)	(379)	(395)	(321)
Enor	3 792	-	2 813	-
Electromecánica y Ascensores Hemen	360	-	345	27
Acquisitions 2016 & 2017 (in process of merger)	451	-	97	-
EThs	<b>152 744</b>	<b>743</b>	<b>152 626</b>	<b>819</b>

The proposed distribution of 2017 profit of the parent company that will be submitted for approval at the Annual General Shareholders' Meeting, together with the 2016 profit distribution approved, is as follows:

		<b>2017</b>	<b>2016</b>
<b><u>Available for distribution</u></b>			
Profit for the period		152 289	154 836
	EThs	152 289	154 836
<b><u>Distribution</u></b>			
Legal reserve		377	376
Reserve for goodwill		-	1 806
Other reserves		39 001	41 197
Dividends		112 911	111 457
	EThs	152 289	154 836

(\*) Distribution of the 2016 profit approved by the General Shareholders' Meeting of Zardoya Otis, S.A. on May 24, 2017.

## 16. Trade and other payables

	<b>2017</b>	<b>2016</b>
Trade payables	34 160	28 094
Payables to related parties (Note 34)	10 318	9 677
Other payables	13 776	15 958
Goods received but not invoiced	8 572	10 261
Notes payable	146	305
Amounts due to customers on work in progress (Note 8)	43 815	40 300
Maintenance billing in advance	24 272	25 989
Acquisition commitments (Note 7)	5 027	10 422
Other payables to public authorities (Note 17)	23 393	24 103
Outstanding employee remuneration	27 184	29 103
Other	25 881	22 217
EThs	216 544	216 429

The amounts payable to related companies are partly in foreign currency and there are no other significant amounts payable in foreign currency. Since the amounts are current and are not significant, no hedges have been deemed necessary. The heading "Related companies" includes balances denominated in foreign currencies other than euros, the equivalent value of which in euros is EThs 879 (2015: EThs 754).

At November 30, 2017 and 2016, there were commitments for costs incurred in work for which, although it had been completed, charges from third parties had not yet been received. This item is shown under the heading "Other payables".

The heading "Other" includes mainly the liabilities mentioned in Note 6 above for a value of EThs 12 535 (2016: EThs 13 811).

In relation to commitments from acquisitions, the table below shows the maturities of the outstanding amounts for this item, presented as other financial liabilities:

2017

	<b>Current</b>	<b>2019</b>	<b>2020/21</b>	<b>Noncurrent</b>
Acquisitions 2016 & earlier	3 235	875	254	1 129
Acquisitions 2016	1 792	1 264	255	1 519
	<b>5 027</b>	<b>2 139</b>	<b>509</b>	<b>2 648</b>

2016

	<b>Current</b>	<b>2018</b>	<b>2019/20</b>	<b>Noncurrent</b>
Acquisitions 2015 & earlier	4 138	817	105	922
Acquisitions 2016	6 284	2 463	465	2 928
	<b>10 422</b>	<b>3 280</b>	<b>570</b>	<b>3 850</b>

Summary of the 2017 debt:

	<b>Current</b>	<b>Noncurrent</b>
<b><u>Acquisitions until 2017</u></b>		
Acquisitions CGU Spain	4 635	1 946
Acquisitions CGU Portugal	392	702
Acquisitions CGU Morocco	-	-
	<b>5 027</b>	<b>2 648</b>

Summary of the 2016 debt

	<b>Current</b>	<b>Noncurrent</b>
<b><u>Acquisitions until 2016</u></b>		
Acquisitions CGU Spain	10 422	3 850
Acquisitions CGU Portugal	-	-
Acquisitions CGU Morocco	-	-
	<b>10 422</b>	<b>3 850</b>

Company acquisition agreements in force at November 30, 2017 and 2016 bear interest charges only on the portions relating to contingent liabilities secured by withholding part of the price payable. The amount is not significant.



Forecast payments are classified as current in accordance with the payment conditions fixed in each contract. Those classified as noncurrent are measured at amortized cost and the differences are recognized in profit and loss over the term of the debt, applying the effective interest rate method.

a) Information on delays in payments to suppliers. Third Additional Provision "Reporting duties" of Law 15/2010 of July 5.

In accordance with Law 15/2010 of July 5, the Group reports that, in the 2017 reporting period, total payments of EThs 363 766 were made to supplies (2016: EThs 334 419), complying with the aforementioned legislation.

	<b>2017</b>	<b>2016</b>
	<b>Days</b>	<b>Days</b>
Average payment period to suppliers	55	50
Ratio of transactions paid	55	51
Ratio of transactions outstanding	50	46
	<b>Euros</b>	<b>Euros</b>
Total payments made	363 766	334 419
Total payments outstanding	34.160	28.094

## 17. Public Treasury

	<b>2017</b>	<b>2016</b>
<b>Debit balances</b>		
Social security	46	26
Withholding tax on investment income	361	170
Public Treasury, VAT payable	387	492
Public Treasury, input VAT	5 779	5 593
Prior years taxes	7 436	5 288
EThs	14 008	11 569
<b>Credit balances</b>		
Provision for corporate income tax	50 533	56 597
Payments on account of corporate income tax	(42 677)	(53 525)
EThs	7 856	3 072
Public Treasury, withholdings operated	3 091	3 007
Public Treasury, VAT due	2 320	1 006
Public Treasury, output VAT	7 636	9 382
Social Security	10 346	10 708
EThs	23 393	24 103

## 18. Deferred taxes

	<b>2017</b>	<b>2016</b>
Deferred tax assets		
to be recovered after more than 12 months	23 395	22 580

to be recovered within 12 months		599	625
	EThs	23 994	23 205
Deferred tax liabilities			
to be recovered after more than 12 months		22 712	25 289
to be recovered within 12 months		1 551	1 503
	EThs	24 263	26 792

Movement on the deferred tax assets and liabilities in the period was as follows:

	Welfare commitments	Amortization intangible assets	Other	Total
Deferred tax assets				
<b>As of November 30, 2015</b>	11 579	6 165	4 834	22 578
P&L impact	(547)	(722)	1 894	625
Change in statutory rate	-	-	-	-
Business combinations	-	-	2	2
<b>As of November 30, 2016</b>	11 032	5 443	6 730	23 205

P&L impact	5	783	1	625
Change in statutory rate	-	-	-	-
Business combinations	-	-	-	2
<b>As of November 30, 2017</b>	11 937	6 226	6 731	23 994

	Welfare commitments	Amortization intangible assets	Other	Total
Deferred tax liabilities				
<b>As of November 30, 2015</b>	-	25 416	-	25 516
P&L impact	-	(1 535)	-	(1 535)
Change in statutory rate	-	-	-	-
Business combinations (Note 33)	-	2 911	-	2 911
<b>As of November 30, 2016</b>	-	26 792	-	26 792
P&L impact	-	(3 951)	-	(3 951)
Change in statutory rate	-	-	-	-
Business combinations (Note 33)	-	1 422	-	1 422
<b>As of November 30, 2017</b>	-	24 263	-	24 263

Deferred tax is calculated on the basis of the temporary differences that arise between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates that have been or are about to be approved at the reporting date and are expected to apply when the related deferred tax asset is realized or deferred tax liability is settled.

## 19. Welfare commitments

Post-employment commitments held with Group employees, consisting of the payment of social security benefit complements, other retirement benefits and life insurance premiums, are met through group insurance policies and are classified as defined-benefit plans.

The liability recognized in the statement of financial position for the defined-benefit plans is the present value of the obligation at the reporting date less the fair value of the assets attached to the plan. The defined benefit obligation is calculated annually, once the salary adjustment process has concluded in October, by independent actuaries, using the projected unit credit method. The consolidated income statement shows an expense of EThs 1 978 (2016: EThs 1 378) for this item as an employee benefit expense.

In 2014, the Group adopted IAS 19 and applied it retrospectively. The impact of the application of this Standard included recognition of actuarial gains in the statement of comprehensive income.

	<u>2017</u>	<u>2016</u>
<b>Obligations (Asset) on consolidated statement of financial position</b>		
Current employees	(4 141)	(2 673)
	<u>(4 141)</u>	<u>(2 673)</u>

The amounts recognized in the statement of financial position were measured as follows:

	<u>2017</u>	<u>2016</u>
Present value of the obligations financed	38 920	39 843
Fair value of plan assets	<u>(43 061)</u>	<u>(42 516)</u>
Liability (Asset) in statement of financial position	(4 141)	(2 673)

The evolution of the present value of the defined-benefit obligation and the fair value of plan assets was as follows:

	<u>Obligation recognized</u>	<u>Plan assets</u>
As of November 30, 2015	<u>36 058</u>	<u>(40 630)</u>
Service cost	1 975	-
Interest cost	830	-
Return on plan assets	-	(961)
Payments to beneficiaries	(903)	903
Contributions	-	(220)
Actuarial losses / gains	2 632	(2 290)
Settlements	<u>(749)</u>	<u>251</u>
As of November 30, 2016	<u>39 843</u>	<u>(42 516)</u>
Service cost	2 233	-
Interest cost	679	-
Return on plan assets	-	(732)

Payments to beneficiaries	(805)	805
Contributions	-	(433)
Actuarial losses / gains	(2 712)	(301)
Settlements	(317)	116
As of November 30, 2017	<u>38 920</u>	<u>(43 061)</u>

The principal actuarial assumptions used were as follows:

	<u>2017</u>	<u>2016</u>
The discount rate varies, depending on the length of the obligation, between	1.52%-1.58%	1,30%-2.75%
Mortality tables	PERMF 2000P	PERMF 2000P
Wage increase	2.15%	2.75%
Estimated average early retirement age	65 to 67 years	65 to 67 years

The amounts recognized in profit and loss were as follows:

	<u>2017</u>	<u>2016</u>
Current service cost	2 233	1 975
Interest cost	679	829
Expected return on plan assets	(732)	(961)
Settlements	(201)	(465)
Actuarial (gains) / losses	-	-
<b>Total included in employee benefit expenses (income) (Note 23)</b>	<u><b>1 978</b></u>	<u><b>1 378</b></u>

The fair value of plan assets (matched insurance policies) was measured in accordance with IAS 19, which allows the equalization of the value of these policies with that of the obligations. These obligations were externalized and were subject to a financing plan with the insurance companies that ended in 2012.

The amounts of the present value of obligations for defined benefits and the fair value of plan assets for the 2017 reporting period and the preceding four annual periods are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Present value of obligations financed	38 920	39 843	36 058	39 640
Fair value of plan assets	(43 061)	(42 516)	(40 630)	(41 674)

The Group's best estimate of the contributions to be paid in the year ending November 30, 2018 is EThs 2 005 (2017: EThs 2 233).

The actuarial gains and losses shown in the statement of recognized income and expenses, recognized in equity for an actuarial gain of EThs 3 013 (actuarial loss of EThs 342 in 2016), relate principally to the effects of experience with the group on which the calculation was based and are the sum of an actuarial loss of EThs 243 (2016: actuarial loss of EThs 335); and an actuarial gain of 3 023 EThs (2016: actuarial gain of EThs 184 ), attributable to deviations in wages, which were lower than expected, and persons who no longer belong to the plan, which reduced or increased the obligation; as well as EThs 233 (2016: EThs 34) related to changes in the rates of and returns on the funds.

Additionally, there is a defined-contribution plan, the annual cost of which is included under the heading "Employee benefit expenses" for an amount of EThs 649 (EThs 608 in 2016).

## 20. Borrowings

At November 30, 2017 and 2016, the carrying amount of current borrowings from financial institutions was equal to their fair value, since the impact of applying a discount was not significant.

### 2017:

	<u>Current</u>	<u>2017</u>	<u>2018</u>	<u>Noncurrent</u>
Borrowings from financial institutions	155	-	-	-
Other	168			
EThs	323	-	-	-

### 2016:

	<u>Current</u>	<u>2017</u>	<u>2018</u>	<u>Noncurrent</u>
Borrowings from financial institutions	155	-	-	-
Other	169			
EThs	324	-	-	-

At November, 30 2017 financial assets of EThs 33 831 (EThs 24 895 in 2016) (collection rights from customers) that had been derecognized because the risks of default and delinquency had been transferred.

## 21. Provision for other liabilities and expenses

	<b>2017</b>	<b>2016</b>
<b>Noncurrent</b>		
Other commitments with employees	10 084	8 370
<b>Current</b>		
Litigations: customer transactions	133	46
Guarantees	9 827	12 699
Chamber of Commerce and other taxes	701	392
EThs	10 661	13 137

The provision for guarantees covers principally free service commitments derived from the signature of contracts by Group companies, usually with a term of less than one year. Risks provided for relate to litigations and other identified risks inherent to the Group's activity.

The following table shows the movement on the provisions:

	Other noncurrent commitments wiith employees and other	Litigations: customer transactions	Guarantees	Other
<b>As of November 30, 2015</b>	<b>7 220</b>	<b>1 319</b>	<b>12 215</b>	<b>657</b>
Provisions/(reversals) in income statement	1 150	(1 273)	484	(265)
Amounts used				
Other	-	-	-	-
<b>As of November 30, 2016</b>	<b>8 370</b>	<b>46</b>	<b>12 699</b>	<b>392</b>
Provisions/(reversals) in income statement	1 714	87	(2 872)	309
Amounts used				
Other	-	-	-	-
<b>As of November 30, 2017</b>	<b>10 084</b>	<b>133</b>	<b>9 827</b>	<b>701</b>

## 22. Revenue

		<b>2017</b>	<b>2016</b>
Services provided		544 674	533 683
Revenue from construction contracts		48 754	41 728
Exports		184 167	169 867
Other sales		687	763
Total revenue	EThs	778 282	746 041

### 23. Employee benefit expenses

	<u>2017</u>	<u>2016</u>
Wages and salaries	178 558	175 979
Social security and other	65 996	64 016
Employee benefit commitments	1 978	1 378
EThs	<u>246 532</u>	<u>241 373</u>

Social security and other includes severance payments to employees of EThs 2 974 in 2017 (2016: EThs 5 554).

As from the 2011 reporting period, a long-term UTC incentive plan has also been included for certain Zardoya Otis executives who are likewise considered as UTC Group executives. This plan includes UTC share-based payments (Note 34). The expense recognized for this item in 2017 was EThs 660 (2016: EThs 789).

### 24. Raw materials and consumables used

	<u>2017</u>	<u>2016</u>
Materials and subcomponents for installations and services	305 866	295 553
Elimination of intra-group transactions	(45 480)	(60 537)
Purchase discounts	-	-
Change in inventories	(3 010)	(6 895)
EThs	<u>257 376</u>	<u>228 121</u>

### 25. Other net expenses

Depending on their nature, other net expenses are broken down into:

	<u>2017</u>	<u>2016</u>
Leases	18 027	17 896
Repairs and maintenance	2 472	2 318
Insurance premiums	194	627
Advertising and publicity	2 425	2 468
Transport	12 236	9 555
Supplies and other services	16 709	14 355
Independent professionals	2 843	3 263
Subcontracting	1 355	1 625
Other	808	1 922
Impairment of receivables (Note 8)	(2 077)	(2 630)
EThs	<u>54 991</u>	<u>51 399</u>

### 26. Net financial expenses and income

	<u>2017</u>	<u>2016</u>
Interest expense:		
– Loans from financial institutions	(394)	(173)
	(394)	(173)
Interest income:		
– Bank deposits	621	768

- Other		-	-
		621	768
Net foreign exchange gains / (losses)		70	28
	EThs	297	623

## 27. Income tax

	<u>2017</u>	<u>2016</u>
Profit before tax	201 314	207 830
Permanent differences:	1 704	521
Profit from foreign companies	(22 610)	(22 574)
Other differences		
Prior period temporary differences in respect of which the relevant deferred tax asset was not recognized	(15 804)	(11 851)
Temporary differences arising in the period in respect of which the relevant deferred tax asset has not been recognized	-	-
Adjusted profit before tax	164 604	173 926
Temporary differences arising in the period in respect of which the relevant deferred tax asset is recognized	(3 155)	6 045
Taxable income	161 449	179 971
Gross tax payable	40 362	50 392
Tax credits	(514)	(2 115)
Other differences and tax assessment raised	2 013	-
Net corporate income tax expense, foreign companies	5 966	6 108
Change in statutory rate		-
<b>Corporate income tax expense</b>	<b>47 827</b>	<b>54 385</b>

The deferred tax asset accumulated at November 30, 2017 was EThs 23 994 (EThs 23 205 in 2016). This deferred tax asset came basically from temporary differences relating to welfare commitments, bad debt provision, delayed sales costs and other provisions that will reverse in future years. Furthermore, there are deferred tax liabilities of EThs 24 263 (EThs 26 792 in 2016 relating to differences generated by goodwill).

Deductible temporary differences relate principally to welfare commitments of EThs 11 037 (2016: 11 032), which are expected to be offset as follows:

Period 2018: EThs 708
Period 2019: EThs 629
Period 2020: EThs 525
Period 2021: EThs 508
Period 2022: EThs 552



Period 2023: EThs 474  
 Period 2024: EThs 433  
 Other: EThs 7 645

At the reporting date, EThs 42 677 (EThs 53 525 in 2016) had been paid on account of the final corporate income tax payable. Corporate income tax expense included EThs 4 740 of revenue from deferred taxes (EThs 2 160 of revenue from deferred taxes in 2016). (Note 18)

The effective tax rate for Otis Elevadores, Lda. (Portugal) is 26.66 % and that of Otis Maroc, S.A., 23.00% (26.69% and 33.00% in 2016, respectively), while corporate income tax expense for 2017 was EThs 5 542 and EThs 423, respectively (EThs 5 658 and 450 in 2016).

In relation to Zardoya Otis, S.A., the Company was notified that the Tax Agency would commence inspections in relation to corporate income tax, value-added tax and personal income tax for the accounting periods 2011, 2012, 2013, 2014 and 2015. In 2017, these inspections concluded with no impact on the profit for the period and the periods up to November 30, 2015 were closed for inspection purposes

For the Spanish subsidiaries and for Otis Maroc, S.A., the Otis Elevadores (Portugal) Group and Enor Portugal, the last four tax periods are still open to inspection.

As a consequence of, among other items, possible different interpretations of current tax legislation, additional liabilities could arise as the result of an inspection. However, the directors consider that, to the best of their knowledge should any such liabilities arise, they would not have a significant effect on the Consolidated Annual Financial Statements.

## 28. Earnings per share

Basic earnings per share are calculated, in accordance with IAS 33, by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue in the year, excluding treasury shares acquired by the Company. Apart from the capital increase in the periods, no event that could dilute the earnings per share has occurred..

	<b>2017</b>	<b>2016</b>
Profit attributable to equity holders of the Company	152 747	152 626
Weighted average number of ordinary shares in issue during the year	470 464 311	459.909.022
Weighted average number of treasury shares	-	(83 460)
Basic earnings per share	<u>0,32</u>	<u>0,33</u>

## 29. Dividends per share and partial cash distribution of share premium

In 2016 and 2017, three quarterly dividends were paid and there was a partial cash distribution of the share premium, as follows:

<u>1st Dividend</u> 0.080 euros gross per share, charged to the year 2016. Declared on March 30, 2016 and paid out on April 11, 2016. Shares: 452,369,530 (Treasury stock: 11,547 shares). Total = 36,189,562.41 euros	36 189
<u>Partial distribution of share premium</u> 0.080 euros gross per share. Declared on May 20, 2016 and paid out on July 11, 2016. Shares: 452,369,530 (Treasury stock: 587,874 shares). Total = 36,189,562.41 euros	36 189

<u>2nd Dividend</u> 0.080 euros gross per share, charged to the year 2016. Declared on September 22, 2016 and paid out on October 10, 2016. Shares: 470,464,311 (Treasury stock: 79,066 shares). Total = 37,637,144.88 euros	37 637
Dividend at end of period	110 015
<u>3rd Dividend</u> 0.080 euros gross per share, charged to the year 2016. Declared on December 14, 2016 and paid out on January 10, 2017. Shares: 470,464,311 (Treasury stock: 0 shares). Total = 37,637,144.88 euros	37 637
<b>TOTAL 2016</b>	<b>147 652</b>
<u>1st Dividend</u> 0.080 euros gross per share, charged to the year 2017. Declared on March 21, 2017 and paid out on April 10, 2017. Shares: 470,464,311 (Treasury stock: 0 shares). Total = 37,637,144.88 euros	37 637
<u>Partial distribution of share premium</u> 0.079 euros gross per share. Declared on May 24, 2017 and paid out on July 10, 2017. Shares: 470,464,311 (Treasury stock: 0 shares). Total = 37,166,680.57 euros	37 166
<u>2nd Dividend</u> .080 euros gross per share, charged to the year 2017. Declared on September 18, 2017 and paid out on October 10, 2017. Shares: 470,464,311 (Treasury stock: 0 shares). Total = 37,637,144.88 euros	37 637
Dividend at end of period	112 440
<u>3rd Dividend</u> 0.080 euros gross per share, charged to the year 2017. Declared on December 12, 2016 and paid out on January 10, 2018. Shares: 470,464,311 (Treasury stock: 0 shares). Total = 37,637,144.88 euros	37 637
<b>TOTAL 2017</b>	<b>150 077</b>

In relation to the interim dividends distributed by Zardoya Otis, S.A. in the year 2017, the existence of sufficient liquidity for their distribution was verified, in accordance with the Capital Companies Law, art. 277:

	<b>Dividend:</b>		
	<b>1st February</b>	<b>2nd August</b>	<b>3rd November</b>
Gross profit since December 1, 2016	52 463	149 842	192 062
Estimate of corporate income tax payable	(9 414)	(28 515)	(39 773)
Available net profit	43 049	121 327	152 289
Amount distributed previously	-	37 637	75 274
Amount proposed and distributed	37 637	37 637	37 637
Liquidity in cash	18 266	46 406	20 518
Temporary financial investments	-	-	-
Current trade bills receivable	21 474	20 384	23 687
Current loans	14 807	6 971	12 846
Net liquidity	54 546	73 761	57 051

### 30. Cash generated by operations

The following is a breakdown by item of the cash flow from operations included in the consolidated statement of cash flows:

	2017	2016
Profit before tax	201 314	207 011
– Depreciation of property, plant and equipment (Note 5)	4 653	6 596
– Amortization of intangible assets (Note 6)	15 305	15 050
– (Profit)/loss on disposals of property, plant and equipment	127	1 050
– Increase/(reduction) in retirement benefit obligations	1 468	1 900
– Interest paid (Note 26)	(394)	(173)
– Interest received (Note 26)	621	768
– Losses/(gains) on foreign currency conversion in operating activities (Note 26)	(70)	28
Changes in working capital (excluding the effects of the acquisition and foreign exchange differences upon consolidation):		
– Inventories	(2 810)	(6 894)
– Trade and other receivables	(11 568)	(1 298)
– Financial assets at fair value through Profit and loss		
– Trade and other payables	3 052	( 4 472)
Tax payment for the period	(47 827)	(56 276)
<b>Cash generated by operations</b>	<b>163 871</b>	<b>163 320</b>

### 31. Contingencies

The Group has contingent liabilities in respect of bank guarantees and other matters arising in the ordinary course of business. It is not foreseen that any material liabilities will arise from the contingent liabilities. The Group has given guarantees in the ordinary course of business amounting to EThs 15 833 (2016: EThs 14 919).

As the result of a disciplinary procedure initiated by the National Commission on Competition (CNC), now the National Commission on Markets and Competition (CNMC), against several companies in the elevator industry, a fine of EThs 2 845 was imposed on Zardoya Otis, S.A. in September 2013. A bond was deposited in order to appeal against the administrative decision before the Contentious-Administrative Chamber of the National Court, which duly delivered judgment. An appeal against said judgment has been filed before the Supreme Court, which has given it leave to go ahead. The bond will remain in force until the Supreme Court hands down its judgment.

### 32. Commitments

#### *Asset purchase commitments*

Investments committed at the end of the reporting period but not made at said date were as follows:

EThs	<u>2017</u>	<u>2016</u>
Property, plant and equipment	225	335

At the reporting date, there were purchase commitments for property, plant and equipment of EThs 975 (EThs 335 in 2016), of which EThs 714 (EThs 138 in 2016) had been paid in advance.

#### *Lease commitments*

The Group leases commercial premises, offices and warehouses under lease contracts for which different conditions have been agreed. Furthermore, there are other operating lease commitments, principally concerning vehicles. The estimated annual cost of the totality of the commitments assumed under said lease agreements is:

	<u>2017</u>	<u>2016</u>
Premises leased	3 566	3 464
Other	6 006	5 867

### 33. Business combinations

#### 2017:

Companies belonging to the CGU Zardoya Otis Group (Spain and Portugal) acquired, for EThs 6 202, 100% of the shares in the companies Lifetime- Elevadores Unipessoal (January 1, 2017), Lda and Joaquim Férias e Filhos- Elevadores Unipessoal, Lda (January 1, 2017), Sistemas Automáticos de Elevación SL (April 21 2017) and Liftsur Elevadores SL (July 27, 2017), all of which are engaged in elevator repair and maintenance in Portugal and Spain.

Details of the assets and liabilities included are as follows:

Cash and cash equivalents	164
Property, plant & equipment	59
Intangible assets	5.689
Receivables	732
Inventories	80
Deferred tax assets	-
Payables	746
Deferred tax liabilities	1.422

A difference of EThs 1 107 arose as goodwill.

**2016:**

Companies belonging to the CGU Zardoya Otis Group (Spain) acquired, for EThs 18 737, 100% of the shares in the companies Elevación y Servicios IM 2000, S.L. (February 25, 2016), Ascensores Puertollano, S.L. (March 14, 2016), Ascensores Stelokotu, S.L. (July 5, 2016), Elevadores Castalia, S.A. (July 21 2016) and M. CASAS S.A (September 6, 2016), all of which are engaged in elevator repair and maintenance in Portugal and Spain.

Details of the assets and liabilities included are as follows:

Cash and cash equivalents	3 096
Property, plant & equipment	116
Intangible assets	11 642
Receivables	1 335
Inventories	36
Deferred tax assets	3
Payables	929
Deferred tax liabilities	2 911

A difference of EThs 6 348 arose as goodwill.

During the periods 2017 and 2016, the Group carried out transactions with non-controlling interests, which are explained in Note 2.2.

**34. Related-party transactions**

At November 30, 2017, United Technologies Holdings S.A. (incorporated in France) held 50.01% of the parent company, Zardoya Otis, S.A. The ultimate Group parent is United Technologies Corporation (incorporated in the United States), the parent company of United Technologies Holdings, S.A.

The following transactions were carried out with related parties:

<u>EThs</u>	<u>2017</u>	<u>2016</u>
<i>Transactions with Otis Elevator Co</i>		
Royalties	(18 407)	(17 949)
Charge-back of costs relating to the R&D Center	3 899	3 374
<u>Payables</u>	<u>(512)</u>	<u>(460)</u>
<i>Transactions with Otis Group company, sales and purchases of goods and services</i>		
Sales and expenses invoiced	170 542	165 914
Purchases and expenses borne	(49 884)	(35 737)
Receivables	36 322	40 651
Payables	(9 806)	(9 217)

The Group considers all the trading and non-trading transactions carried out by any Group company with shareholders, directors or associated companies to be related transactions.

The Company periodically requests the opinion of an expert of recognized prestige concerning the pricing policy established for the transactions with other Otis Group entities, in order for it to be reviewed by the Audit Committee.

The Group has been party to a technical assistance agreement, "Intellectual Property License Agreement", with Otis Elevator Company since 1999. This agreement allows the Company to use the trademarks and have access to Research & Development activities and global product development. The cost of this agreement is a royalty of between 2.1% and 3.5% of sales to end, excluding intra-group sales.

Additionally, in September 2010, a "Recharge Agreement" was signed with United Technologies Corporation (UTC), which concerned the possibility that certain Zardoya Otis, S.A. executives who were also considered to be UTC Group executives, since they held important management responsibilities should benefit, depending on their performance and the attainment of joint objectives of Zardoya Otis, Otis and United Technologies Corporation (UTC), from the UTC long-term incentive plan, which includes UTC share-based compensation schemes. The Agreement is applicable to incentives assigned as from December 1, 2010. The cost, approved by the Audit Committee, is included in employee benefit expenses, generating a credit account with UTC Group companies (shown as other provisions in the statement of financial position). The expense originated by this item is included under the employee benefit expense heading. For 2017, the expense was EThs 660 (EThs 789 in 2016), relating to the fair value of the accumulated assets to which it is indexed, which was EThs 4 554 (EThs 4 146 in 2016).

The global remuneration for all items accrued during the year by the members of the Board of Directors was EThs 2 084 (1 676 in 2016) and consisted of the following items:

	<b>2017</b>	<b>2016</b>
Fixed compensation	281	249
Variable compensation	230	100
Bylaw stipulated items	1 200	1 200
Other long-term benefits	306	70
Pension plan contributions	67	57
<b>TOTAL</b>	<b>2 084</b>	<b>1 676</b>

At the 2017 and 2016 reporting dates, the Company had not granted any advances or credits to the members of the Board of Directors.

Additionally, the overall compensation for all items accrued by the members of Group senior management (non-directors) was EThs 865 (EThs 626 in 2016), as reported in Sections C.1.15 and C.1.16 of the 2016 Annual Corporate Governance Report.

#### Conflicts of interest of the directors

Complying with the duty to avoid situations where there is a conflict with the Company's interests, the directors who held office on the Board of Directors during the period met the obligations set forth in article 228 of the Revised Text of the Capital Companies Law. Likewise, both they and persons related to them refrained from entering into the situations of conflict of interest provided for in article 229 of said Law, except

in cases where the relevant authorization had been obtained.

### 35. Environmental information

At November 30 2017, the Group was not aware of any contingency, risk or litigation in progress related to the protection and improvement of the environment. Therefore, the Company has not recognized any provision in the statement of financial position at November 30, 2017 for environmental actions.

The Group has approved a Corporate Environmental Policy Manual that stipulates the principal procedures and actions to be followed in plants, offices, transport, Installation and Service.

The principal programs established are intended to reduce to effects of environmental pollution by:

- Control, recycling and reduction of highly contaminating waste (oils).
- Control and reduction of recyclable waste (packaging).
- Control and reduction of emissions into the air due to industrial and combustion processes.
- Control and reduction of water and energy consumption.

The Madrid-Leganés plant was designed to minimize energy consumption by including the installation of photovoltaic panels on the roof, the carrying amount of which is EThs 4 153, with accumulated depreciation of EThs 1 742 at the reporting date.

In addition, in 2017, expenses for the removal or recycling of waste were recognized for a value of EThs 23 (2016: EThs 38).

### 36. Events after the reporting date

On December 12, 2017 Zardoya Otis, S.A. declared the third interim dividend charged to the profit for the period for an amount of 0.080 euros gross per share, resulting in a total gross dividend of EThs 37 637. This dividend was paid out on January 10, 2018.

### 37. Other information

#### ***a) Number of Group employees by category (average – reporting date)***

	<b>Men</b>	<b>Women</b>	<b>2017</b>
Managers	67	9	76
Administration/workshop/field supervisors	471	32	503
Engineers, university graduates and other experts	219	58	277
Administrative and technical personnel	517	447	964
Other workers	3 386	27	3 413
	4 660	573	5 233
	<b>Men</b>	<b>Women</b>	<b>2016</b>
Managers	67	8	75
Administration/workshop/field supervisors	492	30	522
Engineers, university graduates and	246	63	309

other experts Administrative and technical personnel	488	427	915
Other workers	3 298	26	3 324
	4 591	554	5 145

The average number of persons with a disability rating of 33% or more employed by the Group in the reporting periods was 53 (42 men and 11 women) in 2017 and 28 (23 men and 5 women).

***(b) Fees of account auditors and companies belonging to their group or related companies***

The amount of the fees accrued by PricewaterhouseCoopers Auditores, S.L., which audited the Zardoya Otis Group, for the year 2017, was EThs 315 (EThs 317 in 2016, including the fees paid for the process audit required to comply with the rules for the main shareholder. Likewise, fees accrued during the year by other companies in the PwC network as a result of audit services to foreign subsidiaries were EThs 42 (EThs 45 in 2016).

Likewise, the fees accrued in the year by PricewaterhouseCoopers Auditores, S.L. due to other services rendered to the Company were EThs 52 (2016: EThs 94), while those accrued by other companies that use the PwC brand name were EThs 13 (2016: EThs 67).



# **MANAGEMENT REPORT OF ZARDOYA OTIS (CONSOLIDATED FINANCIAL STATEMENTS 2017) (Thousands of euros - EThs)**

## **Presentation of the Annual Financial Statements**

The consolidated annual financial statements of the Zardoya Otis Group at November 30, 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations (IFRIC) adopted in the European Union and in force at said date.

## **Business evolution**

### **Profit and loss**

The EBITDA (operating profit + depreciation + amortization) obtained in 2017 was 220,8 million euros, 3.1% lower than the 227.8 million euros obtained in 2016.

The profit after tax at the end of the 2017 reporting period was 152, 7 million euros, 0.1% higher than the 152.6 million euros in 2016.

The tax rate in Spain dropped from 28% to 25% in 2017.

The consolidated cash flow (net profit + depreciation + amortization) at the end of 2017 was 163.9 million euros (2016: 163.3 million of euros).

### **Sales**

Total consolidated sales in 2017 were 778.3 million euros, in comparison with the 746.0 million euros of 2016, representing a 4.3% increase.

### **New Sales**

**Work completed:** the value of work completed in 2017 was 48.8 million euros, 16.8% higher than the 2016 figure.

In 2017, New Installation sales accounted for 6.3% of total sales (5.6% in 2016)

### **Orders received and backlog of unfilled orders**

Orders received for Installations in 2017, for both new and existing buildings, totalled 197.2 million euros, representing an increase of 17.3% on 2016.

The backlog of unfilled orders was 139.3 million euros in 2017, which was an increase of 26.7% on the preceding annual period.

## **Service**

**Sales:** consolidated Service sales totalled 545.4 million euros, showing an increase of 2.0% on the 2016 figure.

The Service activity accounted for 70.1% of the Group's total billing in 2017.

