ZARDOYA OTIS, S.A.
Lorea García Jáuregui
Secretaria del Consejo de Administración

ZARDOYA OTIS, S.A.
Golfo de Salónica, 73
28033 Madrid - España
Teléfono 91 343 51 00
www.otis.com

Comisión Nacional del Mercado de Valores
Dirección General de Mercados
Edison, 4
28006 MADRID

Madrid, 31 de Enero de 2019

Acompañando esta carta, adjuntamos la siguiente información en inglés:

- Notes to the Interim Financial Statements for the 2nd Semester of 2018
- Quarterly Report for 2nd Semester 2018

NOTA: la citada información en inglés ha sido traducida por la propia entidad, bajo su exclusiva responsabilidad y no tiene la consideración de oficial

Atentamente,

Lorea García Jáuregui

ZARDOYA OTIS S.A.
AND SUBSIDIARIES

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SECOND SEMESTER OF 2018

ZARDOYA OTIS S.A. AND SUBSIDIARIES
NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND SEMESTER OF 2018

1. Accounting policies

The accounting policies and consolidation processes applied in these consolidated interim financial statements are the same as those used in the consolidated annual financial statements for the annual reporting period ended November 30, 2017. The consolidated financial statements of the Group as of November 30, 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted in the European Union and in force at that date. The condensed interim consolidated financial statements for the six-month period ended May 31, 2018 include standards that came into force during 2018 and were adopted by the Group.

In relation to the changes in accounting standards, the Group elected early application of IFRS 15 “Revenue from Contracts with Customers”. As stated in the consolidated annual financial statements for 2017, 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. In view of the foregoing, the Group evaluated and elected early application of this Standard.

The Group has applied the Standard retrospectively with the accumulated effect of the initial application thereof recognized at the initial application date.

The following shows the main impacts of applying the Standard to the six-monthly financial information:

	2018(*)	2018 (**)
Initial reserves 12.01.2017	440 992	440 827
Profit for period	146 659	146 301
Total assets	722 792	723 434

(*) Figures before including the effects of early application of IFRS 15 “Revenue from Contracts with Customers” in 2018.
(**) Including the effects of early application of IFRS 15 “Revenue from Contracts with Customers” in 2018.

Apart from the foregoing, in 2018 there were no value adjustments with a significant effect on the items of the assets, liabilities, equity, profit and loss or cash flows presented.

In the case of Zardoya Otis S.A., these 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 Spanish General Chart of Accounts, approved by Royal Decree 1514/2007, and the amendments thereto included in Royal Decree 1159/2010 and Royal Decrees 602/2016, in order to give a true and fair view of the Company's equity, financial situation and results, as well as the accuracy of the cash flows included in the statement of cash flows.

2 Accounting estimates and judgements

The preparation of both the consolidated interim financial statements and the financial statements of Zardoya Otis, S.A. requires the use of certain critical accounting estimates. It likewise requires Management to exercise its judgement in the process of applying the Company's accounting policies. Consequently, the accounting estimates may differ from the final results of the circumstances assessed. These judgements and estimates are examined constantly and are based principally on historical experience and expectations of future events deemed reasonable.

3. Seasonality or cyclical nature of transactions in the annual period

The Group has no sales subject to significant variations over the year. In this respect, maintenance revenue is recognized on a straight-line basis when accrued. Consequently, seasonality is not considered significant for the purposes of these interim financial statements.

4. Changes in the companies that form part of the Group and transactions with non-controlling interests

In 2018, the following transactions and changes in the consolidated group took place:

In 2018, companies belonging to the Zardoya Otis Group (Spain) CGU acquired 100% of the shares of the companies Ascensores Limarlift S.L (April 5, 2018), Integra Ascensores SL (June 26, 2018), Elko sistemtes d´elevacion sl (September 11, 2018) and Euroascensores Alcaraz SL (November 26, 2018). All the aforementioned companies are engaged in the elevator maintenance and repair activity. Likewise, 80% of Soluciones de accessibilidad LV3 S.L. This company is engaged in the elimination of architectural barriers and providing accessibility solutions using stair lifts and platforms, all of them for a total acquisition value of EThs 14 802.

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

5. 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 rate 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 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 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) Exchange rate 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 information as of November 30, 2018.

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

In addition, the Group holds a foreign currency investment in Otis Maroc S.A., the net assets of which are exposed to foreign exchange risk. Although their equity value is around seven million euros, the effect of a change in the exchange rate would not be expected to have a material effect on the Group's financial statements.

In relation to commercial export and import transactions, the Group is exposed to an exchange rate risk that is not significant. At November 30, 2018, there were outstanding payables in currencies other than the euro the equivalent amount of which was euros was EThs 986 (EThs 879 in 2017).