## **Units under maintenance**

The number of units rose by 0.1% in 2017, totalling 285,840 units. Our service excellence has allowed us to keep the confidence our customers place in us.

## **Exports**

Net consolidated Export sales were 184.2 million euros, 8.4% up on the 2016 figure.

Exports represented 23.7% of consolidated Group sales in 2017 (22.8% in 2016).

## **Employees**

At the end of the 2017 reporting period, the Group employed 5,233 people, 1.7% more than at the end of the previous reporting period.

## **Dividends**

At November 30, 2017, interim dividends charged to the period ended at said date had been declared for an amount of EThs 75 274 (EThs 73,819 in 2016). These interim dividends were paid for shares 1 to 470,464,311. Additionally, a partial cash distribution of the share premium took place on July 10, 2017 for shares 1 to 452,369,530, for a gross amount of EThs 37 166. Treasury shares held at said dates were excluded.

The total amount of the dividends (including the third interim dividend for the year, declared in December 2017 as an event after the end of the reporting period) and the partial cash distribution of the share issue premium in 2017 amounts to 150.1 Million Euros, which represents an increase of 1.6% compared to those paid in 2016 and together represents a pay-out of 98.25% of the consolidated result attributed to the parent company, Zardoya Otis, SA; thus continuing the policy followed by the Company to distribute a figure close to 100% pay-out.

## **Evolution of capital**

### **Treasury stock**

At November 30, 2017, Zardoya Otis, S.A. did not hold any of its own shares (0 at the end of 2016).

### **Evolution of Zardoya Otis on the Securities Markets**

The quoted price at the end of 2017 was 9.12 euros per share, representing an increase of 13.5% on the adjusted value at the end of 2016, while the IBEX rose by 7.4%.

## Forecast evolution

In 2017, we increased our sales in 4.3% as a result of the slight recovery in both the general economy and the construction sector. The backlog of unfilled orders for New Installations increased by 17.3% while, in the Service area, sales rose by 2.0%.

At the end of 2017, New Installations sales accounted for 6.3% of total sales. We expect this relative weight to continue to grow in 2018. As in the preceding reporting period, the recovery continued in the construction sector in the Iberian and Moroccan markets.

## General Description of the Group's Risk Policy

The Group' activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's global risk management program is focused on the uncertainty of the financial markets and tries to minimize any potential adverse effects on the Group's financial profitability.

Risk management is controlled by Group Management in accordance with policies approved by the parent company's Board of Directors. Management assesses and hedges financial risks in close collaboration with the operating units of the rest of the Group, in order to:

- Ensure that the most important risks are identified, assessed and managed.
- Ensure an appropriate operating segregation of risk management functions.
- Ensure that the risk exposure level accepted by the Group in its operations is in line with its risk profile.

In the 2017 Annual Financial Statements of Zardoya Otis, S.A. and Subsidiaries, the information concerning the following risks is presented:

- a) Market risk:
  - (a) Exchange rate risk
  - (b) Price risk
  - (c) Cash flow interest rate risk and fair value risk
- b) Credit risk
- c) Liquidity risk
- d) Capital risk

The Audit Committee is responsible for periodically reviewing the internal control and risk management systems, so that the main risks are properly identified, managed and disclosed, through control devices that allow the main potential risks of the Company and the Group to be assessed and the evaluation of the risk control systems, adapted to the risk profile of the Company and its Group.

Zardoya Otis, S.A. has an Internal Audit Department, with systems and processes that are intended to evaluate, monitor, mitigate or reduce the Company's main risks by preventive measures and alerts of possible situations of risk. The Company has the risks that affect assets and liabilities covered by the appropriate insurance

policies. Likewise, it has processes that ensure control of any risk that may stem from trading operations.

Conservative liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The Group has no significant concentrations of risk with customers and there are no significant old credit balances. Nevertheless given the deterioration in the national economic situation, the Group has policies in place to ensure that installation sales are made to customers with appropriate credit histories and, in addition, regular debt-monitoring procedures are conducted by the departments involved in debt collection.

### **Average Payment Period to Suppliers**

In relation with the provider of Law 3/2004 and Law 15/2010 on measures to combat late payment in commercial operations, the Law 31/2014, of December 3, amended Law 15/2010 in relation to the information to be included in the report to request the average period of payment to suppliers. In this way, the average payment period in 2017 to suppliers is below 60 days. The Company has planned measures that are aimed at maintaining compliance with the law, among which are maintaining the adequacy of the average payment period for its operations with group companies and associated with the provisions of the regulations and compliance with the agreements and commercial relationships with external suppliers.

### **Research and development expenses**

The Group parent follows the policy of recognizing research costs in profit and loss in the period in which they are incurred, in accordance with its accounting policies and criteria. At November 30, 2017, the income statement included expenses of EThs 1,957 for this item (2016: EThs 2,160).

### **Significant events at November 30, 2016**

On March 7, 2017, Zardoya Otis, S.A. acquired 7.23% of shares in the subsidiary Electromecánica Hemen Elevadores, S.L. from non-controlling interests. This transaction meant that the percentage held by Zardoya Otis, S.A. in Hemen Elevadores, S.L. changed, rising from 92.77% to 100%.

On May 17, 2017, Zardoya Otis, S.A. acquired 2.19% of the shares in the subsidiary Acresca Cardellach, S.L. from non-controlling interests. This transaction meant a change in Zardoya Otis, S.A.'s holding in Acresca Cardellach, S.L., which rose from 94.57% to 96.76%.

In 2017, companies belonging to the CGU Zardoya Group (Spain) acquired 100% of the shares in the companies Servicios Automáticos de Elevación S.L (April 21, 2017) and Liftsur Elevadores, S.L. (July 27, 2017). Additionally, la company Otis Elevadores Lda., belonging to the CGU Zardoya Otis Group (Portugal) acquired 100% of the shares in Lifetime – Elevadores Unipessoal and Joaquim Férias e Filhos – Elevadores Unipessoal, Lda. (January 1, 2017). All the aforementioned companies are engaged in elevator repair and maintenance.

### **Events after the reporting date**

On December 12, 2017 Zardoya Otis, S.A. declared the third interim dividend charged to the profit for the period for an amount of 0.080 euros gross per share, resulting in a total gross dividend of EThs 37 637. This dividend was paid out on January 10, 2018.

### **Annual Corporate Governance Report**

The Annual Corporate Governance Report for 2017 forms part of this Management Report.

ANNUAL CORPORATE GOVERNANCE REPORT  
FOR LISTED COMPANIES



**DETAILS IDENTIFYING ISSUER**

<b>DATE OF END OF REPORTING PERIOD</b>	Nov. 30, 2017
<b>TAX IDENTIFICATION NUMBER</b>	A28011153
<b>CORPORATE NAME</b>	ZARDOYA OTIS, S.A.
<b>REGISTERED ADDRESS</b>	CALLE GOLFO DE SALÓNICA, 73 MADRID

## A. OWNERSHIP STRUCTURE

### A.1 Complete the following table on the company's share capital.

Date of latest modification	Share capital (€)	Number of shares	Number of voting rights
July 14, 2016	47,046,431.10	470,464,311	470,464,311

State whether there are different classes of shares to which different rights are associated.

Yes  No

### A.2 Details of the direct and/or indirect owners of significant shareholdings in your company at the reporting date, excluding Board Members.

Name or corporate name of shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct owner of the shareholding	Number of voting rights	
UNITED TECHNOLOGIES CORPORATION (UTC)	0	UNITED TECHNOLOGIES HOLDINGS, S.A.S.	235,279,377	50.01%
MR NICOLAI TANGEN	0	AKO Master Fund Ltd	14,179,531	3.01%

State the most significant movements in the shareholder structure that took place during the period:

Name or corporate name of shareholder	Transaction date	Description of transaction
MR NICOLAI TANGEN	June 30, 2017	Financial instruments with similar economic effect, as per article 13(1)(b) of Directive 2004/109/EC and article 28.1 b) of Royal Decree 1362/2007.

### A.3 Complete the following charts on the members of the Board of Directors of the company who hold voting rights corresponding to shares therein.

Name or corporate name of director	Number of direct voting rights	Indirect voting rights (*)	% of total voting rights
MR BERNARDO CALLEJA FERNANDEZ	4,000	1,000	0.00%
MR PIERRE DEJOUX	10		0.00%
DON MARK GEORGE	5		0.00%

Name or corporate name of director	Number of direct voting rights	Indirect voting rights (*)	% of total voting rights
MR ALBERTO ZARDOYA ARANA	119		0.00%
MR MARIO ABAJO GARCIA	762,090		0.16%
EURO-SYNS, S.A.	54,392,423		11.561%

(\*) Through:

Name or corporate name of director	Number of direct voting rights	% of total voting rights
MS PIEDAD GARCÍA DÍAZ	1,000	0.00%

<b>% of total voting rights held by the Board of Directors</b>	<b>11,72%</b>
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**A.4 State, if applicable, any family, commercial, contractual or corporate relationships that exist between the owners of significant shareholdings, to the extent that these are known to the company, unless they are of little relevance or are derived from ordinary business or trading.**

Related name or corporate name	Type of relationship	Brief description
EURO-SYNS, S.A.	Family	This director is a company controlled by members of the Zardoya family.

**A.5 State, if applicable, any commercial, contractual or corporate relationships that exist between the owners of significant shareholdings and the company and/or its group, unless they are of little relevance or are derived from ordinary business or trading.**

Related name or corporate name	Type of relationship	Brief description
UNITED TECHNOLOGIES HOLDINGS, S.A.S.	Commercial	As of November 30, 2017, Zardoya Otis, S.A. (the " <b>Company</b> ") has commercial and contractual relations with Otis Elevator Company and United Technologies Corporation (UTC).
	Contractual	
	Corporate	As of November 30, 2017, United Technologies Corporation (UTC) held 100% of the shares of Otis Elevator Company and 50.01% of the Company's shares through United Technologies Holdings, S.A.S.



**A.6 State whether any paracorporate (shareholders') agreements affecting the Company pursuant to the provisions of articles 530 and 531 of the Capital Companies Law have been reported to the Company. If so, briefly describe them and list the shareholders bound by the agreement.**

Yes  No

**State whether the company is aware of the existence of any actions that have been arranged between its shareholders. If so, briefly describe them.**

Yes  No

**In the event that there was any change or breach of said agreements or arranged actions during the period, state this expressly.**

There was no change or breach of shareholders' agreements during the period ended November 30, 2017.

**A.7 State whether there exists any natural or legal person that exercises or can exercise control over the company pursuant to article 4 of the Securities Market Law. If so, identify them.**

Yes  No

Name or corporate name	Comments
UNITED TECHNOLOGIES CORPORATION (UTC)	As of November 30, 2017, United Technologies Corporation (UTC) was the indirect owner (through the French company United Technologies Holdings S.A.S.) of 50.01% of the voting rights in the Company.

**A.8 Complete the following charts on the company's treasury shares.**

As of November 30, 2017, the Company did not hold any treasury shares..

**Explain the significant variations, pursuant to the provisions of Royal Decree 1362/2007, that took place in the period.**

Explain the significant variations
<p>At its meeting of May 24, 2017, the Company's Ordinary General Shareholders' Meeting authorized the Board of Directors to acquire, directly or indirectly, treasury shares up to a maximum percentage of 10% of the share capital, within the limits and requirements established in article 146 and related articles of the Capital Companies Law.</p> <p>The 2017 authorization replaced the authorization granted by the Company's General Shareholders' Meeting held on May 19, 2016, which, consequently, became null and void.</p> <p>Likewise, in accordance with articles 40 et seq. of Royal Decree 1362/2007, there were no significant variations in relation to the treasury shares held by the Company.</p>

**A.9 Give details of the conditions and/or periods of the authorization(s) provided by the General Shareholders' Meeting to the Board of Directors to issue, repurchase or transfer treasury stock.**

The Company's Ordinary General Shareholders' Meeting held on May 24, 2017 approved the proposal to authorize the Board of Directors to, without consulting the General Shareholders' Meeting beforehand, acquire, directly or indirectly, shares in the Company up to a maximum percentage of 10% of the share capital during a maximum period of five years as from the date of the aforementioned Ordinary General Shareholders' Meeting.

The acquisition price of said shares may not be lower than 2 euros per share or higher than 25 euros per share and the Board is expressly authorized to set aside the reserves required under article 148 of the Capital Companies Law.

Furthermore, the Extraordinary General Shareholders' Meeting of the Company held on January 30, 2013 unanimously agreed to authorize the Board of Directors to, pursuant to the provisions of article 149 of the current Capital Companies Law, either directly or through any group companies, accept its own shares as a pledge or any other type of guarantee, within the limits and meeting the same requirements as are applicable to the acquisition thereof. Specifically: (i) the maximum number of shares to be accepted as pledges must not exceed 10% of the Company's share capital; (ii) the shares accepted as pledges must be free from all charges and encumbrances, fully paid up and not attached to compliance with any obligation the beneficiary of which is not the Company; and (iii) the authorization will remain in force for the maximum period allowed by Law at any given moment (five years) as from the date of the aforementioned Extraordinary General Shareholders' Meeting (i.e. until January 30, 2018). This authorization supplements the authorization granted as per the preceding paragraph and does not change it.

In carrying out these transactions, the rules contained in the Company's Internal Code of Conduct and the Securities Market Law will also be observed.

**A.9 bis Estimated floating capital:**

	%
<b>Estimated floating capital</b>	38.27%

**A.10 State whether there is any restriction on the transferability of shares and/or any restrictions on voting rights. In particular, state the existence of any kind of restrictions that might hinder taking control of the company by acquiring shares therein in the market.**

Yes  No

**A.11 State whether the General Shareholders' Meeting has approved the adoption of breakthrough measures in the event of a public tender offer pursuant to the provisions of Law 6/2007.**

Yes  No

**If applicable, describe the approved measures and the terms on which the restrictions will become ineffective.**

N/A

**A.12 State whether the company has issued securities that are not traded on a regulated Community market.**

Yes  No

**If applicable, state the different classes of shares and, for each class of shares, the rights and obligations it confers.**

N/A

**B. GENERAL SHAREHOLDERS' MEETING**

**B.1 State and, if applicable, describe whether there are any differences from the system of minimums provided for in the Capital Companies Law (LSC) regarding the quorum required to constitute a General Meeting.**

Yes  No

	<b>Quorum % different from that established as a general rule in art. 193 LSC</b>	<b>Quorum % different from that established in art. 194 LSC for the special cases of art. 194 LSC</b>
Quorum required on 1st call	60.00%	66.66%
Quorum required on 2nd call	50.00%	50.00%

**Describe the differences**

For general decisions, a quorum of 60% is required on the first call (the Capital Companies Law establishes 25%) and 50% on the second call (the Capital Companies Law does not fix a minimum).

For the decisions mentioned in article 194 of the Capital Companies Law (capital increase or reduction and any other amendment to the Bylaws, debenture issues, the elimination or limitation of pre-emption rights over new shares, a change in the type of company, merger, spin-off or the global assignment of assets and liabilities, and moving the registered office abroad), a quorum of 66.66% is required on the first call (the Capital Companies Law establishes 50%) and 50% on the second call (the Capital Companies Law establishes 25%).

**B.2 State and, if applicable, describe whether the system for adopting corporate resolutions differs from the system provided for in the Capital Companies Law.**

Yes  No

**Describe the differences from the system provided for in the Capital Companies Law.**

N/A

**B.3 State the rules applicable to amending the corporate Bylaws. In particular, state the majorities required to amend the Bylaws and, if applicable, the rules that are in place to protect shareholder rights when the Bylaws are amended.**

To amend the Bylaws of Zardoya Otis, S.A. (the “**Company’s Bylaws**”), the system set forth in article 285 et seq. of the Capital Companies Law and in the Company’s Bylaws themselves will be applied.

According to article 14 of the Company’s Bylaws, in order for a General Meeting (Ordinary or Extraordinary) to validly resolve to increase or decrease the capital or make any other amendment to the Bylaws, issue debentures, eliminate or limit pre-emption rights on new shares, change the type of Company, merge or spin off the Company or globally transfer its assets and liabilities, move its registered office abroad, or make any other amendment for which a qualified majority is legally required, it will be necessary, on the first call, for shareholders owning at least two thirds of the

subscribed capital with voting rights to be present or represented. On the second call, it will be sufficient for fifty percent of said capital to be present or represented.

Additionally, in accordance with article 16 of the Company's Bylaws, a separate vote will be taken on each one of the items on the agenda and on those matters which, although they form part of the same item on the agenda, are substantially independent, in order for the shareholders to exercise their voting preferences separately. In particular, separate votes will be taken on the appointment, ratification, re-election or removal of each director and, in the event of amendments to the Company's Bylaws, separate votes will be taken on each article or group of articles that is substantially independent.

Resolutions concerning amendment of the Company's Bylaws will be adopted by a majority of the capital present or represented at the General Shareholders' Meeting, in such a way that a resolution will be deemed to be passed when it obtains more votes in favour than against from the capital present or represented.

In order to adopt the resolutions to which article 194 of the Capital Companies Law refers, however, the vote in favour of two thirds of the capital present or represented at the General Shareholders' Meeting will be required when, on the second call, shareholders are present representing twenty-five percent or more of the subscribed capital with voting rights but not reaching fifty percent. If the capital present or represented exceeds fifty percent, approval by absolute majority will be sufficient.

Finally, in accordance with article 286 of the Capital Companies Law, the Board of Directors will prepare a written report explaining any proposal to amend the Company's Bylaws.

**B.4 State the attendance figures for the General Meetings held in the period to which this report refers and in the preceding period.**

Date of General Meeting	Attendance figures				Total
	% present	% represented	% distance votes		
			Electronic votes	Other	
05/19/2016	63.95%	9.85%	0.00%	0.00%	73.80%
05/24/2017	64.09%	14.66%	0.00%	0.00%	78.75%

**B.5 State whether the Bylaws contain a restriction establishing the minimum number of shares required to attend the General Meeting.**

Yes  No

**B.6 State whether it has been decided that certain decisions that involve a structural modification of the company (subsidiarization, purchase or sale of essential operating assets, operations equivalent to winding up the company, etc.) should be submitted to the approval of the General Shareholders' Meeting even though mercantile legislation does not expressly require this.**

Yes  No

**B.7 State the address and way to access the corporate governance information on the company's website, as well as other information on General Meetings that must be made available to shareholders through the company's website.**

The address of the corporate governance information on the Company's website is:

<http://www.otisworldwide.com/site/es-esl/Pages/Ascensores-Otis-Informacion-para-accionistas-e-inversores.aspx>

This site contains a "Corporate Governance" section, where notice of general meetings, proposed resolutions, rules for granting proxy and distance voting, the reports that are to be presented and any other documentation required by the Capital Companies Law, the Company's Bylaws or the Regulations of the General Shareholders' Meeting are published. Among other documents, the 2016 Annual Corporate Governance Report, which was published in March 2017, is included.

The Annual Corporate Governance Report for 2017 will be duly published on the website in March 2018.

## C. STRUCTURE OF THE COMPANY'S GOVERNING BODIES

### C.1 Board of Directors

#### C.1.1 Maximum and minimum number of Directors provided for in the Bylaws.

<b>Maximum number of directors</b>	15
<b>Minimum number of directors</b>	3

#### C.1.2 Complete the following chart with the members of the Board.

Name or corporate name of director	Representative	Class of director	Position on the Board	Date of first appointment	Date of latest appointment	Election procedure
MR MARIO ABAJO GARCIA	N/A	OTHER EXTERNAL	CHAIRMAN	05/31/1985	05/26/2015	RESOLUTION GENERAL SHAREHOLDERS' MEETING
MR JOSE MARIA LOIZAGA VIGURI	N/A	INDEPENDENT	DEPUTY CHAIRMAN	02/23/1973	05/27/2013	RESOLUTION GENERAL SHAREHOLDERS' MEETING
MR BERNARDO CALLEJA FERNANDEZ	N/A	EXECUTIVE	CEO	02/28/2012 (co-option)	05/19/2016	RESOLUTION GENERAL SHAREHOLDERS' MEETING
MR PIERRE DEJOUX	N/A	PROPRIETARY	DIRECTOR	01/26/2012	05/19/2016	RESOLUTION GENERAL SHAREHOLDERS' MEETING
MR MARK GEORGE	N/A	PROPRIETARY	DIRECTOR	02/26/2014 (co-option)	05/26/2014	RESOLUTION GENERAL SHAREHOLDERS' MEETING
MR ALBERTO ZARDOYA ARANA	N/A	PROPRIETARY	DIRECTOR	02/26/2013 (co-option)	05/27/2013	RESOLUTION GENERAL SHAREHOLDERS' MEETING
MS ROBIN FIALA	N/A	PROPRIETARY	DIRECTOR	10/05/2017 (co-option)	10/05/2017	CO-OPTION UNTIL NEXT GENERAL SHAREHOLDERS' MEETING
EURO-SYNS S.A.	MR PEDRO SAINZ DE BARANDA RIVA	PROPRIETARY	DIRECTOR	05/31/1996	05/26/2015	RESOLUTION GENERAL SHAREHOLDERS' MEETING

Name or corporate name of director	Representative	Class of director	Position on the Board	Date of first appointment	Date of latest appointment	Election procedure
OTIS ELEVATOR COMPANY	MS NORA LA FRENIERE	PROPRIETARY	DIRECTOR	05/30/1984	05/26/2015	RESOLUTION GENERAL SHAREHOLDERS' MEETING
DON JOSÉ MIGUEL ANDRÉS TORRECILLAS	N/A	INDEPENDENT	DIRECTOR	05/26/2015	05/26/2015	RESOLUTION GENERAL SHAREHOLDERS' MEETING
DON PATRICK BLETHON	N/A	PROPRIETARY	DIRECTOR	05/26/2015	05/26/2015	RESOLUTION GENERAL SHAREHOLDERS' MEETING
<b>Total number of directors</b>						11

### State any Directors who left the Board during the reporting period.

Mr Philippe Delpuch resigned as a member of the Board of Directors effective as of October 5, 2017.

On the same day, in order to fill the vacancy on the Board of Directors, with a report in favour from the Nominating and Compensation Commission, Ms Robin Fiala was co-opted as a new director until the next General Shareholders' Meeting, which will be held in May 2018. Ms Robin Fiala is classified as a proprietary director and was appointed at the proposal of United Technologies Holdings, S.A.S.

### C.1.3 Complete the following charts on the members of the Board and their classification.

#### EXECUTIVE DIRECTORS

Name or corporate name of director	Position in the company's organization chart	
MR BERNARDO CALLEJA FERNANDEZ	CHIEF EXECUTIVE OFFICER	
<b>Total number of executive directors</b>		1
<b>% of total Board</b>		9.09%

#### EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of significant shareholder represented or that proposed his/her appointment
MR PIERRE DEJOUX	UNITED TECHNOLOGIES HOLDINGS, S.A.S.
MR MARK GEORGE	UNITED TECHNOLOGIES HOLDINGS, S.A.S.
MR ALBERTO ZARDOYA ARANA	EURO-SYNS, S.A.



Name or corporate name of director	Name or corporate name of significant shareholder represented or that proposed his/her appointment
MS ROBIN FIALA	UNITED TECHNOLOGIES HOLDINGS, S.A.S.
EURO-SYNS, S.A.	EURO-SYNS, S.A.
OTIS ELEVATOR COMPANY	UNITED TECHNOLOGIES HOLDINGS, S.A.S.
MR PATRICK BLETHON	UNITED TECHNOLOGIES HOLDINGS, S.A.S.
<b>Total number of proprietary directors</b>	
	7
<b>% of total Board</b>	
	63.64%

### INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director	Profile
MR JOSE MARIA LOIZAGA VIGURI	<p>He commenced his career with Banco Vizcaya in various executive positions. In 1968, he became the General Manager of Zardoya and played a leading role in the merger with Schneider Otis in 1972. Until 1980, he was responsible for Otis Elevator in Southern Europe.</p> <p>In 1980, he founded Banco Hispano Industrial (BHA Group) and, in 1982, he was appointed Deputy Chairman and CEO of Banco Unión, which he merged with Banco Urquijo, where he remained until 1985.</p> <p>In 1985, he founded Mercápital, S.A. and chaired the Group until 2008.</p> <p>Among other positions, he has been Chairman of Cartera Industrial Rea, Chairman of Bodegas Lan and Bodegas Barón de Ley and a director of Banque Privée Edmond de Rothschild, Suez International, Otis International, Amorim Investment, Lácteas Ga Baquero, Unión Fenosa, etc.</p> <p>Currently, he is a director and Deputy Chairman of ACS, Member of the Executive Commission, Audit Committee and Nominating and Compensation Committee, director of Cartera Industrial Rea, director and Deputy Chairman of the Company, Deputy Chairman of the Audit Committee and Chairman of the Nominating and Compensation Commission of Zardoya Otis, S.A. and a director of Otis Elevadores (Portugal).</p> <p>He is Commandeur de l'Ordre de Léopold II.</p>
MR JOSÉ MIGUEL ANDRÉS TORRECILLAS	<p>Mr Andrés Torrecillas holds a degree in Economics and Business Studies from the <i>Universidad Complutense de Madrid</i>. He has postgraduate studies in Management Programs from IESE in Madrid, Harvard and IMD.</p> <p>He has spent most of his professional career with Ernst &amp; Young, where he was Partner/Director General of the Audit and Advisory practices and Chairman of Ernst &amp; Young Spain until 2014.</p> <p>In March 2015, José Miguel Andrés Torrecillas was appointed as an independent director by the General Shareholders' Meeting of Banco Bilbao Vizcaya Argentaria, S.A.</p> <p>He has been a member of the Registro Oficial de Auditores de Cuentas (ROAC – Official Account Auditors Register); the Registro de Economistas Auditores (REA – Economist/Auditor Register); the Board of Directors of Instituto Español de Analistas Financieros (Spanish Institute of Financial Analysts); the Fundación Empresa y Sociedad (Company and Society Foundation); the Instituto de Censores Jurados de Cuentas de España (Institute of Chartered Accountants of Spain); the Advisory Board to the Instituto de Auditores Internos (Internal Auditors Institute), the Institute of Chartered Accounts in England &amp; Wales (the ICAEW); the Board of Deusto Business School (DBS); and a patron of the SERES Foundation.</p> <p>He is classified as an “independent director” and holds the positions of Chairman of the Audit Committee and member of the Nominating and Compensation Commission of Zardoya Otis, S.A.</p>
<b>Total number of independent directors</b>	
	2

<b>% of total Board</b>	18.18%
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State whether any director classified as independent receives from the company or its group any amount or benefit for an item other than director remuneration or maintains or maintained in the last reporting period a business relationship with the company or any company belonging to its group, either in his/her own name or as a significant shareholder, director or member of senior management of an entity that maintains or has maintained such a relationship.

No.

If applicable, provide a statement explaining the Board's reasons for considering that said Director can perform his/her functions as an independent director.

N/A

### **OTHER EXTERNAL DIRECTORS**

Identify other external directors and give details of the reasons why they cannot be deemed to be proprietary or independent directors and of their ties with the company, its management or its shareholders.

Name or corporate name of director	Reasons	Company, manager or shareholder to which/whom he/she is related:
MR MARIO ABAJO GARCIA	Mr Abajo cannot be considered a independent director since, as of November 30, 2016, he had held office as a director of the Company for a continuous period of more than 12 years. Neither can he be considered a proprietary director because he does not hold a significant shareholding, was not appointed because he was a shareholder and does not represent any of the shareholders mentioned above.  As clarification, it is expressly stated that Mr Abajo holds the status of "other external director" in accordance with the Capital Companies Law.	The Company (Zardoya Otis, S.A.)
<b>Total number of external directors</b>		1
<b>% of total Board</b>		9.09 %

State any variations in the classification of each director that may have taken place during the period.

There were no changes in the classification of the directors during the period.

**C.1.4 Complete the following chart with information on the number of women directors over the last 4 reporting periods and the classification of said women directors.**

	Number of women directors				% of total directors of each class			
	2017	2016	2015	2014	2017	2016	2015	2014
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	2(*)	1	1	2	18.18%	9.09%	9.09%	22.22%
<b>Independent</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Other External</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	2	1	1	2	18.18%	9.09%	9.09%	22.22%

(\*) This information refers to Ms Nora LaFreniere, the personal representative of the director Otis Elevator Company, and Ms Robin Fiala, who was appointed as a director on October 5, 2017.

### **C.1.5 Explain any measures that have been adopted to try to include a number of women on the Board of Directors sufficient to allow a balanced presence of men and women.**

<b>Explanation of the measures</b>
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The Board of Directors and the Nominating and Compensation Commission are aware of the importance of promoting gender diversity on the Board of Directors and are working to increase the presence of women on the Board. Article 5 of the Regulations of the Board of Directors states that the Board of Directors must ensure that the procedures for selecting its members favour diversity of gender, experience and knowledge and are not affected by any implied bias that might suggest some kind of discrimination and, in particular, should not hinder the selection of women directors.

Likewise, article 12 B) 2 i) of the Regulations of the Board of Directors states that one of the duties of the Nominating and Compensation Commission Committee is to ensure that, when filling new vacancies or new directors are appointed, the selection procedures do not contain any implied bias that might suggest some kind of discrimination and to report to the Board on gender diversity issues.

At the end of the 2017 period, seven of the eleven members of the Board of Directors were proprietary directors, two were independent, one was executive and one was an "other external director".

At its meeting of December 13, 2016, the Nominating and Compensation Commission decided that, when new vacancies on the Board of Directors arise, they will try to fill them with people who meet the requirements of competence, experience and merits, promoting, as far as possible, an increase in the presence of women on the Board of Directors in order to progress towards a Board with a more balanced composition.

To do this, the Commission itself will ensure that the policies for selecting Board members apply exclusively criteria of merit and capacity, avoiding any bias that might imply gender discrimination that hinders the selection of women directors.

This decision was notified to the Board of Directors by the Chairman of the Nominating and Compensation Commission at the Board meeting on the same day.

On October 5, 2017, the resignation of the director Mr Philippe Delpech left a vacancy on the Board of Directors. After reviewing the curriculum vitae of Ms Robin Fiala, the members of the Nominating and Compensation Commission, taking her extensive professional career and proven experience into account, unanimously decided to issue a report in favour of her co-option as a director, in accordance with article 244 of the Capital Companies Law.

At its meeting of October 5, 2017, the Board of Directors unanimously passed a resolution to co-opt Ms Robin Fiala as a director until the next General Shareholders' Meeting.

This appointment is consistent with the objective of both the Company and the Board of Directors to increase the presence of women on the Board and for the director selection policies to consider solely criteria related to merit and capacity, avoiding any bias that might imply gender discrimination that hinders the selection of women directors.

**C.1.6 Explain any measures that the Nominating Commission has established to ensure that selection processes are free from any implied bias hindering the selection of women directors and that the company deliberately seeks women with the appropriate professional profile and includes them among the potential candidates.**

<b>Explanation of the measures</b>
------------------------------------

At its meeting of December 13, 2016, the Nominating and Compensation Commission decided that, when new vacancies on the Board of Directors arise, they will try to fill them with people who meet the requirements of competence, experience and merits, promoting, as far as possible, an increase in the presence of women on the Board of Directors in order to progress towards a Board with a more balanced composition.

To do this, the Commission itself will ensure that the policies for selecting Board members apply exclusively criteria of merit and capacity, avoiding any bias that might imply gender discrimination that hinders the selection of women directors.

This decision was notified to the Board of Directors by the Chairman of the Nominating and Compensation Commission at the Board meeting held on the same day.

When the resignation of Mr Philippe Delpech left a vacancy, the Nominating and Compensation Commission reported in favour of the appointment of a woman director, Ms Robin Fiala. Consequently, this appointment is consistent with the objective of both the Company and the Board to increase the presence of women on the Board of Directors, inasmuch as the only vacancy in 2017 was filled by woman with proven experience and capacity and more than 25 years' experience in the Group, thus contributing to a greater gender balance among the members of the Board of Directors.

With this appointment, the percentage of women on the Board rose from 9% in 2016 to 18% in 2017.

**When, in spite of any measures that have been adopted, the number of women directors is scant or nil, explain the reasons that justify this.**

<b>Explanation of the reasons</b>
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**C.1.6 bis Explain the conclusions of the Nominating Commission on the verification of compliance with the director selection policy. In particular, explain how said policy is promoting the target of a number of women directors that represents at least 30% of the total members of the Board of Directors by 2020.**

The Nominating and Compensation Commission is aware of the importance of promoting gender diversity on the Board of Directors and is working to increase the presence of women among its members.

To do this, at its meeting of December 13, 2016, the Nominating and Compensation Commission decided that, when new vacancies on the Board of Directors arise, they will try to fill them with people who meet the requirements of competence, experience and merits, promoting, as far as possible, an increase in the presence of women on the Board of Directors, in order to progress towards a Board with a more balanced composition.

As stated above, in line with the Nominating and Compensation Commission's diversity policy, the only vacancy in 2017 was filled by a woman.

The Company has not adopted the Good Governance Code recommendation that the number of women directors should represent at least 30% of total Board members by 2020.

**C.1.7 Explain how owners of significant holdings are represented on the Board.**

As stated in points A2 and A3 above, the two principal direct owners of significant shareholders were United Technologies Holdings, S.A.S. (UTH) and Euro-Syns, S.A.

At November 30, 2017, United Technologies Holdings, S.A.S. (UTH) and Euro-Syns, S.A. were represented on the Board of Directors as follows:

**1.- United Technologies Holdings, S.A.S. (UTH)**

- Otis Elevator Company has been a Director since May 30, 1984 and was most recently re-elected at the General Shareholders' Meeting held on May 26, 2015 at the proposal of the significant shareholder United Technologies Holdings, S.A.S. (UTH).

- Mark George was co-opted to the Board of Directors on February 26, 2014 and was ratified by the Ordinary General Shareholders' Meeting held on May 26, 2014 at the proposal of the significant shareholder United Technologies Holdings, S.A.S. (UTH).

- Pierre Dejoux has been a director since January 26, 2012 and was most recently re-elected by the Ordinary General Shareholders' Meeting held on May 19, 2016 at the proposal of the shareholder United Technologies Holdings, S.A.S. (UTH).

- Patrick Blethon was appointed as a director by the Ordinary General Shareholders' Meeting of May 26, 2015 at the proposal of the shareholder United Technologies Holdings, S.A.S. (UTH).

- Robin Fiala was co-opted to the Board at its meeting of October 5, 2017 at the proposal of the shareholder United Technologies Holdings, S.A.S. (UTH).

**2.- Euro-Syns, S.A.**

- Euro-Syns, S.A. has been a Director since May 31, 1996 and was most recently re-elected at the Ordinary General Shareholders' Meeting held on May 26, 2015.

- Alberto Zardoya Arana was co-opted to the Board of Directors on February 26, 2013 and was ratified by the Ordinary General Shareholders' Meeting held on May 27, 2013 at the proposal of the shareholder Euro-Syns, S.A.

**C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed at the proposal of shareholders whose shareholding interest is less than 3% of share capital.**

No proprietary directors were appointed at the proposal of shareholders whose shareholding interest was less than 3% in the period ended November 30, 2017.

**State whether formal petitions for presence on the Board have been received from shareholders whose shareholding interest is equal to or greater than that of others at whose proposal proprietary directors have been appointed. If so, describe the reasons why such petitions have not been satisfied.**

Yes  No

**C.1.9 State whether any director has withdrawn from his/her position before the expiration of his/her term of office, whether the director has given reasons to the Board and by what means, and in the event that he/she gave reasons in writing to the full Board, describe at least the reasons given by the director.**

The director Mr Philippe Delpech tendered his resignation from the Board of Directors in writing, through the Chairman, on October 5, 2017. He did not describe the reasons for said resignation.

**C.1.10 State the powers, if any, that are delegated to the Chief Executive Officer/s.**

Name or corporate name of director	Brief description
MR BERNARDO CALLEJA FERNANDEZ	The CEO holds all the powers that can be delegated in accordance with the law or Bylaws, with the exception of the purchase/sale of real estate (article 7 of the Regulations of the Board of Directors) as well as the financial disbursement faculty, limited to joint powers for 50 million euros per transaction

**C.1.11 Identify, if applicable, the members of the Board who hold positions as directors or managers in other companies that form part of the group of the listed company.**

Name or corporate name of director	Corporate name of group company	Position	Does he/she have executive duties?
MR MARIO ABAJO GARCIA	OTIS ELEVADORES LDA. (PORTUGAL)	DIRECTOR	NO
MR JOSE MARIA LOIZAGA VIGURI	OTIS ELEVADORES LDA. (PORTUGAL)	DIRECTOR	NO
MR BERNARDO CALLEJA FERNANDEZ	UNITED TECHNOLOGIES CORPORATION	MEMBER OF MANAGEMENT	NO
MR BERNARDO CALLEJA FERNANDEZ	OTIS ELEVADORES LDA. (PORTUGAL)	CHAIRMAN OF BOARD OF DIRECTORS	NO
MR BERNARDO CALLEJA FERNANDEZ	OTIS MAROC S.A.	CHAIRMAN	NO

Name or corporate name of director	Corporate name of group company	Position	Does he/she have executive duties?
MR BERNARDO CALLEJA FERNANDEZ	ASCENSORES SERRA, S.A.	DIRECTOR	NO
MR BERNARDO CALLEJA FERNANDEZ	MONTES TALLON, S.A.	DIRECTOR	NO
MR BERNARDO CALLEJA FERNANDEZ	ASCENSORES ENOR S.A.	PERSONAL REPRESENTATIVE OF SOLE ADMINISTRATOR (ZARDOYA OTIS S.A.)	NO
MR BERNARDO CALLEJA FERNANDEZ	ELECTROMECAÁNICA DEL NOROESTE	PERSONAL REPRESENTATIVE OF SOLE ADMINISTRATOR (ZARDOYA OTIS S.A.)	NO
MR ALBERTO ZARDOYA ARANA	EURO-SYNS S.A.	DIRECTOR	NO

Also see C.1.17

**C.1.12 Identify, if applicable, the directors of your company who are members of the Board of Directors of other companies outside your group listed on official stock markets, when this has been notified to the company.**

Name or corporate name of director	Corporate name of group entity	Position
MR JOSE MARIA LOIZAGA VIGURI	ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A. (ACS)	DIRECTOR / DEPUTY CHAIRMAN
MR JOSE MARIA LOIZAGA VIGURI	CARTERA INDUSTRIAL REA. S.A.	DIRECTOR
MR JOSÉ MIGUEL ANDRES TORRECILLAS	BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	DIRECTOR

**C.1.13 State and, if applicable, explain whether the company has established rules regarding the number of boards of which its directors may be members.**

Yes  No

<b>Explanation of rules</b>
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Article 19.1 of the Regulations of the Board of Directors expressly establishes the directors' obligation to devote sufficient time to their work as a Board member and adopt the measures necessary for proper management and control of the Company.

Notwithstanding, it has not been seen fit to limit the number of Boards of Directors of which the directors may form party, since a large number of the proprietary directors are executives of the

parent group, United Technologies Corporation, and, therefore, are members of Boards of Directors of other group companies.

**C.1.14 State the company's general policies and strategies reserved for approval by the full Board.**

	Yes	No
The investment and financing policy	X	
The definition of the structure of the group of companies	X	
The corporate governance policy	X	
The corporate social responsibility policy	X	
The strategic or business plan, as well as management objectives and annual budgets	X	
The policy regarding compensation and evaluation of performance of senior management	X	
The risk control and management policy, as well as the periodic monitoring of the internal information and control systems	X	
The dividend policy, as well the treasury stock policy and, especially, the limits thereto	X	

**C.1.15 State the aggregated compensation of the Board of Directors.**

<b>Compensation of the Board of Directors (thousands of euros)</b>	2,017
<b>Aggregated amount of rights accumulated by the Directors in relation to pensions (thousands of euros)</b>	67
<b>Aggregated compensation of the Board of Directors (thousands of euros)</b>	2,084

**C.1.16 Identify the members of senior management who are not also executive directors and state the aggregated compensation accrued in their favour in the period.**

<b>Name or corporate name</b>	<b>Position</b>
MR FRANCISCO JAVIER BARQUIN	GENERAL MANAGER
MR DOMINGOS EDMUNDO DA ASCENÇÃO OLIVEIRA	GENERAL MANAGER
MR MAURIZIO GENTILE	GENERAL MANAGER



<b>Total compensation of senior management (thousands of euros)</b>	865
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**C.1.17 State, if applicable, the identity of the members of the Board who are also members of the Boards of Directors of companies that hold significant shareholders and/or companies belonging to their groups.**

<b>Name or corporate name of director</b>	<b>Name or corporate name of significant shareholders</b>	<b>Position</b>
MR MARIO ABAJO	OTIS ELEVADORES LDA. (PORTUGAL)	DIRECTOR
MR MARK GEORGE	ATLANTIC LIFTS. INC (DELAWARE, U.S.A.)	DIRECTOR
	ELEVATOR EXPORT TRADING CORPORATION (DELAWARE, U.S.A.)	DIRECTOR
	OTIS ELEVATOR COMPANY (NEW JERSEY, U.S.A.)	DIRECTOR
	OTIS ELEVATOR COMPANY (DELAWARE U.S.A..)	DIRECTOR
	OTIS ELEVATOR INTERNATIONAL INC (DELAWARE, U.S.A.)	DIRECTOR
MR BERNARDO CALLEJA FERNANDEZ	ASCENSORES SERRA, S.A.	DIRECTOR
	BUGA OTIS ASANSOR SANAYI VE TICARET A.S. (TURKEY)	DIRECTOR
	ELECTROMECHANICA DEL NOROESTE, S.A.	PERSONAL REPRESENTATIVE OF DIRECTOR (ZARDOYA OTIS S.A.)
	C. VEREMIS OTIS S.A. (GREECE)	DIRECTOR
	OTIS ELEVADORES, LDA.(PORTUGAL)	CHAIRMAN
	MONTES TALLON, S.L.	DIRECTOR
	OTIS SERVIZI S.R.L.(ITALY)	CHAIRMAN

Name or corporate name of director	Name or corporate name of significant shareholders	Position
	ASCENSORES ENOR S.L.	REPRESENTANTE PERSONA FÍSICA DE CONSEJERO (ZARDOYA OTIS S.A.)
MR PATRICK BLETHON	OTIS MANAGEMENT GMBH (GERMANY)	DIRECTOR
	ZAYANI OTIS ELEVATOR COMPANY W.L.L. (BAHRAIN)	DIRECTOR
	BEIJING SIGMA ELEVATOR SERVICE COMPANY (CHINA)	DIRECTOR
	BUGA OTIS ASANSOR SANAYI VE TICARET A.S. (TURKEY)	DIRECTOR
	CHENGDU SIGMA ELEVATOR COMPANY (CHINA)	DIRECTOR
	OTIS ELEVATOR COMPANY KUWAIT	DIRECTOR
	OTIS ELEVATOR COMPANY SAUDI ARABIA LIMITED	DIRECTOR
MR ALBERTO ZARDOYA ARANA	OTIS ELEVADORES, LDA.(PORTUGAL)	DIRECTOR
MR JOSÉ MARÍA LOIZAGA VIGURI	OTIS ELEVADORES LDA. (PORTUGAL)	DIRECTOR

**Explain, if applicable, any significant relationships, other than those mentioned in the preceding caption, between the members of the Board of Directors and the significant shareholders and/or companies belonging to their groups.**

Name or corporate name of related director	Name or corporate name of related significant shareholder	Description of relationship
MR BERNARDO CALLEJA FERNANDEZ	UNITED TECHNOLOGIES CORPORATION (UTC)	He is an executive of the United Technologies Corporation Group
MR PIERRE DEJOUX	UNITED TECHNOLOGIES CORPORATION (UTC)	He is an executive of the United Technologies Corporation Group
MR MARK GEORGE	UNITED TECHNOLOGIES CORPORATION (UTC)	He is an executive of the United Technologies

Name or corporate name of related director	Name or corporate name of related significant shareholder	Description of relationship
		Corporation Group
MS ROBIN FIALA	UNITED TECHNOLOGIES CORPORATION (UTC)	She is an executive of the United Technologies Corporation Group
MR PATRICK BLETHON	UNITED TECHNOLOGIES CORPORATION (UTC)	He is an executive of the United Technologies Corporation Group
OTIS ELEVATOR COMPANY	UNITED TECHNOLOGIES CORPORATION (UTC)	It is a company controlled by United Technologies Corporation
EURO-SYNS, S.A.	EURO-SYNS, S.A.	Shareholder and director are the same company
MR ALBERTO ZARDOYA	EURO-SYNS, S.A.	Euro-Syns, S.A. is a company controlled by the Zardoya family.

**C.1.18 State, if applicable, any modifications made to the Regulations of the Board of Directors during the reporting period.**

Yes  No

<b>Description of modifications</b>
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**C.1.19 State the procedures for appointment, re-election, evaluation and removal of Directors. Give details of the competent bodies, the procedures to follow and the criteria to be employed in each one of the procedures.**

**1. SELECTION, APPOINTMENT AND RE-ELECTION OF DIRECTORS**

According to article 20 of the Bylaws, directors will be designated by voting pursuant to the rules established by law.

In this respect, it is not necessary to be a shareholder in order to be appointed as a director, except in the event of provisional appointment made by the Board of Directors itself pursuant to the provisions of article 244 of the Capital Companies Law.

In addition, article 13 of the Board of Directors Regulations states that directors will be designated by the General Meeting or, provisionally, by the Board of Directors, pursuant to the provisions of the Capital Companies Law and the Bylaws.

Likewise, article 5 of the Board of Directors Regulations states that the Board of Directors must ensure that the procedures to select its members favour diversity of gender, experience and knowledge and are not affected by implied bias that might suggest some kind of discrimination and, in particular, that they do not hinder the selection of women directors.

The Nominating and Compensation Commission is responsible for proposing the appointment or re-election of independent Directors. The appointment or re-election proposal must, in all cases, be accompanied by an explanatory report from the Board of Directors in which the competences, experience and merits of the proposed candidate are evaluated and which will be attached to either the minutes of the General Shareholders' Meeting or the meeting of the Board of Directors itself.

The foregoing will likewise be applicable to the natural persons who are designated as personal

representatives of a legal person. The Nominating and Compensation Commission must report on the proposal of a personal representative.

Article 13 of the Regulations of the Board of Directors states that the Board of Directors (i) will endeavour to ensure that the candidates elected are persons with recognized competence and experience; (ii) will establish a guidance program for new directors to provide them swiftly with sufficient knowledge of the Company and its corporate governance rules; and (iii) will likewise have programs to update knowledge when the circumstances make this advisable.

Article 14 of the Board of Directors Regulations states the Directors will hold office for an initial term of four years, in accordance with the Bylaws, and may be renewed, on one or more occasions, for successive periods of up to a maximum of four years. Directors appointed by co-option will hold office until the date of the first General Meeting held after they are appointed.

Notwithstanding the foregoing, the Company is applying the Transitional Additional Provision of Law 311/2014 of December 3, whereby the Capital Companies Law was amended to improve corporate governance. This provision states that directors appointed earlier than January 1, 2014 may complete their terms of office even if they exceed the period of four years.

## **2. EVALUATION OF DIRECTORS**

According to article 12 bis of the Regulations of the Board of Directors, the Board of Directors must conduct an annual evaluation of its own performance and of that of its commissions and, on the basis of the result, prepare an action plan to correct the deficiencies noted in accordance with the Law.

Also see C.1.20 Bis.

## **3. REMOVAL OF DIRECTORS**

Article 15 of the Regulations of the Board of Directors states that directors will leave office when the term for which they were appointed has expired or when the General Shareholders' Meeting so decides using the attributions conferred on it by law or the Bylaws.

The Board of Directors will not propose the removal of independent directors before the term for which they were appointed has expired, except where the Board finds just cause, based on a report from the Nominating and Compensation Commission. Just cause will be deemed to exist when directors take up new posts or responsibilities that prevent them from devoting sufficient time to their work as board member, or are in breach of their fiduciary duties or are disqualified from acting as an independent according to the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar transaction alters the Company's capital structure, applying the proportionality principle.

Directors must place their position at the disposal of the Board of Directors and, if the latter sees fit, resign in the following cases:

(a) When they are affected by any of the circumstances of incompatibility or prohibition legally provided for.

(b) When they may harm the Company's good name or reputation.

(c) When they are investigated, prosecuted, in the process of trial in ordinary proceedings, or found guilty in summary criminal proceedings in relation to any serious crime, in particular, any of the crimes stated in article 213 of the Capital Companies Law. In these cases, the Board of Directors will investigate the case as soon as possible and, in the light of the specific circumstances, will decide whether or not the director should remain in office. The Board of Directors will inform of any such decisions in the Annual Corporate Governance Report.

(d) When they have been seriously admonished by the Audit Committee or because they have breached their duties as directors.

(e) When an external proprietary director transfers his or her shareholding in the Company or when the shareholder which proposed his appointment to the Company sells its entire shareholding interest or reduces it to a level that requires the reduction or removal of its proprietary directors.

Members of any Committees or Commissions that may exist will automatically resign when they cease to be directors.

The Nominating and Compensation Commission will report to the Board of Directors on any proposals to remove directors, in accordance with article 12 (B) 2 (c) of the Regulations of the Board of Directors.

**C.1.20 Explain the extent to which the annual evaluation of the Board has led to important changes in internal organization and the procedures applicable to its activities.**

As a consequence of the 2017 annual self-evaluation, the Board evaluated the performance of both the Board itself and its commissions favourably, identifying, however, the possibility of improvement in several aspects. To date, none of these issues has required important changes in the Board's internal organization or in the procedures applicable to its activities.

**C.1.20.Bis. Describe the evaluation process and the areas evaluated by the Board of Directors, assisted, if applicable, by an external consultant, regarding the diversity of its composition and capacities, the operation and composition of its commissions, the performance of the chairman of the Board of Directors and the chief executive of the Company and the performance and contribution of each director.**

In accordance with article 529 nonies of the Capital Companies Law and article 12 bis of the Regulations of the Board of Directors, at its meeting of April 4, 2017, the Board of Directors carried out an annual evaluation of its own performance and that of its commissions during 2016, analysing the directors' replies to a questionnaire with almost a hundred questions.

This questionnaire included questions on the operation and composition of the Board of Directors and the work and performance of the Chairman of the Board of Directors and the Secretary of the Board of Directors. The questionnaire also asked about the operation of the Audit Committee and Nominating and Compensation Commission.

Likewise, the Audit Committee and Nominating and Compensation Commission prepared reports on their own evaluations as well as an action plan to overcome the deficiencies detected in said evaluations and in the case of the Nominating and Compensation Commission, on the operation of the Board of Directors, all of which was in compliance with Recommendation 36 of the Good Governance Code.

Subsequently, the Board of Directors reviewed the status of compliance with said plan, the objectives attained during 2017 and the issues that could be improved in the following period.

**C.1.20 ter State, if applicable, the business dealings that the consultant or any company belonging to its group maintain with the company or any company belonging to its group.**

The Board of Directors of the Company has decided not to engage any consultant or external advisor for this purpose.

**C.1.21 State the circumstances in which directors are obliged to resign.**

Article 15 of the Regulations of the Board of Directors states that directors must place their position at the disposal of the Board of Directors and, if the latter sees fit, resign in the following cases:

(a) When they are affected by any of the circumstances of incompatibility or prohibition legally provided for.

(b) When they may harm the Company's good name or reputation.

(c) When they are investigated, prosecuted, in the process of trial in ordinary proceedings or found guilty in summary criminal proceedings in relation to any serious crime, in particular, any of the crimes stated in article 213 of the Capital Companies Law. In these cases, the Board of Directors will investigate the case as soon as possible and, in the light of the specific circumstances, will decide whether or not the director should remain in office. The Board of Directors will inform of any such decisions in the Annual Corporate Governance Report.

(d) When they have been seriously admonished by the Audit Committee or because they have infringed their duties as directors.

(e) When a proprietary director transfers his or her shareholding in the Company or when the shareholder which proposed his appointment to the Company sells its entire shareholding interest or reduces it to a level that requires the reduction or removal of its proprietary directors.

Members of any Committees or Commissions that may exist will automatically resign when they cease to be directors.

**C.1.22 Section repealed.**

**C.1.23 Are qualified majorities, other than those legally provided for, required for any type of decision?**

Yes  No

**If applicable, describe the differences.**

N/A

**C.1.24 Explain whether there exist specific requirements, other than those relating to directors, to be appointed chairman of the Board of Directors.**

Yes  No

**C.1.25 State whether the Chairman has a casting vote.**

Yes  No

**C.1.26 State whether the Bylaws or the Regulations of the Board of Directors fix any age limit for directors.**

Yes  No

**C.1.27 State whether the Bylaws or the Regulations of the Board of Directors fix a limited term of office for independent Directors, other than that established by law.**

Yes  No

**C.1.28 State whether the Bylaws or the Regulations of the Board of Directors fix any specific rules for proxy-voting at meetings of the Board of Directors, the way in which this is done and, in particular, the maximum number of proxy votes that a Director may hold, as well as whether it is compulsory to delegate to a Director with the same classification. If applicable, briefly describe these rules.**

Article 22 of the Bylaws states that any director may grant written proxy to any other director.

In addition, article 11 of the Regulations of the Board of Directors states that each director may authorize another director to represent him without any limit on the number of proxies that one director may hold at a Board meeting. Absent directors may authorize another director to represent them using any written means and telegrams, e-mails or faxes addressed to the Chairman of the Board of Directors are valid.

Likewise, non-executive directors may only grant proxy to other non-executive directors.

**C.1.29 State the number of meetings held by the Board of Directors during the period Likewise, if applicable, state the number of times that the Board met without the presence of the Chairman. Proxies granted with specific instructions must be counted as presences.**

<b>Number of Board meetings</b>	11
<b>Number of Board meetings without the presence of the Chairman</b>	0

**If the chairman is an executive director, state the number of meetings held under the chairmanship of the coordinating director without any executive director being present or represented:**

<b>Number of meetings</b>	N/A
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**State the number of meetings held by the different board commissions in the period.**

<b>Number of meetings of the Audit Committee</b>	9
<b>Number of meetings of the Nominating and Compensation Commission</b>	5

**C.1.30 State the number of meetings held by the Board of Directors during the period at which not all of its members were in attendance. Proxies granted with specific instructions must be counted as presences.**

<b>Attendances of directors</b>	8
<b>% of attendances of total votes during the period</b>	72.73%

**C.1.31 State whether the individual and consolidated annual financial statements that are submitted to the Board for its approval are certified previously.**

Yes  No

**Identify, if applicable, the person/s who certified the company's individual and consolidated financial statements to be formulated by the Board.**

N/A

**C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it formulates from being submitted to the General Meeting with qualifications in the audit report.**

The Board of Directors controls, through the Audit Committee, the whole process of drawing up and formulating the annual financial statements of the Company S.A. and its Group.

The last paragraph of article 12 A) 3 of the Regulations of the Board of Directors states that the Audit Committee will strive to ensure that the Board of Directors seeks to present the annual statements to the General Shareholders' Meeting without reservations or qualifications in the audit report, and in the exceptional case that these may be included, the Chairman of the Audit Committee and the auditors will give a clear explanation to the shareholders on the content and extent of said reservations and qualifications.

**C.1.33 Is the secretary of the Board of Directors a director?**

Yes  No

**If the secretary is not a director, complete the following chart.**

Name or corporate name of secretary	Representative
Alberto Fernández-Ibarburu Arocena	N/A

**C.1.34 Section repealed.**

**C.1.35 State the mechanisms, if any, used by the Company to preserve the independence of the auditors, the financial analysts, the investment banks and the rating agencies.**

**1. INDEPENDENCE OF THE EXTERNAL AUDITORS**

Article 12 A) 2 f) of the Regulations of the Board of Directors states that the Audit Committee must receive information on any other questions that might jeopardize the Independence of the external account auditor in order to examine them.

Likewise, the Regulations of the Board of Directors state that the Audit Committee must propose to the Board of Directors, for submission to the General Shareholders' Meeting, the selection, appointment, reappointment and replacement of the external account auditor, in accordance with the applicable legislation, being responsible for the selection process, and must also propose its engagement conditions. Furthermore, the Audit Committee must regularly obtain from the external auditor information on the audit plan and its execution, preserving its independence in the performance of its duties.

To this effect:

- (i) the Company must notify any change of external auditor to the National Securities Market Commission (CNMV) as a material event, accompanied by a statement of any disagreements that may have arisen with the outgoing auditor and, if such disagreements exist, the contents thereof;
- (ii) the Company must ensure that it and the external account auditor respect the current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, the other requirements designed to safeguard auditor independence;
- (iii) the Company must establish appropriate contacts with the account auditor to receive information on any questions that might place the latter's independence at risk, which will be examined by the Audit Committee, and when authorization of non-audit services other than those prohibited is required, in the terms contained in account auditing legislation, as well as any other matters provided for in account auditing legislation and audit rules. In particular, the Audit Committee will receive from the account auditors, on an annual basis, written confirmation of their independence in relation to the Company or any companies that may be directly or indirectly related thereto, as well as detailed information on the individual additional services of any kind provided to said companies and the fees received from these



entities by the auditors or by persons or entities related to the auditors, in accordance with the provisions of the Account Auditing Law.

- (iv) if the external account auditor resigns, it will investigate the issues that gave rise to said resignation;
- (v) prior to issuance of the audit report, the Audit Committee must issue an annual report expressing an opinion as to whether the independence of the account auditors has been compromised. Said report must express an opinion on the provision of additional services to which point (iii) above refers, considered individually and overall, other than the statutory audit, in relation to the system of independence or the legislation that regulates the activity of account auditing.
- (vi) the Audit Committee must ensure that the remuneration of the external auditor does not compromise either its quality or its independence; and
- (vii) the Audit Committee must ensure that that external auditor has a yearly meeting with the Board of Directors in full to inform it of the work undertaken and developments in the Company's risk and accounting positions.

## **2. INDEPENDENCE OF FINANCIAL ANALYSTS, INVESTMENT BANKS AND RATING AGENCIES**

With regard to relations with financial analysts, the Company applies the principle of transparency, no discrimination and reliability of the information provided to the market. The Company has several communication channels, always complying with securities market legislation:

- E-mail on the corporate website ([info.accionista@otis.com](mailto:info.accionista@otis.com)).

- Contact person for information to shareholders:

Joao Penedo  
Zardoya Otis, S.A.  
C/ Golfo de Salónica, 73  
28033-Madrid  
Tel.: 91 343 51 05  
Fax: 91 343 51 89

Said information is available on the website in the section "Channels of Communication with the Company".

In addition, the Company has an internal Code of Conduct that establishes the guidelines that the Company and the "**Obligated Persons**" (directors, managers, employees, advisors, etc.) must follow in the treatment of inside and relevant information, thus protecting the interests of those who invest in the Company's securities (the "**Internal Code of Conduct**"). This Internal Code of Conduct was amended on February 21, 2017 in order to adapt its contents to Royal Legislative Decree 4/2015 of October 23, whereby the revised text of the Securities Market Law was approved, Regulation (EU)

No. 596/2014 of the European Parliament and of the Council, of April 16 (the Market Abuse Regulation) and their implementing legislation. The amendment was intended to improve protection of those who invest in the Company's security by avoiding any market abuse situation, establishing the set of rules applicable to the management and control of inside information by the Company and Obligated Persons in their actions related to the treatment of inside information, the securities, markets, transactions with the Company's own shares and detecting and handling conflicts of interest, among other items.

The Internal Code of Conduct may be consulted on the Company's website: (<http://www.otisworldwide.com/site/es->

[esl/OT\\_DL\\_Documents/OT\\_DL\\_DocumentLibrary/Descargue%20nuestro%20Reglamento%20Inter%20de%20Conducta/Reglamento%20Interno%20de%20Conducta%202017.pdf](esl/OT_DL_Documents/OT_DL_DocumentLibrary/Descargue%20nuestro%20Reglamento%20Inter%20de%20Conducta/Reglamento%20Interno%20de%20Conducta%202017.pdf)).

Any investment banks or rating agencies that advise the Company and have access to inside information are considered as “External Advisors” and, therefore, “Obligated Persons”. Consequently, the Secretary of the Board will warn the persons who must be included on the “Obligated Persons” Register as “Obligated Persons” that the information is inside information and of their duty of confidentiality and the prohibition on the use of said information, as well as the infringements and penalties derived from the improper use thereof. “Obligated Persons” must provide a declaration stating that they undertake to comply with the obligations contained in the Internal Code of Conduct.

**C.1.36 State whether the Company has changed the external auditor during the reporting period. If so, identify the incoming and the outgoing auditor.**

Yes  No

At the General Shareholders’ Meeting of May 24, 2017, a resolution was passed to reappoint the Company’s account auditor (PriceWaterhouseCoopers Auditores, S.L.).

**If there has been any disagreement with the outgoing auditor, describe the content thereof.**

N/A

**C.1.37 State whether the audit firm carries out work for the company and/or its group other than audit work and, if so, state the amount of the fees received for said work and the percentage of the fees billed to the company and/or its group that these represent.**

Yes  No

	Company	Group	Total
<b>Amount of work other than audit work (thousands of euros)</b>	64,9	0	64,9
<b>Amount of work other than audit work (thousands of euros) / total amount billed by the audit firm (%)</b>	27,26	0	15,39

**C.1.38 State whether the audit report on the annual financial statements for the prior fiscal year has observations or qualifications. If so, state the reasons given by the Chairman of the Audit Committee to explain the content and scope of such observations or qualifications.**

Yes  No

**C.1.39 State the number of years for which the current audit firm has been uninterruptedly auditing the annual financial statements of the company and/or its group. Likewise, state the percentage represented by the number of years audited by the current**

audit firm in relation to the total number of years for which the annual financial statements have been audited.

	Sociedad	Grupo
<b>Number of consecutive years</b>	30	30
<b>Number of years audited by the current audit firm / Number of years for which the company has been audited (%)</b>	69.77%	100.00%

**C.1.40 State whether any procedure exists that allows the Directors to obtain external advice and, if applicable, give details thereof.**

Yes  No

**Details of procedure**

Article 17 of the Regulations of the Board of Directors states that the Board has the broadest authorization to obtain any information that is appropriate and necessary, as well as any advice it requires on any aspect of the Company, whenever it so requires in order to perform its duties. The right to information extends to subsidiary companies, both national and foreign, and will be channelled through the Chairman, who will handle the director's requests, providing him/her with the information directly, offering any appropriate contacts or arranging any measures that may be necessary for the examination requested.

Likewise, the second paragraph of the aforementioned Article 17 of the Board of Directors regulations, states, that in order be assisted in performing his/her duties, any director may request legal, accounting, technical financial or commercial advisors or other experts. The engagement must necessarily be related to specific problems of certain complexity arising in the course of his/her duties.

The request for the engagement will be channelled through the Chairman or Secretary of the Board of Directors, who may make it subject to the Board's prior authorization, which may be refused when there are reasons to justify this, including the following circumstances:

- (i) When it is not necessary in order to properly perform the duties entrusted to the directors.
- (ii) If the cost is not reasonable in the light of the importance of the problem and the assets and revenue of the Company.
- (iii) If the technical assistance requested may be given adequately by experts and technical staff within the Company or its Group.
- (iv) If it may represent a risk to the confidentiality of the information that must be provided to the expert.

The Audit Committee and Nominating and Compensation Commission may obtain external advice when they deem this necessary in order to perform their duties.

Likewise, the Chairman may, as an exception, temporarily restrict access to certain information, informing the Board of this decision.

**C.1.41 State whether there exists a procedure that allows the Directors to obtain the information required to prepare the meetings of the governing bodies in sufficient time and, if applicable, give details.**

Yes  No

**Details of procedure**

In accordance with article 10 of the Regulations of the Board of Directors, Board meetings are called by sending a letter, e-mail, telegram or fax to each one of the directors, at the address he/she has previously provided for this purpose, at least ten days before the date fixed for the meeting, attaching the agenda for the meeting.

Thus, unless a Board meeting is held or called under exceptional circumstances for urgent reasons, the directors should previously have the information necessary for deliberations and the passing of resolutions on the matters to be discussed sufficient time in advance. The Chairman of the Board of Directors, with the assistance of the Secretary, must ensure compliance with this right.

When, under exceptional circumstances, for urgent reasons, the Chairman wishes to submit decisions or resolutions of items that are not included on the agenda to the approval of the Board, the express prior consent of a majority of the directors present will be required, which will be duly recorded in the minutes.

Article 6 of the Regulations of the Board of Directors expressly states that the Chairman of the Board of Directors is responsible for ensuring that all the directors receive sufficient information in advance to allow deliberations on the items on the agenda.

Finally, article 17 of the Regulations of the Board of Directors states that any director has the duty to require and the right to obtain, with the broadest authorization, any information or advice they he/she requires on any aspect of the Company, whenever this is required in order to perform his/her duties. The right to information covers subsidiaries, both national and foreign, and will be channelled through the Chairman of the Board of Directors, who will handle the requests of any director and provide the information directly, offering the appropriate contacts or taking any measures necessary for the examination requested.

**C.1.42 State whether the Company has established any rules requiring Directors to inform the Company —and, if applicable, resign from their position— in cases in which the good name and reputation of the Company may be damaged. If so, describe such rules.**

Yes  No

**Explain the rules**

Article 15 of the Regulations of the Board of Directors states that directors must place their position at the disposal of the Board of Directors and, if the latter sees fit, resign in the following cases:

(i) When they are affected by any of the circumstances of incompatibility or prohibition legally provided for;

(ii) When they may harm the Company's good name or reputation;

(iii) When they are investigated, prosecuted, in the process of trial in ordinary proceedings, or found guilty in summary criminal proceedings in relation to any serious crime, in particular, any of the crimes stated in article 213 of the Capital Companies Law. In these cases, the Board of Directors will investigate the case as soon as possible and, in the light of the specific circumstances, will decide whether or not the director should remain in office. The Board of Directors will inform of any such decisions in the Annual Corporate Governance Report;

(iv) When they have been seriously admonished by the Audit Committee or because they have infringed their duties as directors; or

(v) When an external proprietary director transfers his or her shareholding in the Company or when the shareholder which proposed his appointment to the Company sells its entire shareholding interest or reduces it to a level that requires the reduction or removal of its proprietary directors.

Article 19.5 (f) of the Regulations of the Board of Directors states that directors must notify the Board of Directors as soon as possible and, if appropriate, resign if any circumstances affect them that might damage the good name and reputation of the Company, in particular when they are investigated in relation to criminal offences.

**C.1.43 State whether any member of the Board of Directors has informed the Company that he has become subject to an order for further criminal prosecution upon indictment or that an order for the commencement of an oral trial has been issued against him for the commission of any of the crimes contemplated in article 213 of the Capital Companies Law.**

Yes  No

**State whether the Board of Directors has analysed the case. If so, provide a duly substantiated explanation of the decision adopted regarding whether or not the director should remain in office or, if applicable, set forth the actions taken by the Board of Directors up to the date of this report or those it plans to take hereafter.**

N/A

**C.1.44 Provide details of any significant agreements into which the company has entered that come into force, are modified or conclude in the event of a change in the control of the company as a result of a public tender offer and the effects of said entry into force, modification or conclusion.**

There are no agreements of this nature.

**C.1.45 State, on an aggregated basis, and describe in detail, any agreements between the company and its directors, managers or employees that provide for indemnities or contain any guarantee or protective clauses in the event that they resign or are unfairly dismissed or if the contractual relationship concludes as the result of a public tender offer or any other type of transaction**

<b>Number of beneficiaries</b>	1
<b>Beneficiary</b>	CEO
<b>Description of the agreement</b>	The only director entitled to an indemnity in the event of termination of his/her contract is the CEO. The indemnity consists of 45 days' remuneration per year as from his appointment as the Company's CEO (i.e. February 14, 2012) until the contract termination date. This indemnity is in addition to any indemnity to which he may be legally entitled as a result of the termination of his former employment relationship, which has been placed in abeyance.