(ii) Price risk

The Group has solely limited exposure to commodity price risk. Furthermore, 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. 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. 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 the highest credit ratings in the market today.

The amounts of trade receivables are shown in the statement of financial position net of the provision for impairment. At November 30, 2018, said provision was EThs 85 184 (EThs 89 041 at November 30, 2017). The Group estimates the provisions necessary in accordance with the age of the debt and experience in preceding years, in line with the previous segregation of the customer portfolio and the current economic environment.

As of November 30, 2018, the Group held current deposits with financial institutions of EThs 17 726 (EThs 16 034 at November 30, 2017). 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, 2018, cash and cash equivalents were EThs 56 444 (EThs 60 854 at November 30, 2017), including amounts held in cash, in banks and current deposits with financial institutions.

The changes in the statement of cash flows in relation to operating, investing and financing activities are shown below:

	2018	**2017**
Cash at beginning of period	**60 854**	**62 344**
Cash flows from operating activities	161 902	163 871
Cash flows from investing activities	(15 354)	(13 392)
Cash flows from financial activities	(150 957)	(151 969)
Cash at end of period	**56 445**	**60 854**

d) Cash flow and fair value interest rate risk

As the Group does not hold important remunerated assets, its 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 interest rate risks derived from its activity.

The Group's interest rate risk arises on noncurrent borrowings tied to a variable interest rate, the variable interest rate applied to the loans from financial institutions being subject to the fluctuations in the Euribor.

As stated in Note 12, at November 30, 2018 and 2017, the Group did not hold any borrowings tied to a fixed interest rate.

e) Capital risk management

The Group's capital management objectives are to safeguard its capacity to maintain profitability that can be sustained in the long term; to have the capacity to fund its internal 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 year and, as far as necessary, borrowings at the lowest cost possible.

The Group 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 borrowings plus other financial liabilities less cash and cash equivalents less current financial assets.

	2018	**2017**
Borrowings (current and noncurrent)	290	323
Other current & noncurrent financial liabilities	10 471	6 072
Cash and cash equivalents	(56 445)	(60 854)
Net debt	(45 684)	(54 459)
Equity	434 355	440 992
Leverage (*)	**-0,11**	**-0,15**

(*) (Net financial debt/(Net financial debt + equity)).

At November 30, 2018, net debt represented -0.2192 of EBITDA (-0.2756 at the end of 2017). (EBITDA: Operating profit + depreciation + amortization).

6. Property, plant and equipment and intangible assets

In 2018, investments of ETHs 7 516 and EThs 18 391 were made in property plant and equipment and intangible assets, respectively (EThs 4 417 and EThs 8 835, respectively, in 2017).

At the reporting date, there were purchase commitments for the acquisition of property, plant and equipment for a value of EThs 2 062 (EThs 2 729 in 2017), EThs 1 880 of which had been paid in advance (EThs 714 in 2017).

In 2018, impairment testing of the goodwill recognized in each CGU gave the assets a value in use that was higher than their net carrying amount. Therefore, in the 2018 financial information, no impairment of intangible assets has been recognized.

7. Business combinations

2018:

In 2018, companies belonging to the CGU Zardoya Otis Group (Spain) acquired 100% of the shares in the company's Ascensores Limarlift S.L. (April 5, 2018), Integra Ascensores S.L. (June 26, 2018), Elko sistemtes d'elevacion S.L. (September 11, 2018) and Euroascensores Alcaraz S.L. (November 26, 2018), all of which are companies engaged in elevator maintenance and repair in Spain. Likewise, 80% of Soluciones de accesibilidad LV3 S.L, engaged in the elimination of architectural barriers and providing accessibilty solutions using stairlifts and platforms, was acquired (April 16, 2018).

2017:

In 2017, companies belonging to the CGU Zardoya Otis Group (Spain) acquired 100% of the shares in the company's Servicios Automáticos de Elevación, S.L. (April 21, 2017) and Liftsur Elevadores, S.L. (July 27, 2017. Additionally, the company Otis Elevadores Lda., which belongs to the CGU Zardoya Otis Group (Portugal), acquired 100% of the shares in the company's Liftime – Elevadores Unipessoal and Joaquim Férias e Filhos – Elevadores Unipessoal, Lda. (January 1, 2017). All these companies are engaged in elevator maintenance and repair.