<b>Number of beneficiaries</b>	2
<b>Beneficiary</b>	Managers
<b>Description of the agreement</b>	<p>One manager has an additional indemnity clause whereby, in the event of a dismissal found to be unfair, the Company guarantees a minimum indemnity equivalent to one year of the manager's salary.</p> <p>Another manager has a clause stating that, in the event that his contract is terminated unfairly and he is entitled to an indemnity, said indemnity will consider a length of service dating from four years prior to the date on which he joined the Company.</p>

**State whether these contracts must be notified to and/or approved by the governing body/ies of the company or its group.**

	<b>Board of Directors</b>	<b>General Meeting</b>
<b>Body authorizing the clauses</b>	Yes	No

<b>Is the General Meeting informed of the clauses?</b>	No
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## C.2 Committees of the Board of Directors

**C.2.1 Give details of all the committees of the Board of Directors, their members and the proportion of proprietary, independent and other external directors that sit on them.**

### AUDIT COMMITTEE

<b>Name</b>	<b>Position</b>	<b>Class</b>
MR JOSÉ MIGUEL ANDRÉS TORRECILLAS	CHAIRMAN	Independent
MR JOSE MARIA LOIZAGA VIGURI	DEPUTY CHAIRMAN	Independent
MR MARK GEORGE	MEMBER	Proprietary
<b>% of executive directors</b>		0.00%
<b>% of proprietary directors</b>		33.33%
<b>% of independent directors</b>		66.66%
<b>% of external directors</b>		0.00%

**Explain the duties of this commission, describe its organizational procedures and rules and summarize its most important activities during the period.**

**Duties, organizational procedures and rules and most important activities during the period**

Article 12, section A, of the Regulations of the Board of Directors contains all the information on the composition, operation and duties of the Audit Committee:

**1. Composition**

The Board of Directors will form a permanent Audit Committee.

The Audit Committee will be formed by three directors, appointed by the Board of Directors from among the non-executive directors. Its members must include a majority of independent directors. The Audit Committee as a whole must have sufficient technical knowledge on the sector in which the Company operates.

The Board of Directors will likewise appoint a Chairman from among its members and a Secretary, who need not be a director, at the proposal of the Nominating and Compensation Commission. The Chairman of the Audit Committee will be appointed by the Board of Directors from among its independent members and will be changed every four years, although the same chairman may be reappointed one year after his/her removal.

The members of the Audit Committee, especially its Chairman, must have knowledge and experience in accounting, auditing or risk management.

The directors who sit on the Audit Committee will hold office while they remain in office as directors of the Company and maintain the status of external directors, unless the Board of Directors decides otherwise.

The appointment, reappointment and removal from office of the directors who form the Committee will be governed by the decisions of the Board of Directors.

The directors sitting on the Audit Committee who are re-elected as directors of the Company in a resolution adopted by the General Shareholders' Meeting will continue to hold office on the Committee without the need to be reappointed thereto, unless the Board of Directors decides otherwise.

**2. Functions**

The Audit Committee will have the following functions:

- (a) To report, through its Chairman, to the General Shareholders' Meeting with respect to matters relating to its functions raised thereat by the shareholders and, in particular, on the result of the audit process, explaining how the auditor has contributed to the integrity of the financial information and the Audit Committee's role in the process.
- (b) To propose to the Board of Directors, for submission to the General Shareholders' Meeting, the recommendations for the selection, appointment, reappointment and removal of the external account auditor, in accordance with the applicable legislation, being responsible for the selection process and also proposing its engagement conditions. Furthermore, the Audit Committee must regularly obtain from the external auditor information on the audit plan and its execution, preserving its independence in the performance of its duties.
- (c) To supervise the efficacy of the Company's internal control, internal audit and risk control systems, including tax risks, and, in particular: i) to ensure the independence and efficacy in its functions of the internal audit service and, in particular, monitor the independence of the unit handling the internal audit function; (ii) to propose the selection, appointment, reappointment and removal of the head of the internal audit service; (iii) to propose the budget for said service; (iv)

**Duties, organizational procedures and rules and most important activities during the period**

to approve its priorities and work programs, ensuring that it focuses primarily on the main risks the Company is exposed to; (v) to receive regular report-backs on its activities; (vi) to review the annual work program and the yearly activities report of the internal audit service; (vii) to be informed of any incidents arising during the implementation of the internal audit service's yearly work program; (viii) to verify that senior management acts in accordance with the conclusions and recommendations contained in its reports; and (ix) to discuss any significant weaknesses detected in the internal control system in the course of the audit with the account auditors, all of which must not diminish its impartiality. For this purpose, the Audit Committee may submit recommendations or suggestions to the Board of Directors and the corresponding deadline for the follow-up.

- (d) To be informed of and to monitor the mandatory financial information of the Company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidated group and the correct application of accounting principles, ensuring the integrity thereof, and submit recommendations or suggestions to the Board of Directors aimed to ensure its integrity.
- (e) To review internal control and risk management systems on a regular basis, so that main risks are properly identified, managed and disclosed. In particular, control and risk management policy must identify, at least:
- (i) the different types of risk (operational, technological, financial, legal, reputational, social, environmental, political, etc.) the Company is exposed to, including contingent liabilities and other off-balance sheet risks among the financial and economic risks;
  - (ii) the determination of the risk level the Company sees as acceptable;
  - (iii) the measures in place to mitigate the impact of the risks identified, should they materialize; and
  - (iv) the internal reporting and control systems which will be used to control and manage said risks, including the aforementioned contingent liabilities and off-balance sheet risks.
- (f) To be in contact with the external account auditor in order to receive information on any matters related to the process of performing the account audit, such as the progress and findings of the audit program, to maintain with the external account auditor any other communications required by the account auditing legislation and technical audit rules and check that the Company's senior management is acting in accordance with its recommendations. Likewise, to receive information on any issues which may place the external account auditor's independence at risk for review by the Committee. To this effect:
- (i) the Company will notify any change of auditor to the Spanish National Securities Market Commission (CMNV) as a material event, accompanied by a statement of any disagreements that may have arisen with the outgoing auditor and, if such disagreements exist, the contents thereof;
  - (ii) the Audit Committee will ensure that the Company and the external account auditor respect current rules on the provision of non-audit services, limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditor independence;
  - (iii) the Company must establish appropriate contacts with the account auditor to receive information on any questions which might place the latter's Independence at risk, which will be examined by the Audit Committee, and when authorization of non-audit services other than those prohibited is required, in the terms contained in account auditing legislation, as well as any other matters provided for in account auditing legislation and audit rules. In particular, the Audit Committee will receive from the account auditors, on an annual basis, written confirmation of their independence in relation to the Company or any



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companies that may be directly or indirectly related thereto, as well as detailed information on the individual additional services of any kind provided to said companies and the fees received from these entities by the auditors or by persons or entities related to the auditors, in accordance with the provisions of the Account Auditing Law.

- (iv) if the external account auditor resigns, it will investigate the issues that gave rise to said resignation;
- (v) prior to issuance of the audit report, the Audit Committee must issue an annual report expressing an opinion as to whether the independence of the account auditors has been compromised. Said report must express an opinion on the provision of additional services to which point (iii) above refers, considered individually and overall, other than the statutory audit, in relation to the system of independence or the legislation that regulates the activity of account auditing.
- (iv) the Audit Committee must ensure that the remuneration of the external auditor does not compromise its quality or independence; and
- (vii) the Audit Committee must ensure that that external auditor has a yearly meeting with the Board of Directors in full to inform it of the work undertaken and developments in the Company's risk and accounting positions.

(g) Encourage the group auditor to take on the auditing of all the Group companies.

(h) To establish and supervise a mechanism whereby employees can report, confidentially and, if seen fit, anonymously, any potentially serious irregularities that they note within the Company, especially financial and accounting irregularities. The Chairman of the Audit Committee will inform the Board of Directors on any reports received at the first Board meeting following receipt thereof.

(i) To supervise compliance with the internal codes of conduct and corporate governance rules and recommendations in force at any given moment.

(j) To inform the Board of Directors, before the decision-making, on all the issues provided for in the Law, the Company's Bylaws and these Regulations and, in particular, on the following issues:

- (i) the financial information that the Company must periodically disclose. The Committee will ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review;
- (ii) the creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of an analogous nature whose complexity may detract from the transparency of the Group;
- (iii) any structural changes or corporate transactions the company is planning and, in particular, on their economic conditions and accounting impact and, when applicable, the exchange ratio proposed; and
- (iv) related-party transactions.

(k) Any others that may be attributed to them by the Bylaws, these Regulations, the Board of Directors or the law.

**3. Rules of operation**

In the performance of its activities, the Audit Committee will be governed by the following rules of

**Duties, organizational procedures and rules and most important activities during the period**

operation:

- (a) The Audit Committee will meet at least quarterly and whenever the Chairman considers convenient or at least two members of the Committee so request.
- (b) Meetings of the Audit Committee will reach a quorum when a majority of the members are present or represented. Its decisions will likewise be adopted by a majority of the members.
- (c) The Chief Executive Officer will provide the Audit Committee with the information it requires to perform its duties in relation to the directors and senior management of the principal companies in which interests are held.
- (d) The Audit Committee will have free access to any kind of information or documentation held by or available to the Company that it considers necessary in order to perform its duties.
- (e) The Committee may require the presence at any of its meetings of any employee or officer (and may order them to appear without the presence of any other officer, in which case, their attendance will be requested through the General Manager), any executive director, the external account auditor and/or the legal advisor to the Board of Directors.
- (f) Minutes of Audit Committee meetings will be taken and a copy will be sent to all the members of the Board and to the Board of Directors, sending the full contents of the minutes of the Committee meetings. Furthermore, the Chairman of the Audit Committee will, if applicable, report on any decisions and/or significant events that may have occurred at the Committee meetings at the first Board meeting to take place after the Committee meeting in question.
- (g) The Committee will review the financial information that is sent on a quarterly basis to the CNMV.
- (h) The Board of Directors will discuss the proposals and/or reports presented by the Audit Committee.

In the absence of any specific rule, the provisions of the Regulations on the operation of the Board of Directors will be applicable to the Audit Committee to the extent that they are not incompatible with the nature thereof, in particular, the rules on calling the meetings, granting proxy to another director, universal meetings, written ballots without holding a meeting, the persons acting as chairman and secretary of the meetings and the approval of the minutes.

The Audit Committee will strive to ensure that the Board of Directors seeks to present the annual statements to the General Shareholders' Meeting without reservations or qualifications in the audit report, and in the exceptional case that these may be included, the Chairman of the Audit Committee and the auditors will give a clear explanation to the shareholders on the content and extent of said reservations and qualifications.

**4. Internal audit**

The Company will set up, under the supervision of the Audit Committee, a unit to carry out internal audit function to monitor the effectiveness of reporting and control systems.

The head of the unit described above will present an annual work program to the Audit Committee, will inform it directly of any incidents arising during its implementation and will submit an activities report at the end of each reporting period.

**5. Risk control and management function**

Under the supervision of the Audit Committee or of a specialized committee of the Board of Directors, there will be an internal department of the Company in charge of the risk control and management function which will have the following duties:

**Duties, organizational procedures and rules and most important activities during the period**

- (a) To ensure that risk control and management systems are functioning correctly and, specifically, that major risks the Company is exposed to are correctly identified, managed and quantified.
- (b) To participate actively in the preparation of risk strategies and in key decisions about their management.
- (c) To ensure that risk control and management systems are mitigating risks effectively in the framework of the policy drawn up by the Board of Directors.

The Audit Committee met on 9 occasions in 2017.

In compliance with the functions set out in the Regulations of the Board of Directors, in 2017, the Audit Committee performed the functions assigned to it, which, among others, were as follows: supervise the financial information, supervise the efficacy of the Company's internal control, report on the different corporate and strategic policies approved in 2017, review the management objectives, meet the Company's external auditor, report on the external auditor's independence, report on the distribution of dividends, capital increase, etc.

When the 2018 Ordinary General Shareholders' Meeting is called, a report on the operation of the Audit Committee during the period ended November 30, 2017 will be placed at the shareholders' disposal.

**Identify the member of the audit commission who has been appointed due to his/her knowledge and experience in accounting, auditing or both and state the number of years for which the chairman of this commission has been in said position.**

<b>Names of the directors with experience</b>	<p>MR JOSÉ MIGUEL ANDRÉS TORRECILLAS (Chairman)</p> <p>MR JOSE MARIA LOIZAGA VIGURI</p> <p>MR MARK GEORGE</p>
<b>No. of years chairman in position</b>	2

**NOMINATING AND COMPENSATION COMMISSION**

Name	Position	Class
MR JOSE MARIA LOIZAGA VIGURI	CHAIRMAN	Independent
OTIS ELEVATOR COMPANY (represented by Ms Nora La Freniere)	DEPUTY CHAIRMAN	Proprietary
MR JOSÉ MIGUEL ANDRÉS TORRECILLAS	MEMBER	Independent
MR PIERRE DEJOUX	MEMBER	Proprietary
MS ROBIN FIALA	MEMBER	Proprietary
<b>% of executive directors</b>		0.00%
<b>% of proprietary directors</b>		60.00%
<b>% of independent directors</b>		40.00%

<b>% of other external directors</b>	0.00%
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**Explain the duties of this commission, describe its organizational procedures and rules and summarize its most important activities during the period.**

<b>Duties, organizational procedures and rules and most important activities during the period</b>
<p>Article 12, section B of the Regulations of the Board of Directors contains all the information on the composition, operation and duties of the Nominating and Compensation Commission:</p> <p><b>1. Composition</b></p> <p>The Board of Directors will create a permanent Nominating and Compensation Commission.</p> <p>The Nominating and Compensation Commission will be formed by five directors, appointed by the Board of Directors from among the non-executive directors. At least two of its members must be independent. The Board of Directors will likewise appoint a Chairman from among the members, who must be independent, and a Secretary, who need not be a director, at the proposal of the Nominating and Compensation Commission itself.</p> <p>The Board of Directors will try to ensure that the directors who form part of the Nominating and Compensation Commission have appropriate knowledge, capacities and experience for the functions they are to perform.</p> <p>The directors who form part of the Nominating and Compensation Commission will hold office while they remain in office as directors of the Company and maintain the status of external directors, unless the Board of Directors decides otherwise.</p> <p>The appointment, re-election and removal from office of the directors who form the Commission will be governed by the decisions of the Board of Directors.</p> <p>Directors forming part of the Nominating and Compensation Commission who are re-elected as directors of the Company in a resolution adopted by the General Shareholders' Meeting will continue to hold office on the Commission without the need to be re-elected thereto, unless the Board of Directors decides otherwise.</p> <p><b>2. Functions</b></p> <p>The Nominating and Compensation Commission will have the following functions:</p> <ul style="list-style-type: none"> <li>(a) To assess the competence, knowledge and experience necessary on the Board and, in consequence, to define the functions and capacities necessary in the candidates who are to cover any vacancies and assess the time and effort required for them to carry out their duties properly.</li> <li>(b) To establish a representation target for the gender that is less represented in the Board of Directors and prepare guidelines on how to reach such target.</li> <li>(c) To report on the proposals for appointment of independent directors in order for them to be appointed by co-option or for their appointment to be submitted to the decision of the General Meeting, as well as proposals for the re-election or removal of said directors by the General Meeting.</li> <li>(d) To report on the proposals for appointment of other directors in order for them to be appointed by co-option or for their appointment to be submitted to the decision of the General Meeting, as well as proposals for the re-election or removal of said directors by the General Meeting.</li> <li>(e) To report on proposals for filling the internal positions on the Board of Directors.</li> <li>(f) To propose the members of each committee to the Board of Directors.</li> <li>(g) To report to the Board of Directors on the appointments and removals of members of senior</li> </ul>

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management and propose and report to the Board of Directors on the basic conditions of their contracts.

- (h) To examine or organize, in the manner seen fit, the succession of the Chairman and the CEO and, if applicable, make proposals to the Board so that said succession takes place in an orderly and well-planned manner.
- (i) To ensure that, when filling new vacancies or appointing new directors, the selection processes are not marred by any implicit bias that could imply any kind of discrimination and to report to the Board on gender diversity issues.
- (j) To propose to the Board of Directors the compensation policy for directors and general managers or persons who perform senior management duties and report directly to the Board, executive commissions or the CEO, as well as the individual compensation and other conditions of the contracts of executive directors, ensuring that they are respected. This policy will be reviewed periodically, including the systems of compensation with shares and the application thereof.

The Nominating and Compensation Commission will ensure that the individual compensation of directors and members of senior management is proportionate to the amounts paid to other directors and managers in the Company.

- (k) To ensure that any potential conflicts of interest do not undermine the Independence of any external advice provided to the Commission.
- (l) To verify the information on the compensation of directors and members of senior management contained in the various corporate documents, including the Annual Director Compensation Report.
- (m) To ensure that non-executive directors have sufficient time available to perform their duties properly.
- (n) Any others that may be attributed to it in the Bylaws, the Regulations of the Board of Directors or, if applicable, the law.

The Nominating and Compensation Commission will consult the Chairman and the Company's CEO, especially in relation to issues concerning the executive directors and members of senior management.

Any director may request the Nominating and Compensation Commission to consider potential candidates to cover vacancies on the Board, so that it may decide on their suitability.

**3. Rules of operation**

In performing its activities, the Nominating and Compensation Commission will operate independently and will be governed by the following rules of operation:

- (a) The Nominating and Compensation Commission will meet before any Board of Directors meeting at which a proposal is to be put to the General Shareholders' Meeting for the appointment, removal from office, re-election or ratification of a director and before any Board of Directors meeting at which it is planned to co-opt a director to cover a vacancy. The Nominating and Compensation Commission will likewise meet whenever the Chairman considers it necessary or when at least two members of the Commission so request.
- (b) Meetings of the Nominating and Compensation Commission will reach a quorum when a majority of the members are present or represented. Its decisions will likewise be adopted by a majority of the members.
- (c) The CEO will provide the Nominating and Compensation Commission with the information it requires to perform its duties in relation to the directors and senior management of the principal companies in which interests are held.

**Duties, organizational procedures and rules and most important activities during the period**

- (d) The Commission will have free access to any kind of information or documentation held by or available to the Company that it considers necessary in order to perform its duties.
- (e) The Commission may require the collaboration of any director, member of senior management or employee of the Company and/or its group to enable it to better perform its functions.
- (f) Minutes of Nominating and Compensation Commission meetings will be taken and a copy will be sent to all the members of the Board and to the Board of Directors itself, sending the full contents of the minutes of the Commission meetings. Furthermore, the Chairman of the Nominating and Compensation Commission will, if applicable, report on any decisions and/or significant events that may have occurred at the Commission meetings at the first Board meeting to take place after the Commission meeting in question.

In the absence of any specific rule, the provisions of the Regulations of the Board of Directors on the operation of the Board of Directors will be applicable to the Nominating and Compensation Commission to the extent that they are not incompatible with the nature thereof, in particular, the rules on calling the meetings, granting proxy to another director, universal meetings, written ballots without holding a meeting, the persons acting as chairman and secretary of the meetings and the approval of the minutes thereof.

The Nominating and Compensation Commission met on 5 occasions in 2017. Likewise, as result of the resignation of Mr Philippe Delpech from his position as a member and Deputy Chairman of the Nominating and Compensation Commission, the Board of Directors appointed Ms Robin Fiala to fill this vacancy at its meeting of October 5, 2017.

In compliance with the functions set out in the Regulations of the Board of Directors, in 2017, the Nominating and Compensation Commission performed the functions assigned to it, which, among others, were as follows: report on proposals for the appointment of directors in order for them to be submitted to the decision of the General Meeting, prepare gender diversity guidelines, etc.

When the 2017 Ordinary General Shareholders' Meeting is called, a report on the operation of the Nominating and Compensation Commission during the period ended November 30, 2017 will be placed at the shareholders' disposal.

**C.2.2 Complete the following chart with the information on the number of women directors who have formed part of board committees over the last four reporting periods.**

	Number of women directors							
	2017		2016		2015		2014	
	No.	%	No.	%	No.	%	No.	%
<b>AUDIT COMMITTEE</b>	0	0.00%	0	0.00%	0	0.00%	0	0.00%
<b>NOMINATING AND COMPENSATION COMMISSION (*)</b>	2 (**)	40.00%	1 (*)	20.00%	1 (*)	20.00%	1 (*)	33.33%

(\*) The information refers to the personal representative of the director Otis Elevator Company.

(\*\*) In addition to the personal representative of the director Otis Elevator Company, the information includes Ms Robin Fiala, who was co-opted as a director and member of the Nominating and Compensation Commission in 2017 until the next General Shareholders' Meeting.

**C.2.3 Section repealed.**

**C.2.4 Section repealed.**

**C.2.5 State, if applicable, whether rules exist for the Board commissions, where they are available to be consulted and the amendments made to them during the period. Likewise, state whether any annual report on the activities of each commission has been prepared on a voluntary basis.**

The rules on the organization, operation and duties of the two committees (Audit Commission and Nominating and Compensation Commission) are included in the Regulations of the Board of Directors and may be consulted on the Company's website: (<http://www.otisworldwide.com/site/es-es/Pages/ReglamentodelConsejo.aspx>) and did not change in the 2017 reporting period.

When the General Shareholders' Meeting is called, reports on the activities conducted by the Audit Committee and the Nominating and Compensation Commission in the preceding reporting period are published. It is planned to prepare annual reports on their activities in 2017 to be published when the 2018 General Shareholders' Meeting is called.

**C.2.6 Section repealed.**

## D. RELATED PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

### D.1 Explain, if applicable, the procedure for approval of related-party and intragroup transactions.

<b>Procedure for approval of related transactions</b>
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According to article 12 (A) 2 (j) of the Board of Directors Regulations, the Audit Committee will provide a report to the Board of Directors prior to the latter's adoption of decisions on related transactions.

According to article 11 of the Board of Directors Regulations, the Board of Directors will adopt its decisions, including, therefore, the approval of related transactions, by an absolute majority of all the directors present or represented at the meeting.

Likewise, the directors' obligation to abstain in the event of a conflict of interest should be taken into account (see section D.6).

### D.2 Give details of any transactions that are significant because of their amount or relevant because of their content that have been performed between the company or companies belonging to its group and significant shareholders of the company.

Name of corporate name of significant shareholder	Name or corporate name of the company or company belonging to its group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
UNITED TECHNOLOGIES CORPORATION (UTC)	OTIS ELEVATOR COMPANY	Contractual	License agreements	18,407
UNITED TECHNOLOGIES CORPORATION (UTC)	ZARDOYA OTIS, S.A.	Contractual	Long term incentive on UTC shares	660
UNITED TECHNOLOGIES CORPORATION (UTC)	OTIS ELEVATOR WORLDWIDE SPRL	Corporate Services Agreement	Service agreement under which Otis Elevator Worldwide Spri provides certain financial, management, human resources, legal, marketing, communication, operational, compliance, technological and business development services to certain companies, including the Company (service receiver).	484
UNITED TECHNOLOGIES CORPORATION (UTC)	OTIS ELEVATOR WORLDWIDE SPRL	Corporate Services Agreement	Service agreement under which certain companies (including the Company) provide certain financial, management, human resources, legal, marketing, communication, operational, compliance, technological and business development services to Otis Elevator Worldwide Spri	2,558

### D.3 Give details of any transactions that are significant because of their amount or content that have been performed between the company or companies belonging to its group and the directors of the company or its management staff.



Name or corporate name of the directors or management staff	Name or corporate name of the related party	Relationship	Type of transaction	Amount (thousands of euros)
OTIS ELEVATOR COMPANY		Director	Imports (from) Otis Elevator Company	49,884
OTIS ELEVATOR COMPANY		Director	Exports (to) Otis Elevator Company	170,542
OTIS ELEVATOR COMPANY		Director	Invoicing of the Company's R&D (to) Otis Elevator Company	3,899

**D.4 Give details of any significant transactions performed by the company with other companies belonging to the same group when these are not eliminated in the process of preparing consolidated financial statements and do not form part of the company's ordinary trade in terms of their purpose and conditions.**

**Include any intragroup transaction performed with companies in countries or territories considered as tax havens.**

Brief description of the transaction	Amount (thousands of euros)
Imports (from) Otis Elevator Company	49,884
Export (to) Otis Elevator Company	170,758
ID charge back of the Company (to) Otis Elevator Company	3,899
Exports and services (to) Zardoya Otis (Gibraltar) Limited	333
Service agreement contract (from) Otis Elevator Company	484
Service agreement contract (to) Otis Elevator Company	2,558

**D.5 State the amount of the transactions performed with other related parties.**

N/A

**D.6 Give details of any mechanisms established to detect, determine and solve any possible conflicts of interest between the company and/or its group and its directors, management staff or significant shareholders.**

In accordance with article 229 of the Capital Companies Act, directors affected by a conflict of interest must refrain from participating in resolutions or decisions that concern the transaction to which the conflict refers.

Article 19 of the Board of Directors Regulations formally establishes the obligation for the directors to refrain from participating in the deliberations or voting on resolutions or decisions in which he/she or a related person have a direct or indirect conflict of interest. The aforementioned obligation to refrain from participating will exclude any resolutions or decisions that affect him/her in his capacity as a director, such as his designation for positions on the Board of Directors, or the revocation thereof, or any others of a similar nature.

Likewise, article 19 of the Board of Directors Regulations states that the duty to avoid situations of conflict of interest obliges the director (without prejudice to the dispensation system provided for in the Capital Companies Law), to refrain from:

- (a) performing transactions with the Company, except ordinary transactions carried out under standard conditions for customers and of little significance, defined as those on which information is not necessary in order to give a true and fair view of the Company's equity, financial situation and results.
- (b) using the name of the Company or mentioning his/her status as a director to unduly influence the performance of private transactions.
- (c) using the Company's assets, including the Company's confidential information, for private purposes.
- (d) taking advantage of the Company's business opportunities.
- (e) obtaining benefit or remuneration from third parties other than the Company and its group associated to holding office, except when they are matters of mere courtesy.
- (f) carrying on activities, for his/her own account or for the account of third parties, that involve effective real or potential competition with the Company or that, in any other way, place him/her in permanent conflict with the Company's interests.

The above prohibitions will also be applicable in the event that the beneficiary of the prohibited actions or activities is a person related to the director.

At any event, directors must notify the other directors and the Board of Directors of any situation of direct or indirect conflict with the Company's interests that they or persons related to them may have.

Conflicts of interests affecting directors must be disclosed in the annual report.

Additionally, article 9 of the Internal Code of Conduct on issues relating to the securities markets (updated and amended in 2017) states that directors, members of management and significant shareholders are obliged to inform the Secretary of the Board of Directors on any possible conflicts of interest to which they are subject. Any doubt on the possibility of a conflict of interest must be consulted with the Secretary of the Board of Directors before any decision that may be affected by said conflict is adopted.

The Secretary is responsible for keeping an updated register of conflicts of interests. The Secretary may periodically request the persons subject to the Internal Code of Conduct on issues relating to the securities markets to provide written confirmation that no conflicts of interest exist or that no new conflicts have arisen.

According to article 9.4 of the Internal Code of Conduct, in the event of a conflict of interest that the Secretary has been unable to solve and that requires an authorized decision to be made, it will be submitted to the Board of Directors, which will take the following rules into account in order to decide: (i) in the event of conflict between directors, members of management or significant shareholders and the Company, the interests of the Company will prevail; and (ii) in the event of conflict between the Company and a shareholder or customer or between the a shareholder and a customer, the fair criterion of the Board will be applicable.

At any event, the conduct of persons affected by a conflict must be governed by the principles of abstention and independence.

#### **D.7 Is more than one company of the Group listed in Spain?**

Yes  No

**Identify the subsidiaries listed in Spain.**

N/A

**State whether the respective areas of activity and any business relations between them and those of the listed subsidiary with other group companies have been defined publicly and accurately.**

N/A

**Identify the mechanisms in place to solve any conflicts of interest between the listed subsidiary and other group companies.**

N/A

## **E RISK CONTROL AND MANAGEMENT SYSTEMS**

### **E.1 Explain the scope of the company's risk management system, including tax risks:**

Section F of this Annual Corporate Governance Report presents a description of the main features of the internal control and risk management systems in relation to the financial reporting process. In particular, the risk policy of the Company and its consolidated group is described.

The risk control and management policy contains:

- The different types of risk (operating, technological, financial, legal, reputational, etc.) to which the Company is exposed, including financial or economic risk, contingent liabilities and other off-balance-sheet risks;
- Fixing the level of risk that the Company considers acceptable;
- The measures in place to mitigate the impact of the risks identified, in the event that they materialize; and
- The internal reporting and control systems that are used to control and manage the aforementioned risks, including the contingent liabilities and off-balance-sheet risks mentioned above.

On December 13, 2016, the Company's Board of Directors formally approved a risk control and management system (including tax risks).

### **E.2 Identify the company bodies responsible for preparing and executing the Risk Management System, including tax risks:**

Article 3 of the Regulations of the Board of Directors states that the Board of Directors is competent to approve the risk control and management system, including tax risks, and supervise the internal information and control systems.

Likewise, the Company has a unit that carries out the internal audit function and ensures the proper operation of the information and internal control systems under the supervision of the Audit Commission.

The person responsible for said unit will submit its annual work program to the Audit Committee, report directly on any incidents that arise that arise in the course of its work and submit report on its activities at the end of each reporting period.

Article 12 (A) 2 (c) of the Regulations of the Board of Directors entrusts the Audit Committee with the function of supervising the efficacy of the Company internal control, internal audit and risk control systems, including tax risks, and, in particular:

- ensuring the independence and efficacy of the internal audit service and, in particular, monitoring the independence of the unit handling the internal audit;
- proposing the selection, appointment, reappointment and removal of the head of the internal audit service;
- proposing the budget for this service;
- approving the priorities and work programs, ensuring that its focuses principally on the main risks the Company is exposed to;
- receiving regular report-backs on its activities;
- reviewing the internal audit service's annual work program and yearly activities report; and

- being informed of any incidents arising during the implementation of the internal audit service's yearly work program.

Likewise, article 12 (A) 2 (e) of the Regulations of the Board of Directors states that the Audit Committee must regularly review the internal control and risk management systems, so that the main risks are properly identified, managed and disclosed.

Risk management is controlled by company Management and the Internal Audit Department in accordance with policies approved by the Board of Directors. Management and the internal audit service assess and hedge financial risks, in close co-operation with the operating units of the rest of the Group, in order to:

- Guarantee that the most important risks are identified, assessed and managed.
- Ensure a proper operating segregation of risk management functions.
- Ensure that the risk exposure level accepted by the Group in its operations is in line with its risk profile.

Likewise, from a tax standpoint, there is a series of special transactions that must be approved specifically by the Company's Board of Directors.

### E.3 State the main risks that may affect attainment of the business objectives.

As mentioned in point E1 above, the risk control and management policy approved by the Board of Directors fixes the different types of risk, among which the principal ones are

- Operational and technological,
- Legal and tax,
- Reputational and financial, and
- Crime risks.

From the financial point of view, the activities of the Company and the Group are exposed to a number of financial risks: market risk (including exchange rate risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk). The Company's global risk management program concentrates on the uncertainty in the financial markets and tries to minimize any potential adverse effects on the Company's financial profitability. In Note 4 of the Individual Annual Financial Statements and Note 3 of the Consolidated Annual Financial Statements, management of each one of the financial risks is explained.

### E.4 State whether the company has a risk tolerance level, including tax risk:

As stated in point E1 above, the risk control and management policy fixes the level of risk that the Company considers acceptable.

### E.5 State the risks, including tax risks, that materialized during the reporting period:

As in the preceding reporting periods, the risks that materialized in the period referred to trade receivables.

- Circumstances that caused this: deterioration in the national economic situation.
- Operation of the control systems: both the Company and the Group have customer credit analysis policies and regular debt monitoring procedures performed by the departments involved in collection management.

### E.6 Explain the response and supervision plans for the company's main risks:

As mentioned in section E2 above, the Company has an Internal Audit Department, with systems and processes that are intended to assess, monitor, mitigate or reduce the main risks of the Company and its consolidated group by preventive measures and alert of possible situations of risk. The Company has the risks that affect assets and liability covered by the appropriate insurance policies. Likewise, the Company and its consolidated group have processes that ensure control of any risk that may stem from trading operations.

Section F of this Annual Corporate Governance Report describes the internal control and risk management systems in greater detail.

## **F INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO FINANCIAL REPORTING (ICFR)**

Describe the mechanisms that form the risk control and management systems in relation to financial reporting (ICFR) in the company.

### **F.1 The company's control environment**

Describe, stating the main characteristics, at least:

#### **F.1.1. The bodies and/or functions that are responsible for: (i) the existence and maintenance of an appropriate and effective ICFR, (ii) the implementation thereof, and (iii) the supervision thereof:**

Article 3 of the Board of Directors Regulations states that the Board of Directors is competent to approve the risk control and management policy, including tax risks, as well as to regularly monitor the internal reporting and control systems.

According to article 12 (A) 2 (c) of the Regulations of the Board of Directors, the Audit Committee is competent to supervise the efficacy of the Company's internal control, internal audit and risk control systems, including tax risks, and, in particular: i) to ensure the independence and efficacy in its functions of the internal audit service and, in particular, monitor the independence of the unit handling the internal audit function; (ii) to propose the selection, appointment, reappointment and removal of the head of the internal audit service; (iii) to propose the budget for said service; (iv) to approve its priorities and work programs, ensuring that it focuses primarily on the main risks the Company is exposed to; (v) to receive regular report-backs on its activities; (vi) to review the annual work program and the yearly activities report of the internal audit service; (vii) to be informed of any incidents arising during the implementation of the internal audit service's yearly work program; (viii) to verify that senior management acts in accordance with the conclusions and recommendations contained in its reports; and (ix) to discuss any significant weaknesses detected in the internal control system (the "**Internal Control System**") in the course of the audit with the account auditors, all of which must not diminish its impartiality.

In addition, the Audit Committee has the function of receiving information on and supervising the process of preparation of the mandatory financial reporting of the Company and the Group, checking compliance with legal requirements, the appropriate demarcation of the scope of consolidation, and the correct application of accounting policies, ensuring its integrity.

Lastly, article 12 (A) 2. (e) of the Regulations of the Board of Directors states that the Audit Committee must periodically review the internal control and management systems in order for the principal risks to be properly identified, managed and disclosed. In particular, the risk control and management policy must identify at least:

- The different types of risk (operating, technological, financial, legal, reputational, tax etc.) to which the Company is exposed, including the aforementioned financial or economic risk, contingent liabilities and other off-balance-sheet risks;
- Fixing the level of risk that the Company considers acceptable;
- The measures in place to mitigate the impact of the risks identified, in the event that they materialize; and
- The internal reporting and control systems that are used to control and manage the aforementioned risks, including the contingent liabilities and off-balance-sheet risks mentioned above.

The Company's Audit Committee is formed by three Directors: (i) Mr José Miguel Andrés Torrecillas (independent director), who is also the Chairman of the Audit Committee; (ii) Mr José

María Loizaga Viguri (independent director), who is the Deputy Chairman of the audit Committee; and (iii) Mr Mark George (proprietary director).

F.1.2. State whether the following elements exist, especially in relation to the financial reporting:

Departments and/or mechanisms responsible for: (i) the design and review of the organizational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) the existence of sufficient procedures for these to be correctly known within the company.

The design and review of the organizational structure is the responsibility of the Human Resources Department and, ultimately, the CEO, within his duties as an executive director.

More detailed definition of resource needs is carried out by the area in question, together with Human Resources, including, therefore, the areas related to the process of preparing the financial reporting and the rest of the Group's operational areas.

The Company and the Group have an organization chart including all the functional areas.

In relation to sufficient procedures for the information to be correctly known, all the information on the organization chart and organizational structure is in the Group intranet (the "**Intranet**"), to which all employees have access.

In addition, the Group Financial Department (the "**Financial Department**"), responsible for preparing the financial reporting, has a system of responsibilities and segregation of functions that fixes the different levels for approval for each one of the activities and processes of the financial and operating departments.

Code of conduct, approving body, degree to which it is known and explained, principles and values included (stating whether there are specific references to the operations register and financial reporting), body responsible for analysing non-compliances and proposing corrective actions and penalties.

The Company and the Group have an Internal Code of Conduct on issues relating to the securities markets, approved by the Board of Directors, and a Code of Ethics (the "**Code of Ethics**"), notified to all the members of the organization through the intranet. Likewise, courses are held in this respect. They must be completed by new recruits and include annual updates for all Company and Group employees.

The Code of Ethics is based on the following essential principles: (i) compliance with legal requirements; (ii) correct preparation of the financial statements, which must be complete and accurate; and (iii) fair treatment of customers and other interested parties. Thus, the Code of Ethics does not merely require compliance with the law, but represents a commitment to positive behaviour that forges trust, promotes respect and shows integrity.

The principles established in the Code of Ethics are: (i) loyalty to the Company; (ii) meeting commitments; (iii) acting bona fides; (iii) respect towards others; (v) accurate and true information; (vi) not to jeopardize safety or quality; and (iv) to help to detect and avoid bad practices.

The Group has a Good Business Practice Manager, responsible for implementing the Code of Ethics and ensuring compliance therewith.

The Audit Committee makes an annual review of the plan for compliance with the Code of Ethics for each reporting period, covering the actions, those responsible for them, dates and current status, likewise obtaining information on the training and updating courses that each one of the organization's members must attend.



As stated in article 12 (A) 2. (i) of the Company's Regulations of the Board of Directors, mentioned in article 11 of the Internal Code of Conduct, the Audit Committee is responsible for supervising effective compliance with the obligations established in the Internal Code of Conduct.

In particular, as provided in article 10 of the Internal Code of Conduct, the Audit Committee must:

- Comply and ensure compliance with the securities market rules on conduct and the rules contained in the Internal Code of Conduct, the procedures thereof and any other present or future supplementary rules.
- Promote knowledge of the Internal Code of Conduct and other securities market rules on conduct on the part of the obliged persons, insiders and the Group..
- Develop, if applicable, the procedures and implementing rules deemed appropriate in order to apply the Internal Code of Conduct.
- Interpret the rules contained in the Internal Code of Conduct and solve any queries or issues raised by those subject to it and/or insiders.
- Conduct disciplinary procedures against obliged persons and insiders due to failure to comply with the rules of the Code of Conduct.
- Propose to the Company's Board of Directors any revisions or improvements to the Internal Code of Conduct.

Complaints channel that allows any financial or accounting irregularities, in addition to any breaches of the code of conduct and/or irregular activities in the organization to be reported to the Audit Committee, stating, if applicable, whether this channel is confidential.

The Group has a confidential communication channel that allows all Group employees to make suggestions and place complaints in such a way that their concerns can be heard swiftly, neutrally and in the strictest confidence.

The program provides:

- Confidentiality: the identity of the person making a communication is protected.
- Neutrality: support is given neither to Management nor to the employee.
- Independence: there is no hierarchical relationship between the person responsible for the program and Management.
- Quality: the system operates as an intermediary between the employees and Management, while ensuring that communication is clear and comprehensible.

Thus, employees may make communications as follows:

- Through a free telephone call.
- By completing a form and sending it to the relevant centre by mail or fax.
- Using the program application from anywhere with Internet access.

Training programs and regular updates for employees involved in preparing and reviewing the financial information and in the assessment of the ICFR, covering at least accounting rules, auditing, internal control and risk management.

The employees involved in preparing and reviewing the financial information have a sound knowledge of financial and accounting matters. Additionally, the Group has a training program for its employees, supervised by the Human Resources Department.

Furthermore, courses, seminars and work groups related to updates of the accounting legislation, auditing, internal control and risk management are organized, since the Group holds agreements for regular training with a supplier specialized in the accounting, financial, legal, tax and labour areas, among others.

## F.2 Assessment of financial reporting risks

Provide information on at least:

F.2.1. The principal characteristics of the risk identification process, including the risks of error or fraud, in respect of:

Whether the process exists and is documented:

The Group has a risk management system (the “**Risk Map**”), which is conducted by the Group’s different operating and functional units and submitted for review by the Audit Committee and Board of Directors. The Risk Map is based on integrated management of each and every one of the business processes and an appropriate segregation of the levels of risk, in order to achieve compliance with the strategic objectives fixed by the Group.

Whether the process covers the whole of the financial reporting objectives (existence and occurrence; integrity; measurement, presentation, breakdown and comparability; and rights and obligations. Whether it is updated and how often:

All the risks that could affect the financial reporting (principally operational risks) are assessed and quantified in order to carry out regular supervision of the controls designed to mitigate the risks identified. Operational risks cover the objectives of existence, occurrence, integrity, measurement, presentation, breakdown and comparability, and rights and obligations.

Risk management is based on dynamic analyses for each one of the processes that comprise the business units, meaning that those responsible for each one of the organization’s areas or departments identify and assess the potential risks.

The existence of a process to identify the scope of the consolidated group, taking into account, among other aspects, the possible existence of complex corporate structures and instrumental entities or special-purpose vehicles:

The Group does not have a complex corporate structure. As may be seen from the consolidated annual financial statements, all the subsidiaries are consolidated. The Financial Department, through its Consolidation Department, carries out the consolidation process. In close collaboration with the Legal Department, on the basis of the decisions adopted by the Board of Directors on corporate transactions for acquisitions, business combinations, disposals and mergers, among others, the scope of the consolidation and the percentage interests held by each company in its subsidiaries are determined.

Following the best corporate governance practices, in order to comply with article 12 (A) 2. (j). (ii) of the Regulations of the Board of Directors, among the duties of the Audit Committee is included the need to provide a report to the Board of Directors before the latter adopts any decisions on the creation or acquisition of shares or interests in special-purpose vehicles or entities resident in countries or territories considered tax havens, as well as any other similar transactions or operations that, given their complexity, could impair the Group’s transparency.

Whether the process takes into account the effects of other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements:

The different type of risk that comprise the Group risk management system are grouped principally into the following categories:

- Operational,
- Technological,
- Financial,
- Legal and tax,
- Reputational.

Each one of these categories has controls and mitigating actions, which are reviewed and included in annual work plan of the internal audit department's (the "**Internal Audit Department**").

Which of the company's governing bodies supervises the process:

El Audit Committee, in relation to the ICFR System, is responsible for periodically reviewing the internal control and risk management systems, in order to identify and manage the principal risks that could affect the Group's financial reporting. In particular, it is responsible for: (i) ensuring the independence and efficacy of the internal audit service; (ii) proposing the selection, re-election and removal of the head of the internal audit service; (iii) proposing the budget for this service; (iv) receiving periodic information on its activities; (v) reviewing the annual internal audit work program; (vi) being informed of any incidents that arise in the course of the annual internal audit work program; (vii) verifying that senior management take the findings and recommendations of its reports into account; and (viii) discussing any significant weaknesses in the internal control system noted in the course of the audit with the account auditors.

### F.3 Control activities

State, describing their main characteristics, whether the company has at least:

- F.3.1. Financial reporting review and authorization procedures and a description of the ICFR to be published in the stock markets, stating the persons responsible for them, as well as documentation describing the flows of activities and controls (including those concerning the risk of fraud) for the different transactions that could have a material effect on the financial statements, including the procedure for closing the accounts and a specific review of significant judgements, estimates, measurements and projections.

The Financial Department consolidates and reviews all the financial information of the Company and its subsidiaries, including, in this respect, the companies resident in Spain, Portugal and Morocco. Once said information is known, it prepares monthly, quarterly and six-monthly reports and annual financial statements, among other items.

Likewise, the Financial Department submits the annual, six-monthly and quarterly financial statements for review by the Audit Committee, as well as any other financial information that is sent to regulatory bodies or publications. The Audit Committee checks that the information is complete, accurate and sufficient to provide a true and fair view of the Group's equity, financial position and results and the cash flows, which are prepared in accordance with the legislation applicable to individual and consolidated financial statements.

The Board of Directors approves all the financial information that the Group publishes regularly and formulates the annual financial statements together with the Annual Corporate Governance Report.

The review of the estimates and assumptions used is based on the Group's historical experience and other factors considered reasonable. Said procedure is included in the procedure manual for closing the accounts.

**F.3.2. Internal control policies and procedures for the information systems (including, among others, access security, control of changes, the operation thereof, operational continuity and segregation of functions) that support the company's significant processes in relation to preparing and publishing the financial information:**

Systems management acts directly in accordance with the regulations on information security and, in addition, the Group Financial Department authorizes all accesses to sensitive systems that may affect the financial information.

The regulations are based on establishing controls over access security, control of changes, operations, operational continuity and segregation of functions. All these rules are published in the intranet to enable all employees to access them.

The Group has a series of actions that guarantee that operations run correctly when an incident arises, in order to mitigate any possible materialization of an incident or reduce it to a minimum.

The Internal Audit Department's annual work program includes the review of the proper running of Internal Systems Control, both technologically and in relation to maintenance processes.

**F.3.3. Internal control policies and procedures intended to supervise management of activities subcontracted to third parties, as well as any aspects of assessment, calculation or valuation entrusted to independent experts, that could have a material effect on the financial statements.**

The relationship with any group supplier is conducted through those specifically responsible in each business unit, for both goods and services. Any selection of products or services subcontracted to third parties is conducted using technical, professional and economic criteria.

The Internal Audit Department's annual work program includes a review of compliance with the rules related to the main procedures for purchasing goods and services.

If valuations are contracted out to independent experts, this will be done through the Financial Department and the Audit Committee, since they relate to valuations included in the Group's financial information. The Group Financial Department ensures that the supplier is independent and has experience and prestige both nationally and internationally.

**F.4 Information and communication**

State, describing their main characteristics, whether the company has at least:

**F.4.1. A specific function responsible for defining accounting policies, keeping them updated (accounting policy area or department) and solving any queries or conflicts from the interpretation thereof, maintaining smooth communication with those responsible for operations in the organization, as well as an updated accounting policy manual that has been notified to the units through which the company operates:**

The Financial Department, through its Accounting and Consolidation Departments, is responsible for reviewing the accounting policies and rules and ensuring they are kept updated for each of the Group's processes and units. Likewise, the Internal Control Department maintains a smooth relationship with the Financial Department, those responsible for the financial area in each of the Group companies and other units and corporate areas, with whom they establish the procedure updates when applicable.

All the Group's manuals and procedures are available through the intranet.

**F.4.2. Mechanisms for capturing and preparing the financial information with consistent formats, applied and used by all the units of the company or group, which contain the principal financial statements and notes, as well as the information provided on ICFR:**

The Financial Department, through the Consolidation Department, has the function of preparing the financial statements and the notes thereto. In relation to the mechanisms for capturing and preparing the financial information, except for Otis Elevadores Lda. (Portugal) and Otis Maroc, S.A. (Morocco), the companies that belong to the consolidated group use the same financial information system, the same policies and identical accounting procedures, which permits a unified capturing mechanism that is in accordance with the accounting rules in force at any given moment. Additionally, there are reporting packages for the companies resident in Portugal and Morocco, which allows the financial information to be unified and made consistent and to comply with the policies and bases of presentation used by the Group.

## F.5 Supervision of system operation

Describe, stating their main characteristics, at least:

F.5.1. The ICFR supervision activities performed by the Audit Committee and whether the company has an internal audit service whose duties include supporting the Committee in its supervision of the internal control system, including ICFR. Likewise, describe the scope of the evaluation of ICFR carried out in the year and the procedure whereby those responsible for performing the evaluation notify the results, whether the company has an action plan that describes any possible corrective measures and whether the impact on the financial information has been considered.

The Company has an Internal Audit Department, with systems and processes, which is intended to assess, mitigate or reduce the principal risks of the Company and Group through preventive measures and alerts of possible situations of risk.

The Audit Committee, among its ICFR supervision activities, reviews the financial reporting that is sent to the National Securities Market Commission on a quarterly basis.

Additionally, the Audit Committee supervises and monitors the annual audit program. The head of the Internal Audit Department presents the findings of the work plan and the tasks performed by said Department during the reporting period to the Audit Committee.

The Group's Internal Audit Department has five members, who have extensive knowledge in the areas of internal and external auditing and management control, as well as experience in the operational part of the Group's units. The Audit Department has a work manual that fixes the procedures and duties that each of its members must perform.

The main functions of the Internal Audit Department are:

- To evaluate the appropriateness, sufficiency and efficacy of the Group's Internal Control System.
- To evaluate compliance with the Risk Management System.

The Group has an account auditor (the "**Account Auditor**"), who, as part of its procedures to audit the annual financial statements, reviews the Internal Control System. The Account Auditor has a meeting with the Audit Committee at least once a year and presents the findings of its work at said meeting. In the event that any weakness or issue has been noted in the course of the work, the Audit Committee will establish actions and oblige management to consider the actions established. In the findings presented to the Audit Committee, the Account Auditor has not included any weaknesses or issues concerning the Internal Control System.

F.5.2. Whether the company has a discussion procedure whereby the account auditor (as established in the Technical Audit Notes), the internal audit service and other experts may inform senior management and the company's audit committee or directors of any significant weaknesses noted during the annual financial statement review processes or any other processes for which they are responsible. Likewise, state whether the company has an action plan intended to correct or mitigate the weaknesses noted:

The Financial Department, the Internal Audit Department and the Audit Committee maintain regular and smooth communication with the Group's account auditor.

At the beginning of the period, the account auditor presents its audit program to the Financial Department, containing the visit dates, objectives, companies to be audited and a list of audit fees, so that the Audit Committee can review it.

During the whole audit process, the account auditor holds regular meetings with key employees responsible for preparing the financial information, establishing preliminary findings in each one of the phases of the process. Throughout the reporting or in any phase of the external audit process, the Account Auditor may meet with the Audit Committee.

Upon conclusion of the audit, as stated previously, the account auditor presents its findings to the Audit Committee, which will evaluate any situation reported by the former. This will be considered by both the Internal Audit Department and the Audit Committee in order to undertake the appropriate actions.

**F.6 Other relevant information**

N/A

**F.7 Report of the external auditor**

State:

- F.7.1. Whether the ICFR information sent to the markets has been subject to review by the external auditor, in which case the company must include the relevant report as an exhibit hereto. Otherwise, state the reasons.**

Report attached to this 2017 Corporate Governance Report on the Company.

**G DEGREE TO WHICH THE GOOD GOVERNANCE RECOMMENDATIONS HAVE BEEN FOLLOWED**

State the degree of conformance of the company to the recommendations of the Unified Good Governance Code.

If any recommendation is not complied with or complied with in part by the Company, a detailed explanation of the reasons should be included, providing shareholders, investors and the market in general with sufficient information to assess the company's course of action. General explanations will not be acceptable.

1. **The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the take-over of the company by means of share purchases on the market.**

See sections: A.10, B.1, B.2, C.1.23 & C.1.24

Complies  Explain

2. **When a parent and subsidiary company are both listed, both of them should provide detailed disclosure on:**

a) **Their respective areas of activity and any business dealings between them, as well as between the listed subsidiary and other group companies;**

b) **The mechanisms in place to resolve possible conflicts of interest.**

See sections: D.4 & D.7

Complies  Complies in part  Explain  Not applicable

3. **During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:**

a) **Changes taking place since the previous annual general meeting.**

b) **The specific reasons for the company not following a given Good Governance Code recommendation and any alternative procedures followed in its stead.**

Complies  Complies in part  Explain

4. **The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.**

**This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.**

Complies  Complies in part  Explain

The Company fully respects the anti-market abuse regulations and those on the equitable treatment of shareholders (in the same position), analysts and other third parties.

Given the Company's shareholder structure, where the number of institutional investors is very low, the Company has not, to date, prepared a formal policy of communication but, rather, employs general channels of communication, with practices and interlocutors appropriate to the specific case.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

- 5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.**

**And, when a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.**

Complies  Complies in part  Explain

- 6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:**

- a) Report on auditor independence.**
- b) Reviews of the operation of the audit committee and the nominating and compensation commission.**
- c) Audit committee report on related transactions.**
- d) Report on corporate social responsibility policy.**

Complies  Complies in part  Explain

- 7. The company should broadcast its general meetings live on the corporate website.**

Complies  Explain

The Company has not considered it necessary to broadcast the General Shareholders' Meeting live on its corporate website, because the attendance at general meetings, in person or by proxy, is over 70% (78.75% at the General Meeting held on May 24, 2017). Likewise, the Company feels that complying with this recommendation would involve a large amount of work but would not be of a great deal of use in practice, particularly in view of the little or non-existent use that shareholders have made of the electronic shareholders' forum that has been available to them over recent years.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.



8. **The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.**

See section: C.1.32

Complies  Complies in part  Explain

9. **The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.**

**Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.**

Complies  Complies in part  Explain

10. **When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:**

- a) **Immediately circulate the supplementary items and new proposals.**
- b) **Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.**
- c) **Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.**
- d) **After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.**

Complies  Complies in part  Explain  Not applicable

The Company has adopted the above mentioned mechanisms in its internal rules. However, at the General Meetings held in preceding periods, no shareholder has exercised the right to supplement the agenda or submit new resolution proposals.

11. **In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.**

Complies  Complies in part  Explain  Not applicable

12. **The board of directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximizing its economic value.**

**In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.**

Complies  Complies in part  Explain

- 13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.**

Complies  Explain

- 14. The board of directors should approve a director selection policy that:**

- a) Is concrete and verifiable.**
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and**
- c) Favours a diversity of knowledge, experience and gender.**

**The results of the prior analysis of board needs should be written up in the nominating commission's explanatory report, to be published when the general meeting that will ratify the appointment and re-election of each director is called.**

**The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.**

**The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.**

See sections: C.1.5, C.1.6 bis & C.1.19

Complies  Complies in part  Explain

The Board of Directors has decided not to formally approve a director selection policy at present. The criteria for selecting directors for the Board and Nominating and Compensation Commission included in the Regulations of the Board of Directors are deemed sufficient for this purpose.

Likewise, the Nominating and Compensation Commission has decided to establish, as one of its main objectives, an increase in the presence of women on the Board of Directors and to favour and improve the possibilities of women acceding to management positions, fomenting a diversity of knowledge, experience and gender at Board level. An example of this line of action is the co-option of Ms Robin Fiala as a member of the Board of Directors when a vacancy arose in 2017.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

- 15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

Complies  Explain

- 16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.**

**This criterion can be relaxed:**

- a) **In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**
- b) **In companies with a plurality of shareholders represented on the board but not otherwise related.**

Complies  Explain

The Company's Board of Directors has eleven members, ten of whom are external directors: (i) five proprietary directors appointed at the proposal of UNITED TECHNOLOGIES HOLDINGS, S.A.S., which holds 50.01% of the Company's capital, (ii) two proprietary directors appointed at the proposal of EURO-SYNS, S.A., which holds 11.436% of the Company's capital, (iii) one director classified as "other external" and (iv) two independent directors.

Proprietary directors represent 70% of the external directors, while the percentage of the share capital represented by proprietary directors is 61.57%. Consequently, the ratio between the number of proprietary directors and the remainder of the non-executive directors is somewhat higher than the ratio between the share capital represented by proprietary directors and the remainder of the capital. Notwithstanding, as the Good Governance Code says, "*this (proportional principle) is not intended as a mathematical equation, but rather as a rule of thumb to ensure that independents are sufficiently present and that no significant shareholders can exert an influence on the board's decisions that is disproportionate to their capital ownership*".

The deviation is due to several factors. First, we should remember that the Company's shareholders are very concentrated (two shareholders hold 61.57% of the share capital). Likewise, it has been seen fit for the Zardoya family (through EURO-SYNS, S.A.) to propose two directors. Lastly, there is a director classified as "other external", who, for different reasons, cannot be classified as either independent or proprietary.

In 2014, the Company decided to increase the number of directors in order to increase the ratio of independent directors to proprietary directors. Until then, the percentage of proprietary directors was 66.67% of the total Board, while in 2015, it dropped to 63.64%. In addition, the percentage of independent directors rose from 11.11% in 2014 to 18.18% in 2015.

Finally, the Company has rules and procedures in place to ensure the Independence and abstention of all the directors in the event that they are affected by a conflict of interest.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

- 17. Independent directors should be at least half of all board members.**

**However, when the company does not have a large market capitalization, or when a large cap company has shareholders individually or concertedly**

**controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.**

Complies  Explain

The percentage of the full Board represented by independent directors is 18.18%. The Company considers it has sufficient independent director to guarantee the protection of floating capital appropriately and make independent judgements on tasks where a potential conflict of interest may exist.

As mentioned in the preceding explanation, we must remember that the Company's shareholders are very concentrated (two shareholders hold 61.57% of the share capital). The intention has been to provide the two main proprietary shareholders with representation, with the majority shareholder (UTC Group) keeping control, while, at the same time, not increasing further the size of the Board. The result of this balance is the Board's current composition.

Likewise, in spite of the foregoing, the percentage of independent directors rose from 11.11% in 2014 to 18.18% in 2015.

Finally, the Company has rules and procedures in place to ensure the independence and abstention of all the directors in the event that they are affected by a conflict of interest.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

**18. Companies should disclose the following director particulars on their web-sites and keep them regularly updated:**

- a) Background and professional experience.**
- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.**
- c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.**
- d) Dates of their first appointment as a board member and subsequent re-elections.**
- e) Shares held in the company, and any options on the same.**

Complies  Complies in part  Explain

**19. Following verification by the nominating committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the request of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.**

See section: C.1.8

Complies  Complies in part  Explain  Not applicable

20. **Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the number of the latter should be reduced accordingly.**

See section: C.1.2 y C.1.9

Complies  Complies in part  Explain  Not applicable

21. **The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where they find just cause, based on a proposal from the nominating committee. In particular, a just cause will be presumed to exist when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or are affected by one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.**

**The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.**

See section: C.1.21

Complies  Explain

22. **Companies should establish rules obliging directors to disclose any circumstance that might harm the organization's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.**

**The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.**

Complies  Complies in part  Explain

23. **Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not affected by the potential conflict of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.**

**When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.**

**The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.**

Complies  Complies in part  Explain  Not applicable

- 24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.**

See section: C.1.9

Complies  Complies in part  Explain  Not applicable

The Company has preferred not to oblige directors who leave the Board before their tenure expires, due to resignation or any other reason, to explain the reasons in a letter to be sent to all Board members.

The Company does not deem it appropriate to oblige directors to explain the reasons for their removal or resignation and for said reasons to be aired publicly, notwithstanding the right of each one of them to make the reasons for the removal or resignation public.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

- 25. The nomination commission should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.**

**The board of directors regulations should lay down the maximum number of company boards on which directors can serve.**

See sections: C.1.13 y C.1.19

Complies  Complies in part  Explain

The Company has not fixed a maximum number of company boards on which its directors may serve.

This is because some of the directors are also members of the senior management of UNITED TECHNOLOGIES HOLDINGS and sit on a number of boards of the different societies that comprise said Group. Consequently, compliance with this recommendation would be too burdensome for the UNITED TECHNOLOGIES HOLDINGS Group, since it would force it to modify a large part of its corporate structure.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

- 26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.**

Complies  Complies in part  Explain

27. **Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should grant proxy with the appropriate instructions.**

Complies  Complies in part  Explain

28. **When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.**

Complies  Complies in part  Explain

29. **The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, including, if necessary, external assistance at the company's expense.**

Complies  Complies in part  Explain

30. **Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

Complies  Complies in part  Explain

31. **The agendas of board meetings should clearly state the points on which the board must reach a decision, so that the directors can study the matter beforehand or obtain the information they need to reach it.**

**For reasons of urgency, the chairman may wish to submit decisions or resolutions that were not on the meeting agenda for board approval. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.**

Complies  Complies in part  Explain

32. **Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.**

Complies  Complies in part  Explain

No specific mechanism or department has been established for this purpose, taking into account the Company's shareholder structure, where there are scarcely any institutional investors and most of the shareholders with significant shareholdings are represented on the Board.

Directors have access to the same information as the rest of the market (for example, significant shareholdings are notified to the CNMV as a material event).

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's Bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organize and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies  Complies in part  Explain

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those concerning the company's corporate governance; and coordinate the chairman's succession plan.

Complies  Complies in part  Explain  Not applicable

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the good governance recommendations of the Good Governance Code of relevance to the company.

Complies  Explain

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) The diversity of board membership and competences.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nominating commission.

Every three years, the board of directors should engage an external consultant to aid in the evaluation process. This consultant's independence should be verified by the nominating commission.

Any business dealings that the consultant or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.



**The process followed and areas evaluated should be detailed in the annual corporate governance report.**

See sections: C.1.20, C.1.20 bis y C.1.20 ter

Complies  Complies in part  Explain

The Board of Directors has implemented an annual self-evaluation process for the Board and its committees, which is described in section C.1.20 bis. As a consequence of this self-evaluation, an action plan to correct the weaknesses detected is prepared annually.

The Board considers that its annual self-evaluation is sufficient, without the need to engage external consultants. According to the 2015 Good Governance Code, the objective of using said consultants is for the evaluation to be "*enriched with objective opinions*" and the Board considers this contribution to be made by the Company's independent directors.

The decision not to engage an external consultant every three years was made by the Board of Directors on January 25, 2016, when the 2015 Good Governance Code recommendations were examined.

- 37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.**

See section: C.2.1

Complies  Complies in part  Explain  Not applicable

- 38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.**

Complies  Complies in part  Explain  Not applicable

- 39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.**

See section: C.2.1

Complies  Complies in part  Explain

- 40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and internal control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.**

Complies  Complies in part  Explain

- 41. The head of the unit handling the internal audit function should present an annual work program to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.**

Complies  Complies in part  Explain  Not applicable

**42. The audit committee should have the following functions over and above those legally assigned:**

**1. With respect to internal control and reporting systems:**

**a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.**

**b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programs, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.**

**c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.**

**2. With regard to the external auditor:**

**a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.**

**b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.**

**c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.**

**d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.**

**e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.**

Complies  Complies in part  Explain

**43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.**

Complies  Complies in part  Explain

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies  Complies in part  Explain  Not applicable

45. Risk control and management policy should identify at least:

The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

- a) The determination of the risk level the company sees as acceptable.
- b) The measures in place to mitigate the impact of identified risk events should they occur.
- c) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Complies  Complies in part  Explain

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.
- c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies  Complies in part  Explain

47. Appointees to the nominating and compensation commission – or of the nominating commission and compensation commission, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

See section: C.2.1

Complies  Complies in part  Explain

The Nominating and Compensation Commission has five members, including two independent members, one of whom is the committee Chairman.

The reason why the Commission does not have more independent members is that the Company does not have any more independent directors. In this respect, in 2014, the Company decided to increase the number of directors in order to increase the proportion of independents, which rose from 11.11% in 2014 to 18.18% in 2015.

The Company has decided to keep the number of members of the Nominating and Compensation Commission at five, in spite of the fact that it could have reduced it to three members in order to have a majority of independents, as has been done with the Audit Committee because it is legally obligatory. There is a dual reason for deciding to keep the number of members of the Nominating and Compensation Commission at five: first, the Company feels that 40% of independent directors is sufficient to guarantee the independence of the Commission's function and, second, the Company feels it is more useful for the Commission and its functions to have the opinion and experience of five members.

Finally, article 12 (B) of the Regulations of the Board of Directors states that the Board of Directors will ensure that the directors who sit on the Nominating and Compensation Commission have the knowledge, capacities and experience appropriate to the duties they are to perform.

**48. Large cap companies should operate separately constituted nominating and compensation commissions.**

Complies  Explain  Not applicable

Large cap companies are understood to be those that are listed on the Ibex-35, in accordance with the criteria of the CNMV and the Good Governance Code.

**49. The nominating commission should consult the company's chairman and chief executive, especially on matters relating to executive directors.**

**When there are vacancies on the board, any director may approach the nominating commission to propose candidates that it might consider suitable.**

Complies  Complies in part  Explain

**50. The compensation commission should operate independently and have the following functions in addition to those assigned by law:**

- a) **Propose to the board the basic conditions of senior officer contracts.**
- b) **Monitor compliance with the remuneration policy set by the company.**
- c) **Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.**
- d) **Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**
- e) **Verify the information on director and senior officers' pay contained in corporate documents, including the annual director compensation report.**

Complies  Complies in part  Explain

51. The compensation commission should consult the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies  Complies in part  Explain

52. The rules on supervision and control committees should be set out in the board of directors regulations and be consistent with those governing legally mandatory board committees as specified in the preceding recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) They should be chaired by independent directors.
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of the directors and each committee's terms of reference and discuss their proposals and reports. The committees should provide report-backs on their activities and work at the first board meeting following each committee meeting.
- d) Committees may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be minuted and a copy made available to all board members.

See section: C.2.1

Complies  Complies in part  Explain  Not applicable

The Company complies with all the above points except a).

See recommendation 47.

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nominating commission, the corporate social responsibility committee, where one exists, or a dedicated committee established *ad hoc* by the board under its powers of self-organization, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to ensure that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, for the legitimate interests of other stakeholders.

- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.**
- e) Monitor corporate social responsibility strategy and practices and assess their degree of compliance.**
- f) Monitor and evaluate the company's interaction with its stakeholder groups.**
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.**
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.**

Complies  Complies in part  Explain

Currently, in accordance with article 8 of the Regulations of the Board of Directors, the Secretary of the Board of Directors will strive to ensure that the Board of Directors' actions take into account the good governance rules or recommendations in force at any given moment.

Likewise, the duties entrusted to the Audit Committee include:

- (i) Regularly reviewing the internal control and risk management systems, so that the main risks are properly identified, managed and disclosed.
- (ii) Receiving information on and monitoring the process of preparing and presenting the Company's financial information and, where appropriate, reviewing compliance with legal provisions, the accurate demarcation of the consolidated group and the correct application of accounting policies, ensuring the integrity thereof.
- (iii) Monitoring compliance with internal codes of conduct and the good corporate governance rules and recommendations in force at any given moment.

Lastly, the Board of Directors is responsible for approving the corporate social responsibility policy.

However, the Company has not yet approved a strategy for communication and relations with shareholders and investors or asked any commission to review the corporate social responsibility policy or monitor the corporate social responsibility strategy and practices and evaluate the degree of compliance therewith.

**54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:**

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.**
- b) The corporate strategy with regard to sustainability, the environment and social issues.**
- c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, tax responsibility, respect for human rights and the prevention of illegal conduct.**

- d) **The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.**
- e) **The mechanisms for supervising non-financial risk, ethics and business conduct.**
- f) **Channels for stakeholder communication, participation and dialogue.**
- g) **Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.**

Complies  Complies in part  Explain

- 55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.**

Complies  Complies in part  Explain

The Company's Board of Directors recently approved (specifically, in 2016) a corporate social responsibility policy and, therefore, at present, has decided not to follow this recommendation, although it does not rule out the possibility of doing so in the future.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

- 56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.**

Complies  Explain

- 57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.**

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Complies  Complies in part  Explain

- 58. In the case of variable compensation, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.**

**In particular, variable remuneration items should meet the following conditions:**

- a) **Be subject to predetermined and measurable performance criteria that consider the risk assumed to obtain a given outcome.**

- b) **Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.**
- c) **Be focused on achieving a balance between the delivery of short, medium and long-term objectives, in such a way that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.**

Complies  Complies in part  Explain  Not applicable

59. **A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.**

Complies  Complies in part  Explain  Not applicable

60. **Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.**

Complies  Complies in part  Explain  Not applicable

61. **A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.**

Complies  Complies in part  Explain  Not applicable

62. **Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after they were awarded.**

**The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.**

Complies  Complies in part  Explain  Not applicable

63. **Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.**

Complies  Complies in part  Explain  Not applicable

The Company has not seen fit to include this clause in the contract signed with its present CEO.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.



- 64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.**

Complies  Complies in part  Explain  Not applicable

The termination payment agreed in the contract with the CEO is the same as was initially included in his employment relationship with the Company. Therefore, the Board considers it should be maintained.

**H. OTHER INFORMATION OF INTEREST**

1. If there is any relevant aspect in relation to corporate governance in the company or in companies belonging to the group that is not included in the other sections of this report, but that it is necessary to include in order to provide more complete and substantiated information on the governance structure and practices in the company, provide a brief description thereof.
2. This section may include any other information, clarification or nuance related to the preceding sections of the Report, provided that it is relevant and is not repetitive.

Specifically, state whether the company is subject to corporate governance legislation other than the Spanish legislation and, if applicable, include any information that it is obliged to provide, other than the information required in the present report.

3. The company may likewise state whether it has adhered on a voluntary basis to other codes of ethical principles or good practices, whether they be international, industry-related or pertaining to another sphere. If applicable, identify the code in question and the date of adhesion:

- **Corporate social responsibility - Bequal certificate**

In July 10, 2017, the Certification Committee of the Bequal Foundation awarded the Company the Bequal certificate. This certificate recognizes and verifies the existence of policies to include people with disabilities as well as observance of the legally-mandatory reservation of 2% of jobs for people with disabilities.

The Bequal Foundation was founded in 2012 with the goals of promoting the social inclusion of people with disabilities in a workplace environment.

In the words of the Bequal Foundation itself: *“The Bequal certificate determines the degree of commitment in matters of Corporate Responsibility with Disability in essential areas such as strategy and leadership, senior management commitment to people with disabilities, management of human resources, compliance with regulations and inclusive policies and equal opportunities in all procedures for selection, access to employment, professional promotion and training”.*

This certificate recognizes the degree of the Company’s commitment to people with disabilities within its corporate responsibility.

This annual corporate government report was approved by the Board of Directors of the Company at its meeting held on February 20, 2018.

State whether any directors voted against the approval of this Report or abstained in relation hereto.

Yes  No

Name or corporate name of the director who did not vote in favour of the approval of this report	Reasons (against, abstention, absent)	Explain the reasons



**ZARDOYA OTIS, S.A.**

Auditor's Report on "Information regarding the Internal Control System over Financial Reporting (ICSFR)" of Zardoya Otis, S.A. for the 2017 Financial Year



***This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation***

**AUDITOR'S REPORT ON "INFORMATION REGARDING THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING (ICSFR)" OF ZARDOYA OTIS, S.A FOR THE 2017 FINANCIAL YEAR**

To the Board of Directors of Zardoya Otis, S.A.:

In accordance with the request of the Board of Directors of Zardoya Otis, S.A. and its subsidiaries (hereinafter, the Group) and our engagement letter dated 9 March 2017, we have applied certain procedures in respect of the attached "Information regarding the Internal Control System over Financial Reporting" ("ICSFR"), included in section "F" of the Annual Corporate Governance Report (hereinafter, the ACGR) of the Group for the financial year ended 30 November 2017, which includes a summary of the Group's internal control procedures relating to its annual financial information.

The Board of Directors is responsible for adopting the necessary measures to reasonably ensure the implementation, maintenance and supervision of an appropriate internal control system, and for developing improvements to that system and preparing and establishing the content of the accompanying Information regarding the ICSFR.

In this regard, it should be borne in mind that, regardless of the quality of the design and operating efficiency of the internal control system used by the Group in relation to its annual financial information, only a reasonable, but not absolute, degree of assurance may be obtained in relation to the objectives it seeks to achieve, due to the limitations inherent in any internal control system.

In the course of our audit work on the consolidated annual accounts and in accordance with Spanish Auditing Standards, the sole purpose of our evaluation of the Group's internal control system is to enable us to establish the scope, nature and timing of our audit procedures in respect of the Group's annual accounts. Accordingly, our internal control evaluation, performed for the purposes of our audit, is not sufficient in scope to enable us to issue a specific opinion on the effectiveness of such internal control over the regulated annual financial information.

For the purposes of the present report, we have exclusively applied the specific procedures described below, as indicated in the "Guidelines concerning the auditor's Report on the Information regarding the Internal Control System over Financial Reporting for listed entities" published by the National Securities Market Commission on its web site, which sets out the work to be performed, the scope of such work and the content of this report. In view of the fact that, in any event, the scope of the work resulting from these procedures is reduced and substantially less than the scope of an audit or review of the internal control system, we do not express an opinion on the effectiveness thereof, its design or operational efficiency, in relation to the Group's annual financial information for the 2017 financial year described in the accompanying Information regarding the ICSFR. Had we applied additional procedures to those determined by the aforementioned Guidelines, or had we performed an audit or review of the internal control system in relation to the regulated annual financial information, other matters could have come to light in respect of which you would have been informed.

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In addition, as this special engagement is not an audit of financial statements and is not subject to the revised Auditing Act approved by Royal Decree Law 1/2011, of July 1, we do not express an audit opinion under the terms of the aforementioned legislation.

The procedures applied were as follows:

1. Reading and understanding the information prepared by the Group in relation to the ICSFR – as disclosed in the Directors' Report – and the evaluation of whether such information includes all the information required as per the minimum content set out in Section F regarding the description of the ICSFR, in the model of the Annual Corporate Governance Report, as established in the Circular N° 7/2015 of the National Securities Market Commission dated December 22, 2015.
2. Making enquiries of personnel in charge of preparing the information mentioned in point 1 above in order to: (i) obtain an understanding of the preparation process; (ii) obtain information that enables us to assess whether the terminology used is in line with the framework of reference; (iii) obtain information as to whether the control procedures described have been implemented and are functioning in the Group.
3. Review of supporting documentation explaining the information described in point 1 above and which mainly comprises the information made directly available to the persons responsible for preparing the information on the ICSFR. Such documentation includes reports prepared by the internal audit function, senior management and other internal and external specialists in support of the functions of the audit committee.
4. Comparison of the information described in point 1 above with our knowledge of the Group's ICSFR, obtained by means of the application of the procedures performed within the framework of the audit engagement on the consolidated annual accounts.
5. Reading the minutes of meetings of the board of directors, audit committee and other committees of the Group, for the purposes of evaluating the consistency between the matters dealt with therein in relation to the ICSFR and the information described in point 1 above.
6. Obtaining a representation letter concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in point 1 above.

As a result of the procedures applied in relation to the Information regarding the ICSFR, no inconsistencies or incidents have been identified which could affect such information.

This report has been prepared exclusively within the framework of the requirements of article 540 of the revised Spanish Companies Act and Circular n° 5/2013 of the National Securities Market Commission, dated June 12, 2013, as modified by Circular n° 7/2015 of the National Securities Market Commission, dated December 22, 2015, for the purposes of describing the ICSFR in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Original Spanish version signed by Rafael Pérez Guerra

27 March 2018

**ANNUAL REPORT ON DIRECTOR COMPENSATION IN LISTED COMPANIES**



**DETAILS IDENTIFYING ISSUER**

<b>DATE OF FISCAL YEAR END</b>	<b>11/30/2017</b>
<b>TAX IDENTIFICATION NUMBER</b>	<b>A28011153</b>
<b>CORPORATE NAME</b>	<b>ZARDOYA OTIS, S.A.</b>
<b>REGISTERED OFFICE</b>	<b>CALLE GOLFO DE SALÓNICA, 73 MADRID</b>

**ANNUAL REPORT ON DIRECTOR COMPENSATION  
IN LISTED COMPANIES**

**A. THE COMPANY'S COMPENSATION POLICY FOR THE CURRENT YEAR**

**A.1 Explain the company's compensation policy. This section will include information on:**

- The general principles and bases of the compensation policy.
- The most significant changes made to the compensation policy in comparison to the policy applied in the preceding fiscal year, together with any changes made during the year to the conditions for exercising previously-granted options.
- The criteria employed and the composition of the comparable groups of companies whose compensation policies were examined in order to fix the company's compensation policy.
- The relative importance of items of variable compensation in comparison to fixed items and the criteria followed to determine the different components of the Directors' compensation package.

**Explain the compensation policy**

According to article 24 of the By-Laws and article 18 of the Board of Directors Regulations, the position of director of Zardoya Otis, S.A. (the "**Company**") will be remunerated.

During 2017, the criteria for the director compensation policy were similar to those applied in 2016. Said policy was approved by the Board of Directors and submitted to a consultative ballot at the General Shareholders' Meeting of May 24, 2017. The principles of the compensation policy are:

**1. Director compensation (as stipulated in the Bylaws)**

Said article 24 of the Bylaws fixes global remuneration consisting of a maximum share of 1.5% of the consolidated profit after tax up to limit of 1% of the consolidated profit before tax. This amount can only be taken from the liquid profit (after tax) after the legal reserves and the reserves provided for in the Bylaws have been covered and a dividend of at least 10% of the paid-up share capital has been recognized in the shareholders' favour. ("**Bylaw-stipulated Compensation**"). Likewise, the Bylaws state that taking out liability insurance for the directors will form part of the aforementioned limit on the compensation.

This compensation will be distributed among its members in the manner freely determined by the Board of Directors in each annual period, depending on the duties and responsibilities attributed to each director, whether they sit on any Board committees and any other objective circumstances deemed relevant.

Furthermore, article 18 of the Board of Directors Regulations establishes the principles or criteria that should be taken into account when fixing the compensation of external directors. In particular, it states that this compensation will be the amount deemed necessary to remunerate the commitment, abilities and responsibility required by the position, although it must not be so high as to compromise their independence.

In this respect, in line with the general trend towards keeping Board of Director compensation stable, we highlight the fact that, as has been the case for several consecutive years, the Board itself (with a prior report in favour from the Nominating and Compensation Commission) decided to limit the total amount of the Bylaw-stipulated

compensation to 1,200,000 euros for 2017 (the same amount in 2016) at its meeting of February 21, 2017.

## 2. **Compensation of the CEO**

The compensation of the CEO (Mr Bernardo Calleja Fernández) for his executive duties in the Company is regulated in his contract with the Company, which was approved by at least two thirds of the Board of Directors (with the abstention of the CEO) and received a favourable report from the Nominating and Compensation Commission, in accordance with article 249 of the Capital Companies Law. Said compensation has a fixed component (see section .3) and a variable component (see section A.4).

## 3. **Summary of the items of compensation**

The items of compensation applicable for the different types of director in the Company are summarized in the following table:

Class	Number	Fixed compensation	Variable compensation	Bylaw stipulated compensation	UTC long-term incentives scheme
Executive director	1	YES	YES	N/A	YES
Proprietary directors	7	N/A	N/A	YES	N/A
Independent directors	2	N/A	N/A	YES	N/A
Other external directors	1	N/A	N/A	YES	N/A

The criteria applied by the Company to establish its compensation policy are consistent with those generally applied by other listed companies.

Regarding the relative importance of the variable compensation items (as described in section A.4 below) in comparison with the fixed components (as described in section A.3 below), it is necessary to highlight the fact that former represented 40% of the total in 2017.

Likewise, on May 24, 2017, subsequent to a report explaining the reasons from the Nominating and Compensation Commission, the Ordinary General Shareholders meeting approved the director compensation policy for 2018, 2019 and 2020, in accordance with article 529 novodecies of the Capital Companies Law.

### A.2 **Information on the preparatory work and decision-making process for determining the compensation policy and the role played, if applicable, by the Compensation Commission and other governing bodies in configuring the compensation policy. This information will include, if applicable, the mandate and composition of the Compensation Commission and the identity of any external advisors whose services were used to determine the compensation policy. Likewise, the classification of any directors who participated in defining the compensation policy must be stated.**



**Explain the process for determining the compensation policy**

**1. The role of the Board of Directors**

The Board of Directors adopted the decisions on the director compensation policy in the terms set forth by law and in the Bylaws, in accordance with article 3 of the Regulations of the Company's Board of Directors. Likewise, the Board of Directors approves the CEO's contract with the Company.

**2. The role of the Nominating and Compensation Commission**

In accordance with the Capital Companies Law, article 529 quincecies, and the Regulations of the Board of Directors, article 12 B) 2 (j), the Nominating and Compensation Commission must:

- (a) propose the director compensation policy to the Board of Directors;
- (b) propose the compensation policy for the CEO to the Board of Directors, together with his individual compensation and other conditions of his contract; and
- (c) ensure the compensation policy is respected.

Likewise, the Nominating and Compensation Commission reported favourably on this Annual Compensation Report at its meeting of February 20, 2018. At the same meeting, the Nominating and Compensation Commission approved a director and senior management compensation policy proposal for 2018.

Furthermore, the Nominating and Compensation Commission reported in favour of the compensation policy for 2018, 2019 and 2020 approved by the Ordinary General Shareholders' Meeting held on May 24, 2017.

At the end of 2017, the Nominating and Compensation Commission had the following composition:

Name	Position	Class
Mr Jose Maria Loizaga Viguri	Chairman	Independent
Otis Elevator Company (represented by Ms Nora LaFreniere)	Deputy Chairman	Proprietary
Mr José Miguel Andrés Torrecillas	Member	Independent
Ms Robín Fiala <sup>1</sup>	Member	Proprietary
Mr Pierre Dejoux	Member	Proprietary

**3. The role of the General Shareholders' Meeting**

Likewise, article 24 of the Company's By-Laws and article 529 novodecies of the Capital Companies Law state that the director compensation policy will be submitted for the approval of the General Shareholders' Meeting at least every three years, as a

<sup>1</sup> On October 5, 2017, Ms Robin Fiala replaced Mr Philippe Delpech as a member of the Nominating and Compensation Commission.

separate item on the Agenda. Said proposal of the compensation policy for the Board of Directors submitted to the General Meeting must contain the reasons therefor and be accompanied by a specific report from the Nominating and Compensation Commission. Both these documents will be made available to the shareholders on the Company's website as from the time when notice of the General Meeting is given. The shareholders may also ask for them to be given or sent to them free of charge.

Furthermore, the director compensation policy thus approved will remain in force during the three annual periods following the period in which it is approved by the General Meeting. Any amendment or replacement thereof during said period will require the prior approval of the General Shareholders' Meeting in accordance with the procedure established for its approval.

Consequently, the 2016 Annual Director Compensation Report in relation to director compensation in 2017 was submitted to the Ordinary General Shareholders' Meeting held on May 24, 2017 in a consultative ballot.

Likewise, the Ordinary General Shareholders' Meeting held on May 24, 2017 approved the new director compensation policy that will be applicable for 2018, 2019 and 2020. The report on said policy stipulated in the Capital Companies Law, article 529 novodecies 2, was duly drawn up by the Nominating and Compensation Commission and, together with the rest of the documentation, was made available to the shareholders as from the date the General Shareholders' Meeting was called.

#### **4. Other**

During the annual period to which this report refers, the Company did not use the services of external advisors to determine the compensation policy for its directors and, consequently, the Board of Directors itself, with the participation of all its members, and the Nominating and Compensation Commission are the bodies responsible for designing, approving and implementing the compensation policy, under the supervision of the General Shareholders' Meeting.

#### **A.3 State the amount and nature of the fixed components, with details, if applicable, of the executive directors' compensation for performing senior management duties, any additional compensation for the chairman or members of any Board committees, the per diem allowances for attending meetings of the Board and its committees, or any other fixed compensation for directors, together with an estimate of the annual fixed compensation to which the foregoing give rise. Identify any other non-cash benefits and the basic parameters for granting them.**

<b>Explain the fixed components of the compensation</b>
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Mr Bernardo Calleja Fernández, the Company's Chief Executive Officer in 2017 and the Company's only executive director, received fixed compensation for carrying out executive duties. The fixed compensation, which, as stated in Section D.1 below, was 281,429 euros in 2017 and 249,107 euros in 2016.

Likewise, the contribution to the defined-contribution pension plan made by the Company for the CEO, Mr Bernard Calleja Fernández, should be included in the fixed components that form part of the director compensation mix. The amount was 66,597 in 2017 and 56,888 in 2016.

There is no extra compensation for holding the position of Chairman, there are no other delegate bodies (apart from the CEO) and no per diem expenses are paid for attending

Board meetings or meetings of the Nominating and Compensation Commission or Audit Committee. Notwithstanding, the duties and responsibilities, whether they sit on Board committees and other objective circumstances deemed relevant, are taken into account when distributing the compensation among the directors.

**A.4 Explain the amount, nature and principal characteristics of the variable components of the compensation systems.**

In particular:

- Identify each one of the compensation plans of which the directors are beneficiaries, the scope thereof, its date of approval, its date of implementation, the term for which it is in force and its main features. In the case of stock option plans and other financial instruments, the general features of the plan must include information on the conditions for exercising said options or financial instruments for each plan.
- State any compensation that originates from profit-sharing or bonuses and the reason why it is awarded.
- Explain the basic parameters and grounds for any annual bonus system.
- The types of director (executive directors, external proprietary directors, external directors, external independent directors or other external directors) that are the beneficiaries of compensation systems or plans that include variable compensation.
- The basis of said variable compensation systems or plans, the criteria chosen for evaluating performance and the evaluation components and methods used to determine whether or not said evaluation criteria have been met, as well as an estimate of the total amount of variable compensation to which the current compensation plan would give rise, depending on the degree to which the assumptions or objectives taken as a reference are met.
- If applicable, state the periods for which an already-established payment may be deferred or delayed and/or the periods for which shares or other financial instruments, if any, may be retained.

<b>Explain the variable components of the compensation systems</b>
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**1. Bylaw-stipulated compensation**

As stated in section A.1 above, article 24 of the Bylaws fixes compensation subject to certain quantitative limits, which is subsequently distributed by the Board of Directors among its members on the basis of certain criteria. Said Bylaw-stipulated compensation is contained in the Compensation Policy approved by the Ordinary General Shareholders' Meeting for 2018, 2019 and 2020.

In addition, we must highlight the fact that the Board of Directors unanimously adopted the following decisions at its meeting of February 21, 2017:

- (a) To limit the total amount of the compensation stipulated in the Bylaws to 1,200,000 euros; and
- (b) To delegate the distribution of the Bylaw-stipulated compensation among the Company's directors to the Chairman of the Board, depending on the duties

and responsibilities attributed to each director, as well as whether they sit on Board commissions, and any other objective circumstances deemed relevant.

Likewise, at its meeting of July 26, 2017, it was decided to pay 600,000 euros on account of the Bylaw-stipulated compensation at the end of the first six months of 2017.

Bylaw-stipulated compensation is fixed in accordance with the Company's profits

## **2 Variable compensation of the Chief Executive Officer**

The target of the annual incentive of Mr Bernardo Calleja Fernández as an executive is 60% of the gross fixed annual salary. To pay the incentive, a payment multiplier is established, depending on the results of the business unit, the profit plan and the cash flow generated. For the final coefficient, Mr Bernard Calleja Fernández's performance in relation to the financial and non-financial objectives of the assessment of the contribution to the results of the business during the year is taken into account.

The incentive paid in 2017 was 230,000, calculated on his gross fixed compensation at December 31, 2016 (275 thousand euros) with an incentive of 83.6% representing a coefficient of 1,39 of the target amount.

Within the director compensation mix, there is the possibility that Mr Bernardo Calleja Fernández, since he is a UTC Group executive, may receive an annual long-term incentive package (UTC share-based compensation scheme) from the UTC Group. The purpose of this scheme is to reward executives holding positions with important management responsibilities who, through their effort and the attainment of the planned objectives, contribute to the long-term success of the corporation and its subsidiaries, such as, for example, the Company in the present case. The share schemes are awarded annually and depend on individual performance and the attainment of objectives of the Company, Otis and United Technologies Corporation. This incentive scheme is subject to the Recharge Agreement signed in September 2010 between United Technologies Corporation (UTC) and the Company.

The shares/stock options awarded must be held for at least three years (vesting) and, furthermore, certain previously-established business objectives must be attained in order for them to be exercised.

In this respect, the valuation of the options awarded to Mr Bernardo Calleja Fernández in 2017 was 306 thousand euros, applying the following measurement criteria:

- (a) the shares are valued when they are given to the director, inasmuch as they are not subject to any subsequent condition (they are vested from the beginning); and
- (b) options are valued when the director exercises them.

For the totality of the Company's directors, the long-term UTC incentive scheme represented a sum of 306,987 in 2017 (since the only director benefiting from said scheme was Mr Bernardo Calleja Fernández).

Variable compensation is payable in the following fiscal year, once the annual financial statements have been approved by the Board of Directors.

### **3 Other**

Lastly, it is necessary to consider that:

- (a) Regarding the classes of director who benefit from the variable compensations systems, please see the chart summarizing the applicable items of compensation in accordance with the classification of the Company's directors in Section A.1 above, in relation to the items of compensation applicable to the different classes of director in the Company.
- (b) The basis of the variable compensation system and the methods for assessing performance used by the Company to distribute it may be found in the aforementioned articles 24 of the Bylaws and 18 of the Regulations of the Board of Directors.
- (c) No periods of deferral or delay in payment of the compensation of the members of the Company's Board of Directors have been established.

**A.5 Explain the principal features of the long-term saving systems, including retirement and any other survivor benefits, financed fully or in part by the company, irrespective of whether the provision is made internally or externally, with an estimate of the amount thereof or equivalent annual cost, stating the type of plan, whether it is a defined-contribution or defined-benefit plan, the conditions under which the economic rights are consolidated in favour of the directors and its compatibility with any kind of indemnity for early rescission or termination of the contractual relationship between the company and the director.**

**Also state the contributions made in the director's favour to defined-contribution pension plans or the increase in the director's consolidated rights in the case of contributions to defined-benefit plans.**

<b>Explain the long-term saving systems</b>
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As mentioned in section A.3, the fixed component of the director compensation mix includes the contribution to the defined-contribution pension plan made by the Company for the Chief Executive Officer, Mr Bernardo Calleja Fernández, the amount of which was 67 thousand euros in 2017 and 57 thousand euros in 2016.

In this respect, the contribution for the pension commitment is drawn up in a defined-contribution pension insurance policy, where the Company makes an annual contribution in November, calculated in two portions: the sum of 66,597.24 euros, composed of a first portion of 4,400.99 euros, equivalent to 7% of 62,871.28 euros (the amount fixed with the insurance company for 2017), plus a second portion of 62,196.04 euros, which was calculated by applying 28% to the difference between Mr Bernardo Calleja Fernández's gross fixed annual compensation at the contribution date and the 62,871.28 euros established in the first portion. Therefore, the consolidation of the contributions and the respective allocation or time of accrual is based on the gross annual compensation.

**A.6 State any indemnities agreed or paid in the event that a director ceases to hold office as such.**

**Explain the indemnities**

The only director entitled to an indemnity in the event he ceases to hold office is the Chief Executive Officer. This indemnity consists of 45 days' remuneration for each year of service from the time he was appointed as the Company's Chief Executive Officer (i.e. as from February 14, 2012) until the termination date of the contract. Said indemnity for termination of his contract is the same as he initially had in his employment relationship.

- A.7 State the conditions that must be observed by the contracts of those who perform senior management duties as executive directors. Among others, information must be included on the term, the limits on the amounts of any indemnity, continuity clauses, notice periods and/or any other clauses relating to hiring bonuses, as well as indemnities or golden parachutes for the early rescission or termination of the contractual relationship between the company and the executive director. Include, among others, any no-compete, exclusivity, continuity, loyalty or post-contractual non-competition clauses or agreements.**

**Explain the contract conditions of the executive directors**

The contract of the CEO (Mr Bernardo Calleja Fernández) received a favourable report from the Nominating and Compensation Commission and was approved by at least two thirds of the Board of Directors, in accordance with articles 249 and 529 quidecies of the Capital Companies Law.

The specific conditions contained in this contract are as follows:

- (a) Term: for as long as Mr Bernardo Calleja Fernández is the CEO of the Company.
- (b) Indemnity for early dismissal or termination by the Company: 45 days' compensation per year from the time he was appointed as the Company's CEO (i.e. February 14, 2012) until the date of termination of the contract.
- (c) Exclusivity agreement: during the time the contract is in force, unless he has the express prior authorization of the Board of Directors, Mr Bernardo Calleja Fernández will work exclusively for the Company and, if necessary, for any other UTC Group company.
- (d) Continuity or loyalty agreement: none.

- A.8 Explain any supplementary compensation accrued by the directors in consideration for the services rendered other than those inherent to the position.**

**Explain the supplementary compensation**

With the exception of the Chief Executive Officer, the only executive director of the Company, none of the other members of the Board of Directors have rendered services to the Company other than those inherent to their positions. Please see Section A.3 and A.4 above regarding the specific characteristics of this supplementary compensation received by the Chief Executive Officer for this reason.

- A.9 State any compensation in the form of advances, credits, guarantees granted, mentioning the interest rate, their basic features and any amounts that may be repayable, as well as any obligations acquired on the directors' behalf as a guarantor.**

**Explain the advances, credits and guarantees granted**

The Board of Directors agreed to pay 600,000 euros on account of the Bylaw-stipulated compensation at the end of the first six months of 2017.

Before it was approved, the Audit Committee reported in favour of said advance payment, given that:

- (a) The Company had sufficient funds;
- (b) In the latest statement of financial position, dated November 30, 2016, the needs of the legal reserve and the Bylaw-stipulated reserve were fully covered; and
- (c) At the meeting of the Board of Directors held on March 21, 2017 payment of the first interim dividend charged to the 2017 profit was approved for a gross amount of 0.080 euros per share with a par value of 0.10 euros, which was paid on April 10, 2017.

The Company has not granted any compensation to the directors in the form of credits or guarantees.

**A.10 Explain the main features of any compensation in kind.**

**Explain the compensation in kind**

The Company has not awarded any compensation in kind to the directors (except for the pension plan in favour of the CEO described in section A.5).

**A.11 State any compensation accrued by a director due to the payments made by the listed company to another company to which the director provides his/her services, when said payments are intended to remunerate the director's services to the company.**

**Explain any compensation accrued by a director due to the payments made by the listed company to another company to which the director provides his/her services**

As shown in the chart included in Section D.1 below, some of the proprietary directors do not receive the above mentioned Bylaw-stipulated compensation, which is, instead, received by Otis Elevator Company on their behalf.

**A.12 Any other item of compensation apart from the foregoing, irrespective the nature thereof or the group company that settles it, especially when it is classified as a related-party transaction or payment thereof distorts the accurate picture of the total compensation accrued by the director.**

**Explain the other items of compensation**

No compensation items are settled by Group entities other than those explained above.

**A.13 Explain the measures adopted by the company in relation to the compensation system in order to reduce exposure to excessive risks and adjust it to the company's long-term objectives, values and/or interests. This will, if applicable, include mention of: preventive measures to ensure that company's long-term results are taken into account in the compensation policy, any measures that**

establish an appropriate balance between the fixed and variable compensation components, measures adopted in relation to those categories of personnel whose professional activities have a material effect on the company's risk profile, repayment formulas or clauses to enable the company to claim the return of any results-based variable compensation components when said components were paid on the basis of figures that have since clearly been shown to be inaccurate, and, if applicable measures in place to avoid conflicts of interest.

<b>Explain the actions adopted to reduce risks</b>
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The current composition of the Board of Directors (63.64% of its members were proprietary directors in 2017) guarantees that the director compensation policy takes the results that should be obtained by the Company in the long term into account.

Thus, with the sole exception of the executive director, who receives additional fixed compensation for performing executive duties in the Company, the compensation of the Board of Directors is variable in its entirety and, therefore, is based on the Company's results. Furthermore, the quantitative limits contained in the Company's By-Laws and Board of Directors Regulations help to necessarily link director compensation to the Company's best long-term interests. Likewise the compensation policy is approved by the Board, subsequent to a report from the Nominating and Compensation Commission, and is submitted to the Company's General Shareholders' Meeting.



## B COMPENSATION POLICY PLANNED FOR FUTURE YEARS

Repealed.

## C OVERVIEW OF THE IMPLEMENTATION OF THE COMPENSATION POLICY IN THE YEAR ENDED

**C.1 Summarize the main features of the structure and items of the compensation policy applied in the year ended that gave rise to the details of the individual compensation accrued by each one of the directors shown in section D of this report, as well as a summary of the decisions made by the Board for application of said items.**

### Explain the structure and items of the compensation policy applied in the year

The following is a summary of the structure and items of the Company's director compensation policy applied to the members of the Company's Board of Directors in 2017, including the amounts of the compensation for 2016 and 2015.

As stated above, the structure of the director compensation policy may be divided into: (i) those items of compensation that comprise the fixed income received by the members of Company's Board of Directors, which is only applicable to the Chief Executive Officer, the main features and procedure for application of which are described in Section A.3 above; (ii) the compensation stipulated in the Bylaws, the main features and procedure for application of which are described in Section A.1 above.

For further clarification, in addition to the chart describing the individual compensation accrued by each one of the directors as set forth in Section D.1 below, the breakdown of the compensation by item (in thousands of euros) for the years 2015, 2016 and 2017 may be summarized as follows:

Compensation item	2017	2016	2015
Salaries	281	249	210
Fixed compensation	0	0	0
Variable compensation	230	100	140
Bylaw-stipulated compensation	1.200	1.200	1.100
Share-based compensation system	306	70	330
Cash compensation	2,017	1,619	1,780
Other compensation items	67	57	47
<b>TOTAL</b>	<b>2,084</b>	<b>1,676</b>	<b>1,827</b>

**D. DETAILS OF INDIVIDUAL COMPENSATION ACCRUED BY EACH DIRECTOR**

Name	Class	Accrual period 2017
MR MARIO ABAJO GARCIA	Other external	From Dec. 1, 2016 to Nov. 30, 2017
OTIS ELEVATOR COMPANY	Proprietary	From Dec. 1, 2016 to Nov. 30, 2017
MR PIERRE DEJOUX	Proprietary	From Dec. 1, 2016 to Nov. 30, 2017
EURO-SYNS S.A.	Proprietary	From Dec. 1, 2016 to Nov. 30, 2017
MR ALBERTO ZARDOYA ARANA	Proprietary	From Dec. 1, 2016 to Nov. 30, 2017
MR JOSE MARIA LOIZAGA VIGURI	Independent	From Dec. 1, 2016 to Nov. 30, 2017
MR BERNARDO CALLEJA FERNANDEZ	Executive	From Dec. 1, 2016 to Nov. 30, 2017
MR MARK GEORGE	Proprietary	From Dec. 1, 2016 to Nov. 30, 2017
MS ROBIN FIALA <sup>1</sup>	Proprietary	From Oct. 5, 2017 to Nov. 30, 2017
MR PATRICK BLETHON	Proprietary	From Dec. 1, 2016 to Nov. 30, 2017
MR JOSE MIGUEL ANDRÉS TORRECILLAS	Independent	From Dec. 1, 2016 to Nov. 30, 2017

**D.1 Complete the following charts on the individual compensation of each one of the directors (including compensation for performing executive duties) accrued during the year.**

a) Compensation accrued in the company to which this report refers:

(i) Cash compensation (in thousands of €)

Name	Salaries	Fixed compensation	Per Diem	Short-term variable compensation	Long-term variable compensation	Compensation for membership of Board committees	Indemnities	Other items	Total 2017	Total 2016
EURO-SYNS S.A.	0	0	0	0	0	0	0	50	50	50
MR MARIO ABAJO GARCIA	0	0	0	0	0	0	0	200	200	200
MR JOSE MARIA LOIZAGA VIGURI	0	0	0	0	0	0	0	200	200	200
MR OTIS ELEVATOR COMPANY	0	0	0	0	0	0	0	600	600	600
MR ALBERTO ZARDOYA ARANA	0	0	0	0	0	0	0	50	50	50
MR JOSE MIGUEL ANDRES TORRECILLAS	0	0	0	0	0	0	0	100	100	100
MR BERNARDO CALLEJA FERNANDEZ	281	0	0	230	0	0	0	67	578	406
MR PIERRE DEJOUX	0	0	0	0	0	0	0	0	0	0
MR MARK GEORGE	0	0	0	0	0	0	0	0	0	0
MS ROBIN FIALA	0	0	0	0	0	0	0	0	0	0
MR PATRICK BLETHON	0	0	0	0	0	0	0	0	0	0

When preparing the above chart, the following were taken into account:

- (i) The Bylaw-stipulated compensation (i.e. a 1.5% share in the consolidated profit after tax with an upper limit of 1% of the consolidated profit) cannot be classified as “short-term variable compensation”. The CNMV’s criterion is that variable compensation should be restricted to compensation items linked to the director’s individual performance. Consequently, said variable compensation is included as “Other compensation items”.
- (ii) The proprietary directors appointed at the proposal of UNITED TECHNOLOGIES HOLDINGS, S.A.S. (“UTC”) (i.e., Mr Pierre Dejoux, Mr Mark George, Mr Patrick Blethon and Mr Philippe Delpech (replaced by Ms Robin Fiala) did not receive the aforementioned Bylaw-stipulated compensation, which is received by Otis Elevator Company (a UTC Group company) on their behalf.

This is because UTC Group policy is that directors appointed at the proposal of UTC do not receive any remuneration for holding directorships in Group companies. Furthermore, no UTC Group company subsequently pays said compensation to the proprietary directors, although they are remunerated in accordance with their positions and responsibilities.

(ii) Share-based compensation systems

Name/Type/Accrual period 2017	Options held at beginning of 2017 period				Options allocated during 2017 period					Shares awarded during 2017 period
	No. of options	No. of shares affected	Exercise price (€)	Exercise period	No. of options	No. of shares affected	Exercise price (€)	No. of options	Exercise requirements	Price / Amount
MR BERNARDO CALLEJA FERNANDEZ										
Plan A 2014	40.100	40.100	101,0	10	N/A	N/A	N/A	N/A	N/A	N/A
Plan B 2014	1.370	1.370	0	3	N/A	N/A	N/A	N/A	N/A	N/A
Plan A 2015	6.300	6.300	103,3	10	N/A	N/A	N/A	N/A	N/A	N/A
Plan B 2015	6.870	6.870	0	3	N/A	N/A	N/A	N/A	N/A	N/A
Plan A 2016	11.900	11.900	85,8	10	N/A	N/A	N/A	N/A	N/A	N/A
Plan B 2016	2.390	2.390	0	3	N/A	N/A	N/A	N/A	N/A	N/A
Plan A 2017	N/A	N/A	N/A	N/A	5.200	5.200	98,6	10	Must be kept for a minimum period of 3 years	N/A
Plan B 2017	N/A	N/A	N/A	N/A	3.116	3.116	0	3	Must be kept for a minimum period of 3 years	3.116

Name/Type/Accrual period 2017	Stock options exercised in 2017 period				Options matured but not exercised	Stock options at the end of 2017 period				
	No. of options	No. of shares affected	Exercise price (€)	Gross profit (€)		No. of options	No. of options	No. of shares affected	Exercise price (€)	Exercise term
<b>MR BERNARDO CALLEJA FERNÁNDEZ</b>										
Plan A 2014	40,100	40,100	121,28	306	N/A	N/A	N/A	N/A	N/A	N/A
Plan B 2014	0	0	0	0	1,370	N/A	N/A	N/A	N/A	N/A
Plan A 2015	N/A	N/A	N/A	N/A	N/A	6,300	6,300	103,3	10	Must be kept for a minimum period of 3 years
Plan B 2015	N/A	N/A	N/A	N/A	N/A	6,870	6,870	0	3	Must be kept for a minimum period of 3 years
Plan A 2016	N/A	N/A	N/A	N/A	N/A	11,900	11,900	85,8	10	Must be kept for a minimum period of 3 years
Plan B 2016	N/A	N/A	N/A	N/A	N/A	2,390	2,390	0	3	Must be kept for a minimum period of 3 years
Plan A 2017	N/A	N/A	N/A	N/A	N/A	5,200	5,200	98,6	10	Must be kept for a minimum period of 3 years
Plan B 2017	N/A	N/A	N/A	N/A	N/A	3,116	3,116	0	3	Must be kept for a minimum period of 3 years

(iii) Long-term saving systems

Name	Company's contribution during period. (thousands of euros)		Amount of accumulated funds (thousands of euros)	
	Period 2017	Period 2016	Period 2017	Period 2016
MR BERNARDO CALLEJA FERNANDEZ	67	57	517	442

b) Compensation accrued by directors of the company from sitting on Boards of Directors of other group companies

(i) Cash compensation (thousands of €)

Name	Salaries	Fixed compensation	Per Diem	Short term variable compensation	Long term variable compensation	Compensation for membership of Board committees	Indemnities	Other compensation	Total 2017	Total 2016
EURO-SYNS S.A.	0	0	0	0	0	0	0	0	0	0
BERNARDO CALLEJA FERNANDEZ	0	0	0	0	0	0	0	0	0	0
MARIO ABAJO GARCIA	0	0	0	0	0	0	0	0	0	0
JOSE MARIA LOIZAGA VIGURI	0	0	0	0	0	0	0	0	0	0
ALBERTO ZARDOYA ARANA	0	0	0	0	0	0	0	0	0	0
OTIS ELEVATOR COMPANY	0	0	0	0	0	0	0	0	0	0
ANDRES TORRECILLAS, JOSE MIGUEL	0	0	0	0	0	0	0	0	0	0

(ii) Share-based compensation systems

**N/A**

(iii) Long-term saving systems

**N/A**



c) Summary of compensation (thousands of €):

The summary must include the amounts for all the items of compensation included in this report that were accrued by the director, in thousands of euros.

In the case of long-term saving systems, the contributions or provisions made to systems of this nature must be included:

Name	Compensation accrued in the company				Compensation accrued in group companies				Total		
	Total cash compensation	Amount of shares awarded	Gross profit on options exercised	Total 2017 Company	Total cash compensation	Amount of shares awarded	Gross profit on options exercised	Total 2016 Group	Total 2016	Total 2015	Contribution to saving systems in the period
BERNARDO CALLEJA FERNANDEZ	578	0	306	884	0	0	0	0	884	476	67
JOSE MARIA LOIZAGA VIGURI	200	0	0	200	0	0	0	0	200	200	0
ALBERTO ZARDOYA ARANA	50	0	0	50	0	0	0	0	50	50	0
EURO-SYNS S.A.	50	0	0	50	0	0	0	0	50	50	0
MARIO ABAJO GARCIA	200	0	0	200	0	0	0	0	200	200	0
OTIS ELEVATOR COMPANY	600	0	0	600	0	0	0	0	600	600	0
ANDRES TORRECILLAS, JOSE MIGUEL	100	0	0	100					100	100	
<b>TOTAL</b>	<b>1.778</b>	<b>0</b>	<b>306</b>	<b>2,084</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,084</b>	<b>1,676</b>	<b>67</b>

**D.2 Describe the relationship between the compensation obtained by the directors and the results or other measurements of the company's performance, explaining, if applicable, how variations in the company's performance may have affected the variation in the directors' compensation.**

With the sole exception of the executive director, who receives additional fixed compensation for performing executive duties in the Company, the compensation of the Board of Directors is variable in its entirety and, therefore, based on the Company's results. Furthermore, the quantitative limits contained in the Company's Bylaws and Regulations of the Board of Directors have necessarily determined that director compensation is linked to the Company's best long-term interests.

In addition to said quantitative limits, as mentioned in Section A.4 above, at its meeting of July 26, 2017, the Board of Directors unanimously decided to limit the total amount of the By-Law stipulated compensation to 1,200,000 euros.

**D.3 State the result of the consultative ballot at the General Shareholders' Meeting on the annual compensation report for the preceding year, giving the number of votes against, if any.**

	Number	% of total
<b>Votes issued</b>	370,480,294	78.75%

	Number	% of total
<b>Votes against</b>	28,715,272	7.75%
<b>Votes in favour</b>	341,735,442	92.24%
<b>Abstentions</b>	29,580	0.01%

**E OTHER INFORMATION OF INTEREST**

If there is any other important matter concerning director compensation that it has not been possible to include in other sections of this report but that it is necessary to include to provide more complete and substantial information on the company's compensation structure and practices in relation to its directors, give a brief description thereof.

This annual compensation report was approved by the Company's Board of Directors at its meeting of February 20, 2018.

State whether any directors have voted against the approval of this report or abstained in relation thereto.

Yes [  ]

No [  ]

## **AUDIT COMMITTEE'S REPORT ON THE INDEPENDENCE OF THE EXTERNAL AUDITOR**

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### **Purpose of the report**

The Audit Committee of Zardoya Otis, S.A. (the "**Company**") issues this report, prior to the audit report on the annual financial statements for the period ended November 30, 2017, in order to express its opinion on the independence of the Company's account auditor, in accordance with article 529 *quaterdecies*, 4.f) of Royal Legislative Decree 1/2010 of July 2, whereby the Revised Text of the Capital Companies Law was approved (the "**Capital Companies Law**"), and the Regulations of the Company's Board of Directors, article 12 A) 2 (f) (v).

The auditor to which this report refers is PricewaterhouseCoopers Auditores S.L., with registered office in Madrid, Paseo de la Castellana 259B, Torre PwC, and tax identification No. B-790312909 (the "**Auditor**"). It has been the Company's external account auditor for 30 years, as stated in the Company's 2017 Annual Corporate Governance Report.

In order to properly assess whether the Auditor meets the conditions for independence, the Committee will apply its internal regulations, as well as the Independence guidelines and rules on incompatibility set out in Law 22/2015 of July 20 on account auditing (the "**Account Auditing Law**"), and Royal Decree 1517/2011 of October 31, whereby the Implementing Regulations of the Account Auditing Law (amended by Royal Decree 877/2015 of October 2) were approved (the "**Account Auditing Regulations**").

### **Information obtained on the Auditor's independence**

#### **Written communication from the Auditor**

Prior to issuing this report, in accordance with the Capital Companies Law, article 529 *quindecies*, 4.e), and the Regulations of the Board of Directors, article 12 A) 2 (f), the Committee has had the appropriate contacts with the external auditor in order to receive information on any questions that might place its independence at risk and any other matters related to the audit process.

With the framework of these contacts, as provided in the Capital Companies Law, article 529 *quaterdecies* 4.e) *in fine*, and the Regulations of the Board of Directors, article 12 A) 2 (f) (iii), the Audit Committee has received a written statement in which the Auditor states its independence in relation to the Company or companies that are directly or indirectly related to the latter. Furthermore, the statement provides details of additional services of any nature provided by the Auditor to the Company and its Group. Said statement is attached hereto.

#### **Services rendered**

Details of additional services of any nature provided by the Auditor to the Company and its Group in 2017 are set forth below:

- Report on the limited review of the condensed consolidated interim financial statements for the six-month period ended May 31, 2017.
- Auditor's report on the information relating to the Internal Control System (SCIIF) for 2017.
- Agreed procedures (financial, labour and tax) related to company acquisitions by the Zardoya Otis Group in the 2017 reporting period.

Apart from said services, neither the Company nor its Group engaged entities belonging to the Auditor's group to perform any legal, accounting, outsourcing, consulting, transaction management or financial advisory services or services of any other nature

The Audit Committee states that the additional services provided by the Auditor are not included in the services prohibited under the Accounting Auditing Law and, therefore, they are not services that mean that the Auditor is affected by any of the causes for incompatibility set forth in the Account Auditing Law, articles 136 et seq.

#### Auditor's fees

The Auditor has billed the Group of which the Company is the parent the sum of 421,445 euros for auditing and other services, 64.850 euros of which are due to other services (related or not with the audit services). Said sum was fixed before the Auditor commenced its activity and covered the entire period for which said activity was to be performed. Furthermore, said fees are not influenced or determined by the provision of additional services and are not based on any contingencies or conditions other than changes in the circumstances that served as a basis for fixing the fees, all of which is in accordance with the Account Auditing Law, article 24.

The billing for the entirety of the services provided to the Company and its Group does not account for more than 15 percent of the Auditor's annual revenue, based on the average for the last three years. Therefore, the fees received by the Auditor cannot be deemed to be significant for the purposes of the Account Auditing Law, articles 25 and 41, or the Account Auditing Regulations, article 46.8.

#### Engagement conditions

Regarding the engagement conditions set forth in the Account Auditing Law, article 40, given that the Company's net revenue is higher than 50 million euros, the Audit Committee has verified that the obligation for the audit partner signing the financial statements to rotate has been met.

#### **Opinion on the Independence of the Company's Auditor**

From the information obtained through the aforementioned actions and communication channels, we have not identified any aspects that place in doubt compliance with current account auditing legislation in Spain in respect of the rules on Auditor independence and, in particular, we confirm the Auditor's independence because the following factors exist:

- The Auditor has provided written confirmation of its Independence in relation to the Company and/or companies directly or indirectly related to the latter.
- Additional services provided by the Auditor to the Company are not included among the services prohibited under the Account Auditing Law and, therefore, are not services that mean that the Auditor is affected by any cause for incompatibility.
- The fees for the audit services are fixed by the Auditor before it begins its duties and are fixed for the whole period for which said duties will be performed. Furthermore, the fees are not influenced or determined by the provision of additional services and neither are they based on contingencies or conditions other than changes in the circumstances that served as a basis for fixing the fees.
- The fees for the services provided do not account for more than 15 percent of the Auditor's total annual revenue and, therefore, cannot be deemed to be significant fees for the purposes of the Account Auditing Law.
- Compliance with the obligation for the audit partner signing the financial statements to rotate has been verified.



## ZARDOYA OTIS S.A.

### REPORT ON THE OPERATION OF THE AUDIT COMMITTEE IN THE REPORTING PERIOD ENDED NOVEMBER 30, 2017

---

#### 1. Introduction

The purpose of this report is to review the evolution of the Audit Committee of Zardoya Otis, S.A. (the "**Company**") and the composition, duties and operation thereof, as well as to provide a summary of its actions in the 2017 reporting period.

#### 2. Formation and evolution of the Audit Committee

The Audit Committee was created by means of a resolution passed by the Board of Directors at its meeting held on March 26, 2003 and its first meeting was held on May 27, 2003.

Law 12/2010 of June 30, on Account Auditing, introduced, among other changes that were relevant to the Company, a reform of points 2 and 4 of the Nineteenth Additional Provision of Law 24/1988 of July 28, the Securities Market Law. This amendment established that at least one of the members of the Audit Committee should be an independent and defined the functions to be performed by the Audit Committee with greater precision, especially in order to ensure the independence of the external account auditors.

As a consequence of the foregoing, at its meeting of July 28, 2010, the Board of Directors unanimously passed a resolution to amend the Regulations of the Board of Directors, in particular, article 12. At the General Shareholders' Meeting held on May 23, 2011, the scope of the reform of the Regulations of the Company's Board of Directors was explained.

The General Shareholders' Meeting held on May 24, 2012 approved a new revised text of the Bylaws, which sought to update and make technical improvements to how the Company operated and its organizational structure.

Likewise, as a consequence of the new developments in the legislation introduced by Law 31/2014 of December 3, which amended the Capital Companies Law in order to improve corporate governance, the Ordinary General Shareholders' Meeting held on May 26, 2015 approved the amendment of certain articles of the Bylaws. Furthermore, in the same year, the Board of Directors passed a resolution to amend the Regulations of the Board of Directors.

The new regulations stated that at least two members of the Audit Committee should be independents and at least one of them should be appointed taking his/her knowledge and experience in accounting, audit or both into account..

In consequence, taking into account the fact that there was only one independent director on the Audit Committee at that time, subsequent to a proposal and report in favour from the Nominating and Compensation Commission, the Board of Directors unanimously passed a resolution to appoint the independent director Mr José Miguel Andrés Torrecillas as a new member of the Audit Committee and the new Chairman of said Committee. Thus, the number of independent directors on the Audit Committee increased to two.

As a consequence of the National Securities Market Commission's publication of the Good Governance Code of Listed Companies on February 18, 2015, the Ordinary

General Shareholders' Meeting held on May 19, 2016 passed a resolution to amend several articles of the Bylaws, the Regulations of the General Shareholders' Meeting and the Regulations of the Board of Directors, in order to introduce some of the recommendations contained in said Good Governance Code. An example of these recommendations was that the members of the Audit Committee should be designated taking their knowledge and experience in accounting, auditing or both into account.

The fourth final provision of the new Account Auditing Law contained the amendment of the Capital Companies Law. This amendment came into force on June 17, 2016 and affected, among other questions, article 529 quaterdecies of the Capital Companies Law, which refers to the Audit Committee.

Consequently, the General Shareholders' Meeting amended article 24 (bis) of the Bylaws regarding the composition of the Audit Committee to state that: (i) the Audit Committee will be formed by three members; (ii) a majority of its members must be independent; and (iii) the members, overall, must have the relevant technical knowledge in relation to the sector of activity in which the Company operates.

### **3. Composition of the Audit Committee**

The composition of the Committee as of November 30, 2017 was as follows:

#### Chairman

Mr José Miguel Andrés Tordesillas (Independent)

#### Deputy Chairman

Mr José María Loizaga Viguri (Independent)

#### Member

Mr Mark George (Proprietary)

#### Secretary (non-member)

Mr Alberto Fernández-Ibarburu (non-director)

### **4. Operation and duties**

The internal operation of the Audit Committee and its duties are governed by article 24 (bis) of the revised text of the Bylaws and by the provisions of article 12 A) of the Regulations of the Board of Directors. Both documents are available on the Company's website.

### **5. Summary of the activities carried out in the 2017 reporting period**

In 2017, the Audit Committee performed the functions entrusted to it and had the information and documentation it deemed necessary in this respect at its disposal.

Furthermore, the person/s the Committee Chairman saw fit attended and participated in the meetings, among them: the head of Internal Audit and Internal Control (who reports directly to the Committee Chairman); the Chief Financial Officer, the Occupational Safety Manager, the Systems Manager and the Ethics and Compliance Officer (ECO). Likewise, the Committee Chairman requested the presence of the Partner and Manager of the external auditor, PricewaterhouseCoopers, at several meetings (at least when the half-yearly accounts were prepared and when the annual accounts were closed). On certain occasions, in view of the importance of the subject examined, the Chairman of the Audit Committee invited all the members of the Board of Directors to attend a specific presentation.



The Company's Audit Committee considers that it has sufficient means to comply with the requirements of the legislation currently in force and enjoys the support of the Secretary of the Audit Committee and Board of Directors, as well as the legal counsel to the Board, both of whom are responsible for ensuring the legality of the resolutions, decisions and deliberations that are adopted or take place at Audit Committee meetings.

In 2017, the Audit Committee held 9 meetings. The totality of the Committee members took part in all the meetings and they deliberated on and reported in favour of the following items -among others- to the Board of Directors:

1. Report on the payment of quarterly interim **dividends** charged to the profit for the period.
2. **Internal control**
  - Monitoring of the effectiveness of internal audit and risk control management.

The Audit Committee must review the work and activities of the internal audit service and risk control systems. For this purpose, the head of Internal Audit and Internal Control, the CFO and the Controller attended an Audit Committee meeting and presented the compliance status of the 2016 Internal Control Plan and the results of the internal audits conducted, the areas of special emphasis, the risks noted and the corrective measures adopted, as well as the proposal for the 2017 Internal Control Plan.

Likewise, the Audit Committee approved the 2017 budget for the Internal Audit Department.
  - Process audit:

The Audit Committee also considered it advisable to conduct a process audit for 2016, a practice that commenced in the Zardoya Otis Group in 2004. This rule is very demanding in assessing the Group's internal control system using documentation on the processes and repetitive evidence of how they operate, in such a way as to ensure that the Company's assets, liabilities and commitments are measured correctly.
3. **Corporate policies**

The Audit Committee examined and studied the Company's policy on the control and management of operating, technological and financial risks and the financial risk control and management policy and unanimously decided to report to the Board of Directors in favour of the approval thereof. Likewise, it reviewed other corporate policies of the Company (for example the corporate social responsibility policy).
4. **Evaluation** of the Audit Committee
5. Report on the management objectives, 2017 annual budget and strategic plan.
6. Regular information to the **National Securities Market Commission (CNMV)**.
7. Annual closure of accounts, review of the financial statements, the Annual Corporate Governance Report, review of the internal control system for financial information (SCIIF).
8. **External audit**
  - Monitoring of the audit work in relation to the individual and consolidated annual accounts for 2016.

- Review, with the external auditor (PriceWaterhouseCoopers), of the report that was requested from the latter for the sixth consecutive year in relation to the requirements for Internal Controls and Risk Management Systems, as set out in the contents of the Annual Corporate Governance Report.
  - Meeting between the Committee members and the Partner and Manager of the external auditor, PwC.
  - Review of the transactions for all items that took place between the external auditor and the Otis/UTC Group.
  - Review, with the account auditors, of the possible significant weaknesses noted in the internal control system in the course of the audit, ensuring that the auditors' independence was not impaired. The SCIIF review report was issued with no exceptions.
9. **Appointment and independence of the external auditor**
- The Audit Committee reported favourably on the independence of the external auditor in order for it to conduct the account auditing work for the reporting period ended November 30, 2017, as required by article 12 of the Regulations of the Board of Directors and article 529 quaterdecies of the Capital Companies Law.
- The Audit Committee decided to submit a proposal to the Board of Directors for the appointment of PwC as the auditors of the Company and the consolidated Group for the 2017 reporting period.
10. **Related transactions**
- Related transactions and situations where a potential conflict of interest might exist were reviewed.
11. **Internal Code of Conduct** on matters relating to the Securities Market.
- The members of the Audit Committee reviewed the proposal for the new Internal Code of Conduct, reported in favour of said proposal and proposed it be put to the Board of Directors for approval.
12. **Technical Guide 3/2017** on audit committees at public-interest entities
- The Chairman of the Audit Committee, at a meeting devoted to this subject alone, presented Technical Guide 3/2017 on audit committees at public-interest entities, published by the CNMV. The Guide's objective is to provide principles, recommendations and criteria for the proper operation of an audit committee.
- The Audit Committee members discussed the content of this Technical Guide and confirmed that several of the points of interest mentioned therein coincided with those that the Audit Committee had noted in its own self-evaluation performed at the end of the 2016 reporting period and had been included in the action plan approved at the Audit Committee meeting of April 4, 2017.

Approved by the Audit Committee in Madrid on February 20, 2018

# ZARDOYA OTIS S.A.

## REPORT ON THE OPERATION OF THE NOMINATING AND COMPENSATION COMMISSION IN THE REPORTING PERIOD ENDED NOVEMBER 30, 2017

---

### 1. Introduction

The purpose of this report is to review the evolution of the Nominating and Compensation Commission of Zardoya Otis, S.A. (the "**Company**") and the composition, duties and operation thereof, as well as to provide a summary of its actions in the 2017 reporting period.

### 2. Formation and evolution of the Nominating and Compensation Commission

At its meeting of July 28, 2010, the Board of Directors was informed of the changes contained in the new Law 12/2010 of June 30 on Account Auditing. This amendment introduced a new feature that had to be included in the Regulations of the Company's Board of Directors, which was that at least one of the members of the Audit Committee had to be an independent. In addition, the Unified Good Governance Code expressly stated that companies could not classify a director who did not meet the minimum conditions established by said Unified Code as "independent", i.e. directors who "*had not been proposed for either appointment or renewal by the Nominating Commission*" could not be classified as independents. Although none of the provisions of the Law expressly made the Nominating Commission mandatory (unlike the Audit Committee), the need to have a Nominating Commission derived indirectly from the new legal requirement for at least one independent director to form part of it.

As a consequence of the foregoing, the Board of Directors decided to create the Nominating and Compensation Commission, which held its first meeting on September 8, 2010.

The General Shareholders' Meeting held on May 24, 2012 approved a new revised text of the Bylaws, which sought to update and make technical improvements to how the Company operated and its organizational structure.

Likewise, as a consequence of the new developments in the legislation introduced by Law 31/2014 of December 3, which amended the Capital Companies Law in order to improve corporate governance, the Ordinary General Shareholders' Meeting held on May 26, 2015 approved the amendment of certain articles of the Bylaws. Furthermore, in the same year, the Board of Directors passed a resolution to amend the Regulations of the Board of Directors.

Article 529 quaterdecies of Royal Legislative Decree 1/2010 of July 2, whereby the revised text of the Capital Companies Law (the "Capital Companies Law") was approved, article 24 bis of the Company's Bylaws and article 12 of the Regulations of the Company's Board of Directors establish that "*the Nominating and Compensation Commission will be formed solely by non-executive directors appointed by the Board of Directors, at least two of whom must be independent directors. The chairman of the Nominating and Compensation Commission will be appointed from among the independent directors who form part of the Commission*".

In consequence, taking into account the fact that there was only one independent director on the Nominating and Compensation Commission at that time, subsequent to a proposal and report in favour from the Nominating and Compensation Commission, the Board of Directors unanimously passed a resolution to appoint the independent director Mr José Miguel Andrés Torrecillas as a new member of the Nominating and Compensation Commission and the Chairman of said Commission. Thus, the number of independent

directors on the Nominating and Compensation Commission increased to two, one of which was its Chairman.

As a consequence of the National Securities Market Commission's (CMNV) publication of the Good Governance Code of Listed Companies on February 18, 2015, the Ordinary General Shareholders' Meeting held on May 19, 2016 passed a resolution to amend several articles of the Bylaws, the Regulations of the General Shareholders' Meeting and the Regulations of the Board of Directors, in order to introduce some of the recommendations contained in said Good Governance Code.

### **3. Composition of the Nominating and Compensation Commission**

The composition of the Nominating and Compensation Commission as of November 30, 2017 was as follows:

#### Chairman

Mr José María Loizaga Viguri (independent director)

#### Deputy Chairman

Otis Elevator Company (proprietary director) represented by Ms Nora LaFreniere

#### Members

Mr José Miguel Andrés Torrecillas (independent director)

Ms Robin Fiala (proprietary director)

Mr Pierre Dejoux (proprietary director)

#### Secretary (non-member)

Mr Alberto Fernández-Ibarburu (non-director)

### **4. Operation and duties**

The internal operation of the Nominating and Compensation Commission and its duties are governed by article 24 (bis) of the revised text of the Bylaws and by the provisions of article 12 B) of the Regulations of the Board of Directors. Both documents are available on the Company's website.

### **5. Summary of activities carried out in the 2017 reporting period**

In 2017, the Nominating and Compensation Commission performed the functions entrusted to it and had the information and documentation it deemed necessary in this respect at its disposal. Furthermore, the person/s the Committee Chairman saw fit attended and participated in the meetings, such as the Group Human Resources Manager and the Chief Financial Officer.

The Nominating and Compensation Commission considers that it has sufficient means to comply with the requirements of the legislation currently in force and enjoys the support of the Secretary of the Commission and Board of Directors, as well as the legal counsel to the Board, both of whom are responsible for ensuring the legality of the resolutions, decisions and deliberations that are adopted or take place at meetings of the Nominating and Compensation Commission

In 2017, the Nominating and Compensation Commission held 5 meetings, with 92% participation by its members. All the meetings were chaired by the Commission Chairman and they deliberated on and reported favourably to the Board of Directors on -among others- the following items:

1. Evaluation of the Nominating and Compensation Commission and the Board of Directors
2. Approval of guidelines on gender diversity on the Board of Directors.
3. Review of the 2016 Director Compensation Report

#### 4. Director compensation policy

- Proposal to the Board of Directors for the director and senior management compensation policy for 2017.
- Report on the determination by the Ordinary General Shareholders' Meeting of the applicable percentage in relation to compensation through profit-sharing.
- Proposal for long-term UTC share-based incentive plan.
- Report on the director compensation policy to be approved at the 2017 Ordinary General Shareholders' Meeting.

#### 5. Appointments. Reports in favour of the following appointments:

- Appointment of Ms Lorea García Jáuregui, Manager of the Company's Legal Department, as: a) additional counsel to the Board of Directors; b) new non-director Secretary of the Board of Directors; c) Secretary of the Nominating and Compensation Commission; d) Secretary of the Audit Committee.
- Co-option of Ms Robin Fiala as a new member of the Board of Directors.
- Appointment of Ms Robin Fiala as a new member of the Nominating and Compensation Commission.
- Appointment of Otis Elevator Company, represented by Ms Nora LaFreniere, as the Deputy Chairman of the Nominating and Compensation Commission.

Approved by the Nominating and Compensation Commission  
in Madrid on February 20, 2018

**REPORT OF THE BOARD OF DIRECTORS OF ZARDOYA OTIS**  
**ON RE-ELECTION AND RATIFICATION OF DIRECTORS**

**1. Purpose of the report**

The Board of Directors of Zardoya Otis, S.A. (the “**Company**”) approves this report in accordance with article 529 decies (point 5) of Royal Legislative Decree 1/2010 of July 2, which approved the revised text of the Capital Companies Law. According to said article, proposals for the appointment and re-election of directors must always be accompanied by an explanatory report from the Board of Directors, assessing the skills, experience and merits of the proposed candidate.

Likewise, this report is issued in accordance with the Capital Companies Law, article 518.e), and contains information on the identity, curriculum vitae and classification of each one of the directors proposed.

**2. Report on the ratification of the appointment of Ms Robin Fiala as a proprietary director**

Ms Robin Fiala was appointed as a director by co-option in a resolution passed by the Board of Directors on October 5, 2017, subsequent to a report in favour from the Nominating and Compensation Commission.

With a prior report in favour from the Nominating and Compensation Commission, the Board, having assessed the skills, experience and merits of Ms Robin Fiala, passed a resolution (with the abstention of Ms Robin Fiala) to propose the ratification of her appointment as a proprietary director to the Ordinary General Shareholders’ Meeting.

This ratification is consistent with the Company’s goal of increasing the presence of women on the Board of Directors and ensuring that the selection policies for Board members consider exclusively criteria relating to merits and capabilities, avoiding any implicit gender biases that may entail discrimination against the selection of women directors.

In the light of the curriculum vitae provided by Ms Robin Fiala (**Exhibit A**), the Board of Directors considers that Ms Robin Fiala has the skills, experience and merits necessary to justify a proposal to the Company’s General Shareholders’ Meeting for ratification of her appointment, proposed by the Board of Directors at the request of the majority shareholder, United Technologies Holdings S.A.S., for the Bylaw-stipulated term of four years as from the date on which the resolution is passed.

It is stated that Ms Robin Fiala should be classified as a proprietary director in accordance with the definitions contained in the Capital Companies Law, article 529 duodecies, since her appointment was proposed by the Board of Directors at the request of the majority shareholder, United Technologies Holdings S.A.S.

**3. Report on the re-election of Mr Mark George as a proprietary director**

Mr Mark George was co-opted to the Board of Directors through a Board resolution passed on February 26, 2014, subsequent to a report in favour from the Nominating and Compensation Commission, and was likewise appointed a member of the Audit Committee, being ratified and re-elected as an external proprietary director at the General Shareholders’ Meeting held on May 26, 2014.

In the light of the curriculum vitae provided by Mr Mark George (**Exhibit B**), the Board of Directors considers that Mr Mark George has the skills, experience and merits necessary to justify a proposal to the Company’s General Shareholders’ Meeting for his

re-election as a proprietary director for the Bylaw-stipulated term of four years as from the date on which the resolution is passed.

It is stated that Mr Mark George should be classified as a proprietary director in accordance with the definitions contained in the Capital Companies Law, article 529 duodecies, since his appointment was proposed by the Board of Directors at the request of the majority shareholder, United Technologies Holdings S.A.S.

## Exhibit A

### CURRICULUM VITAE / BIO OF ROBIN FIALA



#### **Robin Fiala**

Vice President, New Equipment Sales & Marketing  
Otis Elevator Company

Robin Fiala was named Vice President, New Equipment Sales & Marketing in October 2015. In this role, she leads strategic worldwide marketing initiatives that combine competitive and market intelligence with the voice of the customer. Robin is also responsible for the development of new products for the global business.

Robin has more than 25 years of experience with Otis. She started at the Otis New York City branch where she held positions of increasing responsibility including Account Representative, Territory Manager and General Manager. She then joined Otis World Headquarters as Senior Manager of Modernization Products and later joined Otis North America Headquarters as Senior Product Manager, New Equipment and then Director, Service Marketing.

In 2013, she was named Vice President of Service and Marketing responsible for Marketing and Communications for Otis Americas as well as Otis North America's service business, national account sales and OTISLINE® call center. In 2014, she was named Vice President, Worldwide Marketing and Field Support responsible for global marketing strategies, service transformation and the development and implementation of key field operations initiatives across Otis worldwide.

Robin holds a bachelor's degree in mechanical engineering from Union College in Schenectady, NY, and a Master of Business Administration from Fordham University in New York City.



**Exhibit B**

**CURRICULUM VITAE OF MR MARK GEORGE**



**Mark George**

Vice President & Chief Financial Officer,  
Otis Elevator Company

Mark R. George was named Vice President, Finance/CFO & IT for Otis Elevator in October 2015.

Mark had been Vice President, Finance/CFO & IT for UTC Building & Industrial Systems, a group formed in October 2013 from the combination of Otis Elevator and UTC Climate, Controls & Security. Prior to that he was CFO for UTC Climate, Controls & Security since its inception in 2011 from combining Carrier and the UTC Fire & Security businesses.

From August 2008 through 2011 Mark was Carrier Vice President, Finance & CFO, after leading the UTC Corporate Financial Planning & Analysis function from 2007 to 2008.

Mark has 27 years of experience within UTC. He began his UTC career at Otis Elevator in 1989. He spent over six years in the Asia Pacific region for Otis serving as the Regional Director, Treasury and Asset Management based in Singapore from 1998 to 2001 and then moved to Hong Kong as the CFO for South Asia Pacific region. In 2004 he returned to the US to lead the worldwide Otis Financial Planning & Analysis function before moving to UTC corporate in 2007 where he led the Financial Planning & Analysis function.

Mark holds an MBA in International Business from Rensselaer Polytechnic Institute and a bachelor of science degree in finance.

**REPORT OF THE NOMINATING AND COMPENSATION COMMISSION OF**  
**ZARDOYA OTIS, S.A.**  
**ON THE RE-ELECTION AND RATIFICATION OF DIRECTORS (ROBIN FIALA)**

**1. Purpose of the report**

The Nominating and Compensation Commission of Zardoya Otis, S.A. (the “**Company**”) issues this report in accordance with article 529 decies (point 6) and article 529 quindecies (point 3.d) of Royal Legislative Decree 1/2010 of July 2, which approved the revised text of the Capital Companies Law. According to this legislation, proposals for the appointment and re-election of non-independent directors must always be accompanied by an explanatory report from the Nominating and Compensation Commission, which evaluates the skills, experience and merits of the candidate proposed.

Likewise, this report reproduces the decision adopted by the Nominating and Compensation Commission on October 5, 2017, which reported favourably on the co-option of Ms Robin Fiala to the Board of Directors and was issued in accordance with the Capital Companies Law, article 518.e), containing information on the identity, curriculum vitae and classification of the proposed director.

**2. Report issued by the Nominating and Compensation Commission at its meeting of October 5, 2017 in favour of the appointment of Ms Robin Fiala as a proprietary director by co-option.**

The members of the Nominating and Compensation Commission have been informed of the resignation of Mr Philippe Delpech as a member of the Board of Directors, consequently also resigning from his position as Deputy Chairman of the Nominating and Compensation Commission, effective as of today’s date.

In consequence, in order to fill the vacancy that will, if appropriate, arise on the Board of Directors due to the aforementioned resignation, the members of the Nominating and Compensation Commission have considered the appointment of the following person as director by co-option until the next General Shareholders’ Meeting:

- **Ms Robin Fiala**, married, of legal age, a United States national, domiciled in Farmington, United States of America, with United States passport No. 452042476, currently in force, and N.I.E. (foreigner identification No.) Y-5915181-D.

Having reviewed her curriculum vitae, attached hereto as **Exhibit A**, and taking into account Ms Robin Fiala’s extensive professional career and proven experience, the members of the Nominating and Compensation Commission have unanimously decided to report in favour of her appointment as a director by co-option, in accordance with the provisions of the Capital Companies Law, article 244.

Likewise, this appointment is consistent with the Company’s goal of increasing the presence of women on the Board of Directors and ensuring that the selection policies for Board members consider exclusively criteria relating to merits and capabilities, avoiding any implicit gender biases that may entail discrimination against the selection of women directors.

It is expressly stated that, in the opinion of the Nominating and Compensation Commission, Ms Robin Fiala meets the requirements of the Regulations of the Board of Directors, article 5, and the Capital Companies Law, article 529 duodecies, to be considered a proprietary director, placing on record the fact that her appointment has been proposed by the Nominating and Compensation Commission the request of the majority shareholder, United Technologies Holdings, S.A.S.

## Exhibit A

### CURRICULUM VITAE OF MS ROBIN FIALA



#### **Robin Fiala**

Vice President, New Equipment Sales & Marketing  
Otis Elevator Company

Robin Fiala was named Vice President, New Equipment Sales & Marketing in October 2015. In this role, she leads strategic worldwide marketing initiatives that combine competitive and market intelligence with the voice of the customer. Robin is also responsible for the development of new products for the global business.

Robin has more than 25 years of experience with Otis. She started at the Otis New York City branch where she held positions of increasing responsibility including Account Representative, Territory Manager and General Manager. She then joined Otis World Headquarters as Senior Manager of Modernization Products and later joined Otis North America Headquarters as Senior Product Manager, New Equipment and then Director, Service Marketing.

In 2013, she was named Vice President of Service and Marketing responsible for Marketing and Communications for Otis Americas as well as Otis North America's service business, national account sales and OTISLINE® call center. In 2014, she was named Vice President, Worldwide Marketing and Field Support responsible for global marketing strategies, service transformation and the development and implementation of key field operations initiatives across Otis worldwide.

Robin holds a bachelor's degree in mechanical engineering from Union College in Schenectady, NY, and a Master of Business Administration from Fordham University in New York City.

**REPORT OF THE NOMINATING AND COMPENSATION COMMISSION OF**  
**ZARDOYA OTIS, S.A.**  
**ON THE RE-ELECTION AND RATIFICATION OF DIRECTORS (MARK GEORGE)**

**1. Purpose of the report**

The Nominating and Compensation Commission of Zardoya Otis, S.A. (the “**Company**”) issues this report in accordance with article 529 decies (point 6) and article 529 quindecies (point 3.d) of Royal Legislative Decree 1/2010 of July 2, which approved the revised text of the Capital Companies Law. According to this legislation, proposals for the appointment and re-election of non-independent directors must always be accompanied by an explanatory report from the Nominating and Compensation Commission, which evaluates the skills, experience and merits of the candidate proposed.

Likewise, this report is issued in accordance with the Capital Companies Law, article 518.e), and contains information on the identity, curriculum vitae and classification of Mr Mark George.

**2. Report on the re-election of Mr Mark George as a proprietary director**

Mr Mark George was appointed as a director by co-option in a resolution of the Board of Directors dated February 26, 2014, with a prior report in favour from the Nominating and Compensation Commission, and likewise as a member of the Audit Committee, having been ratified and re-elected as an external proprietary director at the General Shareholders’ Meeting held on May 26, 2014.

In the light of the curriculum vitae provided by Mr Mark George (**Exhibit A**), the Nominating and Compensation Commission considers him to have the skills, experience and merits that justify reporting to the Company’s General Shareholders’ Meeting in favour of his re-election as a proprietary director for the Bylaw-stipulated term of four years as of the date the resolution is passed.

It is stated that Mr Mark George should be considered a proprietary director in accordance with the definitions contained in the Capital Companies Law, article 529 duodecies, since his appointed was proposed by the Board of Directors at the request of the majority shareholder, United Technologies Holdings, S.A.S.

## Exhibit A

### CURRICULUM VITAE OF MR MARK GEORGE



#### **Mark George**

Vice President & Chief Financial Officer,  
Otis Elevator Company

Mark R. George was named Vice President, Finance/CFO & IT for Otis Elevator in October 2015.

Mark had been Vice President, Finance/CFO & IT for UTC Building & Industrial Systems, a group formed in October 2013 from the combination of Otis Elevator and UTC Climate, Controls & Security. Prior to that he was CFO for UTC Climate, Controls & Security since its inception in 2011 from combining Carrier and the UTC Fire & Security businesses.

From August 2008 through 2011 Mark was Carrier Vice President, Finance & CFO, after leading the UTC Corporate Financial Planning & Analysis function from 2007 to 2008.

Mark has 27 years of experience within UTC. He began his UTC career at Otis Elevator in 1989. He spent over six years in the Asia Pacific region for Otis serving as the Regional Director, Treasury and Asset Management based in Singapore from 1998 to 2001 and then moved to Hong Kong as the CFO for South Asia Pacific region. In 2004 he returned to the US to lead the worldwide Otis Financial Planning & Analysis function before moving to UTC corporate in 2007 where he led the Financial Planning & Analysis function.

Mark holds an MBA in International Business from Rensselaer Polytechnic Institute and a bachelor of science degree in finance.

## **RULES FOR DELEGATION AND VOTE THROUGH ELECTRONIC MEDIA**

Pursuant to the provisions of the Bylaws, the Regulations of the General Shareholders' Meeting and the Capital Companies Law, the Board of Directors of Zardoya Otis, S.A. (the "**Company**") has approved to apply, from the date of disclosure of the Notice for the Ordinary General Shareholders meeting and until the moment of celebration of such meeting, to be held on the first call, on May 22, 2018 at 12:00 noon at the NH COLLECTION EUROBUILDING HOTEL, calle Padre Damián 23, Madrid, or, if applicable, on the second call, on May 23, 2018 at the same time and in the same place, the following rules:

### **PROXY AND VOTING RIGHTS**

#### **Right to grant proxy from a distance**

Any shareholder entitled to attend may be represented at the General Shareholders' Meeting by another person, who need not be a shareholder. Proxy shall be conferred in writing specifically for the General Meeting pursuant to article 15 of the Bylaws, article 6 of the Regulations of the General Shareholders' Meeting and articles 184 and 522 et seq. of the Capital Companies Law.

In particular, proxy may be granted from a distance, although only proxies conferred as follows shall be valid:

- (A) By written postal correspondence, sending to the Company (Zardoya Otis, S.A., Calle Golfo de Salónica, 73, 28033 Madrid) the certificate of entitlement or equivalent document issued by Iberclear (or the participating entity thus authorized), together with the pertinent attendance, proxy and voting card, which may be downloaded from the Company's website, duly signed and completed by the shareholder.
- (B) Using means of electronic distance communication that duly guarantee the proxy attributed and the identity of the principal. Proxy granted by these means shall be admitted when the electronic document whereby it is conferred includes the recognized electronic signature or the advanced electronic signature of the principal, in the terms set forth in Law 59/2003 of December 19 on Electronic Signatures, based on a recognized electronic certificate of which no revocation is recorded and which is issued by the Spanish Public Certification Authority (CERES), an entity that reports to the Fábrica Nacional de Moneda y Timbre (the Spanish Mint). The user certificate must be obtained by the shareholder, at no cost to the Company, and must be in force when proxy is granted. Any shareholder who has an electronic signature and meets the above requirements and identifies him/herself with said electronic signature may grant proxy by means of an electronic communication in accordance with the instructions and procedures that are specified on the Company's website (<http://www.otisworldwide.com/site/es-esl/Pages/Ascensores-Otis-Informacion-para-accionistas-e-inversores.aspx>), which include the forms to be used for this purpose.

To be valid, proxy granted by either of the means of distance communication mentioned above must be received by the Company before midnight on the day preceding the date on which the Ordinary General Shareholders' Meeting is scheduled to be held on the first call. Otherwise, the proxy shall be deemed not to have been granted.

In the event that the shareholder is a legal person, it must (i) simultaneously provide a notary's certificate stating that the powers of attorney that support the authorization of

the person to whom proxy has been granted by postal correspondence or electronic distance communication are sufficient; and (ii) notify the Company of any change or revocation of the powers held by its representative, the Company thus declining any liability until such notification has been made.

The shareholder granting proxy by postal correspondence or electronic distance communication undertakes to inform the designated proxy-holder of the proxy granted in his/her favour.

In the event that a shareholder grants proxy to the Company, the directors or the Secretary of the Board by postal correspondence or electronic means of distance communication, but does not include therein instructions for casting the vote or there are doubts as to the recipient or scope of the proxy, it shall be considered that the proxy: (i) is granted in favour of the Chairman of the Board of Directors or, in the event that the latter has a conflict of interest, in favour of the Deputy Chairman of the Board of Directors, unless otherwise stated by the shareholder; (ii) refers to all the motions on the Agenda of the General Meeting; (iii) casts a vote in favour of said motions; and (iv) likewise includes any points that may be raised off the Agenda, in respect of which the proxy-holder will vote in the manner he/she considers most favourable to the principal's interests.

In the event that the proxy-holder has, from a legal standpoint, a conflict of interest when voting on any of the proposals that are submitted to the General Meeting on or off the Agenda, the proxy will be deemed to have been granted to the Chairman of the Meeting or, in the event that the Chairman is likewise affected by the conflict of interest, to the Secretary of the Board of Directors, unless the shareholder granting the proxy states otherwise (in which case the shareholder will be deemed not to have authorized the substitution).

A proxy-holder may only vote on behalf of his/her principals by attending the General Meeting in person. For this purpose, on the day and in the place of the General Meeting, the designated proxy-holder must identify him/herself with his/her current national identity card or passport, so that the Company may verify the proxy granted in his/her favour, accompanied by a copy of said proxy and, if the shareholder is a legal person, a copy of the notary's certificate of the power of attorney.

Proxy granted by postal correspondence or using means of electronic distance communication may be declared null: (i) if it is expressly revoked by the shareholder, using the same means as employed to grant the proxy, within the term fixed for granting it; (ii) by the shareholder attending the General Meeting in person; or (iii) due to transfer of the shares ownership of which conferred the right to grant the proxy and the right to vote, when the Company is aware of said transfer at least five days before the General Meeting is held. At any event, proxies granted after a distance vote has been cast shall be deemed not to have been granted.

When a proxy-holder holds proxies from several shareholders, he/she may cast different votes in accordance with the instructions received from each one of the shareholders.

Likewise, entities that hold shareholder status according to the accounting register of shares but which act on behalf of different persons may, at any event, divide their vote and cast it differently in accordance with the different voting instructions they have received, if applicable. These intermediary entities may grant proxy to each one of the indirect shareholders or to third parties designated by the latter and there is no limit on the number of proxies they may grant. To do this, they must, within the seven days preceding the date on which the General Meeting is scheduled to be held, provide the Company with a list stating the identity of each client, the number of shares in respect of which they are exercising voting rights on behalf of each client and the voting instructions received, if applicable, in order to determine how their vote will be cast.

## Distance voting

Shareholders entitled to attend and vote may cast their vote on the motions on items included on the Agenda using the following means of distance communication:

- (A) By written postal correspondence, sending to the Company (Zardoya Otis, S.A., Calle Golfo de Salónica, 73, 28033 Madrid) the certificate of entitlement or equivalent document issued by Iberclear (or the participating entity thus authorized), together with the pertinent attendance, proxy and voting card, which may be downloaded from the Company's website, duly signed and completed by the shareholder.
- (B) By electronic means of distance communication, provided that the electronic document whereby the vote is cast includes the recognized electronic signature or the advanced electronic signature of the principal, in the terms set forth in Law 59/2003 of December 19 on Electronic Signatures, based on a recognized electronic certificate of which no revocation is recorded and which is issued by the Spanish Public Certification Authority (CERES), an entity that reports to the Fábrica Nacional de Moneda y Timbre (the Spanish Mint). The user certificate must be obtained by the shareholder, at no cost to the Company, and must be in force when the vote is cast. Any shareholder who has an electronic signature that meets the above requirements and identifies him/herself with said electronic signature may cast his/her vote on the items of the Agenda for the General Meeting in accordance with the instructions and procedures that are specified on the Company's website (<http://www.otisworldwide.com/site/es-esl/Pages/Ascensores-Otis-Informacion-para-accionistas-e-inversores.aspx>), which include the forms to be used for this purpose.

Votes cast by either of the means mentioned above shall not be valid if they are not received by the Company at least twenty-four hours before the date on which the Ordinary General Shareholders' Meeting is scheduled to be held on the first call. Votes received after said deadline shall be deemed not to have been cast.

In the event that the shareholder is a legal person, it must (i) simultaneously provide a notary's certificate stating that the powers of attorney that support the authorization of the person to whom proxy has been granted by postal correspondence or electronic distance communication are sufficient; and (ii) notify the Company of any change or revocation of the powers held by its representative, the Company thus declining any liability until such notification has been made.

A shareholder who casts his/her vote by postal correspondence or electronic means of distance communication and does not mark any of the boxes provided for indicating his/her vote on the items on the Agenda shall be deemed to wish to vote in favour of the respective motions put forward by the Board of Directors.

Shareholders who cast a distance vote in the terms stated in the Bylaws and the Regulations of the General Meeting shall be deemed to be present at the General Meeting for quorum purposes. In consequence, proxies granted previously shall be deemed to have been revoked and those granted subsequently shall be deemed not to have been granted

A distance vote can only be declared null (i) if it is subsequently expressly revoked by the same means as was employed to cast it within the term fixed for distance voting, (ii) by the attendance of either the shareholder who cast the distance vote or a proxy-holder of said shareholder at the meeting; or (iii) due to transfer of the shares ownership of which conferred the right to vote, when the Company is aware of said transfer at least five days before the date on which it is planned to hold the General Meeting.



### **Rules common to granting proxy and voting by means of distance communication**

- (A) The validity of the proxy granted and the vote cast by distance communication is subject to verification of the shareholder's status as such with the file provided by Iberclear, the entity responsible for the accounting register of the Company's shares. In the event of any discrepancy between the number of shares stated by the shareholder granting proxy or casting his/her vote by distance communication and the number stated in the account entry registers notified by Iberclear, the number of shares stated by the latter shall be considered valid for quorum and voting purposes unless there is evidence to the contrary.
- (B) The following rules on the order of priority of proxy voting, distance voting and presence at the General Meeting are established: (i) the attendance of the General Meeting in person by a shareholder who has previously granted proxy or cast a distance vote, irrespective of the manner in which the vote was cast, shall cause said proxy or vote to be null; (ii) when the shareholder validly grants proxy through an electronic communication and, furthermore, also grants proxy through a printed attendance card issued by Iberclear (or the participating entity thus authorized), the latter shall prevail over the proxy granted by electronic communication, regardless of the respective dates of granting; (iii) in the event that a shareholder validly grants several proxies or casts several votes by electronic communication, the last proxy granted or last vote cast that is received by the Company within the term allowed shall prevail; and (iv) both proxies and distance votes shall be null if the shares that confer the right of attendance are disposed of and the Company is aware of this at least five days before the date on which it is planned to hold the General Meeting.
- (C) Custody of his/her electronic signature is solely the shareholder's responsibility.
- (D) The Company reserves the right to change, suspend, cancel or restrict the mechanisms for voting and granting proxy from a distance when technical or security reasons require or force this to be done.
- (E) The Company shall in no case be liable for any damages that may be caused to the shareholder by breakdowns, overloads, lines down, connection failures, malfunctions of the postal service or any other contingencies of the same or a similar nature, beyond the Company's control, that hinder or prevent the use of the mechanisms for voting and granting proxy from a distance.
- (F) Any of the co-owners of a share deposit may vote, grant proxy or attend and the rules on priority established above shall be applicable among them. For the purposes of article 126 of the Capital Companies Law, it is assumed that the co-owner who carries out an action (granting of proxy, voting or attendance) at any given moment has been designated by the rest of the co-owners to exercise the rights that correspond to him as a shareholder.

## **INSTRUCTIONS AND FORMS FOR GRANTING PROXY AND DISTANCE VOTING**

### **2018 ORDINARY GENERAL SHAREHOLDERS' MEETING OF ZARDOYA OTIS,**

#### **S.A.**

#### **Welcome to the Distance Voting and Proxy-granting Service**

The mechanisms and process of Distance Voting or Proxy-granting are explained below:

1. Please read the following rules and conditions before continuing:

#### **Rules and Conditions**

(<http://www.otisworldwide.com/site/es-esl/Pages/Ascensores-Otis-Informacion-para-accionistas-e-inversores.aspx>)

2. To guarantee the security of your proxy or distance vote, you must have an Electronic User Certificate. Links to the electronic certificate providers who issue valid Certificates for this Meeting appear below. In these links, you may find information on how to obtain the Certificate.

<http://www.cert.fnmt.es/>

3. Once you have obtained the Electronic User Certificate, you should send an e-mail to [info.accionista@otis.com](mailto:info.accionista@otis.com), stating that you wish to grant proxy or cast a distance vote, in accordance with the following instructions:

#### **3.1 PROXY**

##### **Content of the e-mail to grant proxy:**

The e-mail you send to the Company to grant proxy by means of distance communication must include:

- (a) The following **particulars** in your capacity as the shareholder granting proxy:
  - Name, surnames and national identity card (D.N.I.) / tax identification number (N.I.F.).
  - Name and code of the Depositary Entity with which you have deposited the Company shares.
  - Securities account number: Code (Branch + control digit + acc. No.)
  - Number of shares you own.
- (b) Your recognized or advanced **electronic signature**, based on a recognized electronic certificate of which no revocation is recorded;
- (c) If the shareholder is a legal person, a **notary's certificate** stating that the powers of attorney of the person granting proxy are sufficient;
- (d) **The person to whom proxy is granted** for the General Meeting, specifying whether it is:
  - (i) The Chairman of the Board of Directors.
  - (ii) Any other person [Mr//Ms] [*insert name*] and his/her D.N.I. / N.I.F.

Any granting of proxy that does not state the name of the person to whom it is granted will be deemed to be granted to the Chairman of the Board of Directors;

- (e) **Voting instructions** for the separate items on the Agenda of the General Meeting, stating whether the vote is:
- **IN FAVOUR** (stating the word **YES** next to the relevant item on the Agenda).
  - **AGAINST** (stating the word **NO** next to the relevant item on the Agenda).
  - **ABSTENTION** (stating the word **BLANK** next to the relevant item on the Agenda).

Likewise, the shareholder granting proxy may leave the direction of the vote to the discretion of the proxy-holder, giving no instructions in this respect, in which case the e-mail sent to the Company must expressly state that the proxy-holder will vote on the proposals in the direction he/she sees fit.

In the event that no instructions are given and it is not expressly stated that the proxy-holder will vote on the proposals in the direction he/she sees fit, the person granting proxy will be deemed to vote in favour of the proposals of the Board of Directors.

Unless stated otherwise, the proxy will cover any items not included on the Agenda. In this case, the proxy-holder will vote in the direction he/she sees fit.

- (f) The person granting proxy must state that he/she undertakes to **inform the designated proxy-holder** of the proxy.
- (g) In the event that the proxy-holder has, **from a legal standpoint, a conflict of interest** in the vote on any of the proposals that are submitted to the Meeting, on or off the Agenda, **the proxy will be deemed to have been granted to the Chairman of the Meeting or, if the latter is also affected by the conflict of interest, to the Secretary of the Board of Directors**, unless the shareholder granting the proxy states otherwise, in which case the shareholder will be deemed not to have authorized the substitution.

### **3.II DISTANCE VOTING**

#### **Content of the e-mail for distance voting:**

The e-mail you send to the Company to vote by means of distance communication should include:

- (a) The following **particulars** in your capacity as the shareholder casting the vote:
- Name, surnames and D.N.I. / N.I.F.
  - Name and code of the Depositary Entity with which you have deposited the Company shares..
  - Securities account number: Code (Branch + control digit + acc. No.).
  - Number of shares you own.

- (b) Your recognized or advanced **electronic signature**, based on a recognized electronic certificate of which no revocation is recorded;
- (c) If the shareholder is a legal person, a **notary's certificate** stating that the powers of attorney of the person casting the vote are sufficient;
- (d) **Vote** on the proposals of the Board of Directors included on the Agenda of the General Meeting, stating whether the vote is:
  - **IN FAVOUR** (stating the word **YES** next to the relevant item on the Agenda).
  - **AGAINST** (stating the word **NO** next to the relevant item on the Agenda).
  - **ABSTENTION** (stating the word **BLANK** next to the relevant item on the Agenda).

In the event that no instructions are given on any item on the Agenda, the vote will be deemed to be cast in favour of the proposal of the Board of Directors included in said item.

The shareholder issuing a vote by means of distance communication will be deemed to be present for the purposes of constituting the General Meeting.

#### 4. Examples of e-mails for proxy-granting and voting.

##### 4.1 Proxy

A fictitious example of an e-mail granting proxy by means of distance communication is set out below:

"To: [info.accionista@otis.com](mailto:info.accionista@otis.com)

**Re: Granting of proxy**

I, [Mr / Ms.] [insert name], with [D.N.I. / N.I.F.] No. [insert number], currently in force, as the holder of [insert number] shares in Zardoya Otis, S.A., which are deposited with the entity [insert name of entity], in securities account No. [insert number], grant proxy for the 2018 Ordinary General Shareholders' Meeting of the Company to be held on May 22, 2018, on the first call, and May 23, 2018, on the second call, to:

- a) [Option 1] [The Chairman of the Board of Directors or the person acting as such] [Option 2] [Mr / Ms.] [insert name], with [D.N.I. / N.I.F.] No. [insert number], [currently in force], in order for them to represent me and vote on the following items on the Agenda of the General Meeting [alternative 1: in accordance with the following instructions:

Item 1: [YES / NO / BLANK]

Item 2: [YES / NO / BLANK]

Item 3: [YES / NO / BLANK]

Item 4: [YES / NO / BLANK]

Item 5: [YES / NO / BLANK]

Item 6: [YES / NO / BLANK]

- Item 7: [YES / NO / BLANK]
- Item 8: [YES / NO / BLANK]
- Item 9: [YES / NO / BLANK]
- Item 10: [YES / NO / BLANK]
- Item 11: N/A
- Item 12: [YES / NO / BLANK]

I undertake to inform my proxy-holder of the proxy granted in their favour.

*[If a legal person, attach a notary's certificate of the power of attorney.]*

*[The e-mail must include the shareholder's electronic signature based on a recognized electronic certificate of which there is no record of revocation.]*

#### **4.II Vote**

A fictitious example of an e-mail casting a distance vote is set out below:

**To:** [info.accionista@otis.com](mailto:info.accionista@otis.com)

**Re:** Distance vote

I, [Mr / Ms.] [insert name], with [D.N.I. / N.I.F.] No. [insert number], currently in force, as the holder of [insert number] shares in Zardoya Otis, S.A., which are deposited with the entity [insert name of entity], in securities account No. [insert number], in relation to the 2018 Ordinary General Shareholders' Meeting of the Company to be held on May 22, 2018, on the first call, and May 23, 2018, on the second call, cast my vote on the items on the Agenda in the direction stated below:

- Item 1: [YES / NO / BLANK]
- Item 2: [YES / NO / BLANK]
- Item 3: [YES / NO / BLANK]
- Item 4: [YES / NO / BLANK]
- Item 5: [YES / NO / BLANK]
- Item 6: [YES / NO / BLANK]
- Item 7: [YES / NO / BLANK]
- Item 8: [YES / NO / BLANK]
- Item 9: [YES / NO / BLANK]
- Item 10: [YES / NO / BLANK]
- Item 11: N/A
- Item 12: [YES / NO / BLANK]

*[If a legal person, attach a notary's certificate of the power of attorney.]*

*[The e-mail must include the shareholder's electronic signature based on a recognized electronic certificate of which there is no record of revocation.]”*

**TOTAL NUMBER OF SHARES AND VOTING RIGHTS EXISTING AT THE DATE  
ON WHICH NOTICE OF THE 2018 ORDINARY GENERAL SHAREHOLDERS'  
MEETING IS GIVEN**

The share capital of Zardoya Otis, S.A. is represented by a total of 470,464,311 shares (470,464,311 voting rights).



ZARDOYA OTIS, S.A.

## ATTENDANCE, PROXY AND DISTANCE VOTING CARD

Attendance, Proxy and Distance Voting Card for the Ordinary General Shareholders' Meeting of Zardoya Otis, S.A. (the "Company"), to be held, on the first call, on May 22, 2018 at 12:00 noon at the HOTEL NH COLLECTION EUROBUILDING, calle Padre Damián, 23, 28036, Madrid, or, if applicable, on the second call on May 23, 2018 at the same time in the same place.

Shareholders may grant proxy or vote electronically as stated on the back of this card and on the Company's website (<http://www.otisworldwide.com/site/es-esl/Pages/Ascensores-Otis-Informacion-para-accionistas-e-inversores.aspx>).

### ATTENDANCE

### ORDINARY GENERAL SHAREHOLDERS' MEETING, MAY 2018

#### Shareholders who wish to attend the General Meeting in person

Shareholders who wish to attend the Ordinary General Meeting in person must sign this card in the space below and submit in on the day and In the place the Meeting is held.

Signature of the attending shareholder

....., 2018

Number of shares:

Securities Account Code:

The holder of the card may delegate his/her right to attend or vote via distance communication by marking the pertinent boxes on the table of the items on the Agenda and signing the section on proxy granting or voting via distance communication, as applicable. In the event that both sections are signed, the distance vote will prevail and the proxy granted will be null and void.

### PROXY

### ORDINARY GENERAL SHAREHOLDERS MEETING, MAY 2018

#### Shareholders who wish to grant proxy for the General Meeting

The shareholder to whom this card has been issued grants proxy for this General Meeting to:

(Mark only one of the following boxes and, if applicable, designate the proxy-holder. In order for this proxy to be valid, the shareholder granting it must sign in the space provided for this purpose.)

1.  Chairman of the Board of Directors

2.  .....

If a shareholder grants proxy to the Company, the directors or the Secretary of the Board by post or electronically from a distance but does not include voting instructions or there is any doubt as to the recipient or scope of the proxy, the proxy will be deemed to: (i) be granted to of the Chairman of the Board of Directors or, in the event that the latter has a conflict of interest, to the Deputy Chairman of the Board of Directors, unless the shareholder expressly states otherwise; (ii) refers to all the proposals on the Agenda of the General Meeting; (iii) is a vote in favour of said proposals; and (iv) likewise covers any items that may arise off the Agenda, regarding which the proxy-holder will vote in the direction he/she deems most favourable to the principal's interests.

To give precise voting instructions, mark the pertinent box in the following table with a cross. If there is no cross in any or all of the boxes provided to indicate the vote on the items on the Agenda, the shareholder will be deemed to wish to vote in favour of the respective proposals submitted by the Board of Directors.

#### Voting instructions concerning the proposals of the Board of Directors

Item on Agenda	1	2	3	4	5	6	7.1	7.2	8	9	10	11	12
In favour												N/A	
Against													
Abstention													
Blank													

You are informed that the Chairman and other directors have a conflict of interest regarding items 6 (Consultative ballot on the 2016 Annual Director Compensation Report in accordance with the provisions of the Capital Companies Law, article 541) and 7 (Appointment and re-election, if appropriate, of the following members of the Board of Directors: 7.1 Ratification and re-election of Ms Robin Fiala, who was appointed by co-option, as a proprietary director; and 7.2 Re-election of Mr Mark George as a proprietary director).

#### Substitution of proxy in the event of conflict of interest

In the event that the proxy-holder has, from a legal standpoint, a conflict of interest in the vote on any of the proposals that are submitted to the Meeting, on or off the Agenda, the proxy will be deemed to have been granted to the Chairman of the Meeting or, if the latter is also affected by the conflict of interest, to the Secretary of the Board of Directors, unless the shareholder granting the proxy states otherwise by marking the box NO below (in which case the shareholder will be deemed not to have authorized the substitution).

NO



**Proposals on items not included in the Agenda specified in the Notice of the Meeting**

Unless otherwise stated, by marking the box NO below (in which case the shareholder will be deemed to specifically instruct the proxy-holder to abstain), the proxy will also cover any proposals on items not included on the Agenda.

**NO**

If the proxy covers such proposals, the precise instruction to the proxy-holder is to vote against them, unless stated otherwise here:  
.....

A conflict of interest will exist in the event that matters that are not on the Agenda are submitted to the General Meeting referring to the removal of the proxy-holder or filing of a corporate action for liability thereagainst, in the event that the latter is also a director of the Company.

**Signature of the shareholder granting proxy**

**Signature of the proxy-holder attending**

....., 2018

....., 2018

**Number of shares:**

**Securities Account Code:**

**RIGHT OF ATTENDANCE**

To attend the Company's General Shareholders' Meeting, it will be an essential requirement to prove share ownership by means of a certification of entitlement or equivalent document issued by Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. ("Iberclear") or the participating entities authorized to do so, issued five days prior to the date of the General Meeting, pursuant to article 15 of the Bylaws, article 5 of the Regulations of the General Shareholders' Meeting and article 179 of the Capital Companies Law.

**SHAREHOLDERS WISHING TO GRANT PROXY USING THIS CARD**

If the shareholder does not intend to attend the General Meeting, he/she may grant proxy to any other natural or legal person. To do this, he/she should complete the proxy form on the other side of this page and sign it in the space provided. The person holding proxy at the General Meeting must also sign said proxy form. The rules included in the Notice of the Meeting and on the Company's (<http://www.otisworldwide.com/site/es-esl/Pages/Ascensores-Otis-Informacion-para-accionistas-e-inversores.aspx>). must be observed in this respect.

**SHAREHOLDERS WISHING TO CAST A DISTANCE VOTE USING THIS CARD PRIOR TO THE GENERAL MEETING**

If the shareholder does not intend to attend and does not wish to grant proxy, he/she may cast a distance vote on the items on the Agenda. To do this, he/she must complete the section on distance voting below and sign it in the space provided. Shareholders issuing a distance vote will be deemed to be present for the purposes of constituting the General meeting. Distance votes may be delivered to the Company by hand or sent by post, in accordance with the rules included in the Notice of the Meeting and on the Company's website (<http://www.otisworldwide.com/site/es-esl/Pages/Ascensores-Otis-Informacion-para-accionistas-e-inversores.aspx>). In the event that both the proxy and distance voting sections are completed, the distance vote will prevail and the proxy will be null and void.

**ELECTRONIC PROXY-GRANTING AND DISTANCE VOTING PRIOR TO THE MEETING**

Shareholders may also grant proxy and vote on the items on the Agenda of the Meeting using electronic means, in accordance with the rules included in the Notice of the Meeting and on the Company's website (<http://www.otisworldwide.com/site/es-esl/Pages/Ascensores-Otis-Informacion-para-accionistas-e-inversores.aspx>).

**DISTANCE VOTE**

**ORDINARY GENERAL SHAREHOLDERS MEETING, MAY 2018**

**Shareholders wishing to cast a distance vote in relation to the proposals on the Agenda**

If, prior to the General Meeting, the shareholder in whose favour this card has been issued wishes to cast a distance vote in relation to the proposals on the Agenda of this General Meeting, he/she must mark the pertinent box with a cross, showing either the direction of his/her vote or his/her abstention. It is not possible to cast a distance vote on any proposals not included on the Agenda. If, in relation to any of the items on the Agenda, no box is marked, the shareholder will be deemed to vote in favour of the proposal of the Board of Directors. At any event, in addition to the provisions of the Law, the Bylaws and the Regulations of the General Shareholders' Meeting, the rules included in the Notice of the Meeting and on the Company's website must be observed.

**Vote on the proposals of the Board of Directors**

In favour	1	2	3	4	5	6	7.1	7.2	8	9	10	11	12
Against												N/A	
Abstention													
Blank													
In favour													

The shareholder issuing a distance vote will be deemed to be present for the purposes of constituting the General Meeting.

**Signature of the shareholder issuing a distance vote**

....., ....., 2018

[Signature box]

Number of shares:

**PERSONAL DATA PROTECTION**

Personal data that shareholders send to the Company in order to exercise their rights to attend or be represented at the General Meeting or that are provided for this purpose by the entities with which said shareholders' shares are deposited through the entity legally authorized to keep the register of book entries, Iberclear, will be processed by the Company in order to manage the conducting, compliance and control of the shareholder relationship that exists, together with attendance at and running of the General Meeting and, if applicable, in order to comply with rules to which Zardoya Otis, S.A. is subject. In order to manage the shareholder relationship that exists, Zardoya Otis, S.A. will send information to the shareholders strictly related to the shareholders' investments and the Company's evolution. This information may be sent electronically. The rights of access, rectification, objection and cancellation may be exercised by means of a letter, accompanied by a copy of the national identity document (DNI), addressed to the registered office (Calle Golfo de Salónica, 73, 28033 Madrid) for the attention of the Secretary of the Board of Directors. In the event that the shareholder includes personal data regarding other natural persons on the attendance, proxy and distance voting card, the shareholder must inform said persons of the contents of the preceding paragraphs and comply with any other requirements that may be applicable in order to provide said data correctly to Zardoya Otis, S.A. without the need for the latter to take any additional action regarding information or consent

**AGENDA**

1. Examination and, if appropriate, approval of the annual financial statements and management reports of both the Company and its consolidated group for the period running from December 1, 2016 to November 30, 2017.
2. Application of the profit for the period running from December 1, 2016 to November 30, 2017.
3. Approval of the performance of the Board of Directors and, in particular, of the distribution of dividends charged to the profit for the period running from December 1, 2016 and November 30, 2017.
4. Approval of the distribution of a dividend charged to reserves for a gross amount of 0.08 euros per share.
5. Re-appointment of the auditors for the Company and its consolidated group for the period running from December 1, 2017 to November 30, 2018.
6. Consultative ballot on the 2016 Annual Director Compensation Report in accordance with the provisions of the Capital Companies Law, article 541.
7. Appointment and re-election, if appropriate, of the following members of the Board of Directors:
  - 7.1. Ratification and election of Ms Robin Fiala, who was appointed by co-option, as a proprietary director.
  - 7.2. Re-election of Mr Mark George as a proprietary director.
8. Authorization of the Board of Directors for the direct or indirect derivative acquisition of treasury stock, within the limits and meeting the requirements set forth in article 146 and related articles of the Capital Companies Law.
9. Authorization to allow the Company to, directly or indirectly, accept its own shares as security, in accordance with the Capital Companies Law, article 149.
10. Delegation to the Board of Directors of the interpretation, rectification, execution, formalization and registration of the resolutions passed.
11. Requests and questions.
12. Approval of the Minutes.