8. Dividends

The Company distributed four quarterly dividends in 2018, as follows:

Date	Gross per share	Charged to	Shares entitled to dividend	Gross total
Dividends:				
January 10	0.080 euros	3rd interim 2017	470,464,311	37,637,144.88 €
April 10	0.080 euros	1st interim 2018	470,464,311	37,637,144.88 €
July 10 (*)	0.080 euros	Charged to reserves	470,464,311	37,637,144.88 €
October 10	0.080 euros	2nd interim 2018	470,464,311	37,637,144.88 €
Total received by owners				**150.548.579,52 €**

Additionally, at its meeting of December 11, 2018, the Board of Directors of Zardoya Otis, S.A. passed a resolution to distribute the third interim dividend charged to the 2018 fiscal period, to be paid out in January 2019.

Date	Gross per share	Charged to	Shares entitled to dividend	Gross total
Dividends:				
January 10	0.080 euros	3rd interim 2018	470,464,311	37,637,144.88 €
Total received by owners				**188,185,724.44 €**

9. Treasury stock

At November 30, 2018, Zardoya Otis, S.A. did not hold any treasury shares (zero at the end of 2017).

10. Segment reporting

This information is included in section 15 of the selected information in the financial report for the semester.

11. Related transactions

This information is included in section 18 of the selected information in the financial report for the semester.

12. Borrowings

At November 30, 2018 and 2017, the carrying amounts of current borrowings from financial institutions were equal to their fair values, since the effect of discounting was not significant. Interest accrued on these loans in the 2018 reporting period was EThs 104 (2017: EThs 258).

In 2016, the Group made early repayments of sums maturing in 2018 and 2019 for EThs 4 900. For this reason, the noncurrent portion of said borrowings is EThs zero (2017: EThs zero).

As of November 30, 2018:

	Current	2019	2020	Noncurrent
Borrowings from financial institutions	155	-	-	-
Other	135			
EThs	290	-	-	-

As of November 30, 2017:

	Current	2018	2019	Noncurrent
Borrowings from financial institutions	154	-	-	-
Other	170			
EThs	324	-	-	-

13. 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 on the statement of financial position for 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 salary adjustment process has ended in October, by independent actuaries, using the projected unit credit method. The income statement of the financial statements attached hereto shows an expense of EThs 1 596 (2017: EThs 1 978) for this item, included as an employee benefit expense.

The amounts recognized in the consolidated and individual profit and loss of Zardoya Otis, S.A. are as follows:

	2018	2017
Current service cost	2 106	2 233
Interest cost	589	679
Expected return on plan assets	(690)	(732)
Settlements	(409)	(202)
Actuarial (gains)/losses	-	-
EThs	**1 596**	**1 978**

14. 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 annual 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	Deferred tax liabilities
As of November 30, 2016	23 206	26 792
PAL impact	789	(3 951)
Impact of tax rate change	-	-
Business combinations	-	1 422
As of November 30, 2017	23 994	24 263
PAL impact	204	(2 894)
Impact of tax rate change	-	-
Business combinations	-	2 303
As of November 30, 2018	24 197	23 672

15. Events after the end of the reporting period

On December 27, 2018, Zardoya Otis, S.A. acquired 100% of the shares of the company Otis-Lliset SLU for a value of EThs 4 280. This company is engaged in the elevator maintenance and repair activity in Andorra.

On December 11, Zardoya Otis, S.A. declared the fourth dividend in the calendar year 2018, the third charged to the profit for the period, for a gross amount of 0.08 euros per share. The result was a total gross dividend of EThs 37,637, to be paid out on January 10, 2019.

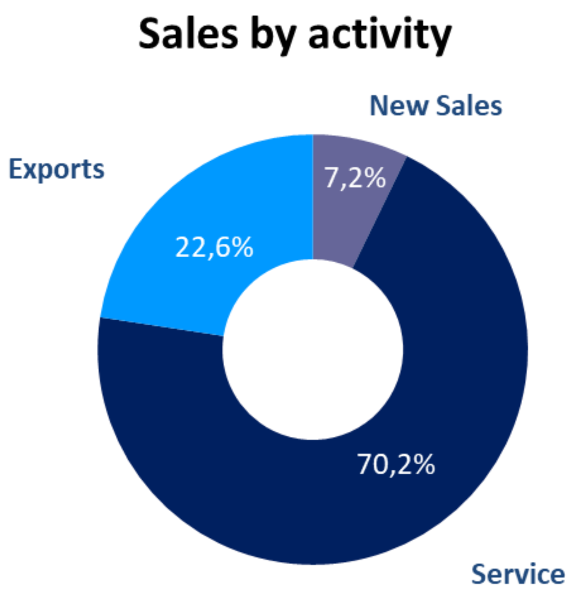
ZARDOYA OTIS, S.A

REPORT FOR THE PERIOD 2018

FISCAL YEAR: DECEMBER 1, 2017 – NOVEMBER 30, 2018

1. BUSINESS EVOLUTION

SALES:

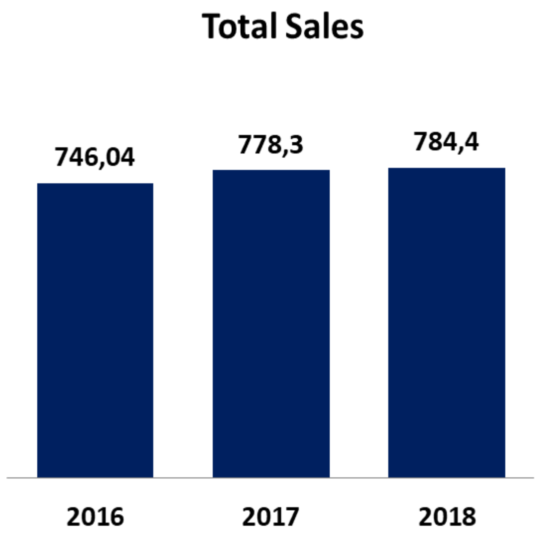


Total consolidated sales for 2018 were 784.4 million euros, in comparison with the 778.3 million euros obtained in the same period of 2017, representing an increase of 0.8%.

New Sales

The value of new sales was 56.5 million euros at the end of 2018, 16% higher than the 2016 figure.

At the end of 2018, new installations sales accounted for 7.2% of total sales (6.3% at the end of 2017).



(Millions of euros – information at fiscal year end)

Service

Consolidated Service sales totalled 550.7 million euros (545.4 million euros in 2017), representing a 1.0% increase on the 2017 figure.

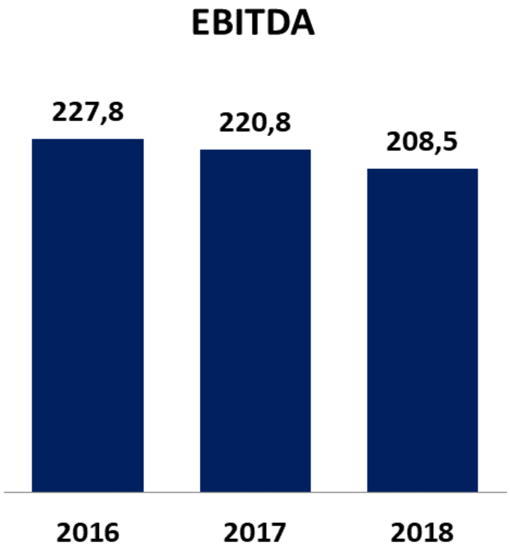
Service activity accounted for 70.2% of the Group's total billing in 2018 (70.1% in 2017).

For the fourth quarter running, Service sales rose, consolidating the change in trend noted in the preceding quarters.

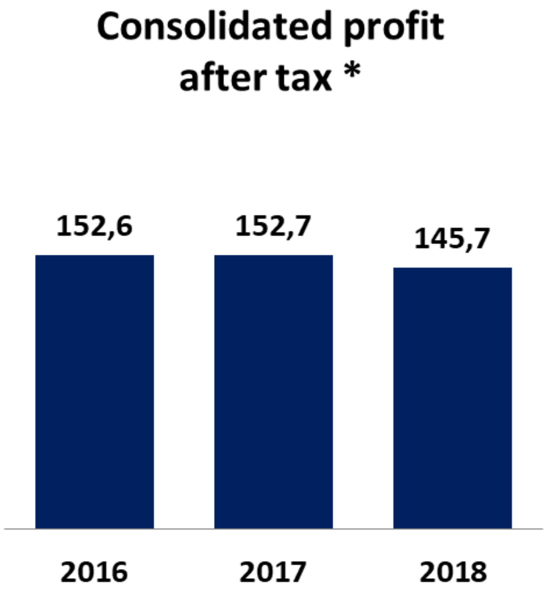
Exports. Net consolidated Export sales were 177.2 million euros (184.2 million euros in 2017), 3.8% down on the 2017 figure. The volume of Exports is beginning to recover, having risen by 5% in the fourth quarter in comparison with the same period of 2017. Even so, the work completion rate in some of the countries to which we export remains below our forecasts, leading to delays in receiving orders.

At the end of 2018, Exports represented 22.6% of the Group's consolidated sales (23.7% in 2017).

RESULTS:



(Millions of euros – information at fiscal year end)



(Millions of euros – information at fiscal year end)

EBITDA (operating profit + depreciation + amortization) at the end of 2018 was 208.7 million euros, 5.5% lower than the 2017 figure.

Consolidated profit before tax at the end of 2018 was 191.4 million euros, 4.9% lower than in 2017.

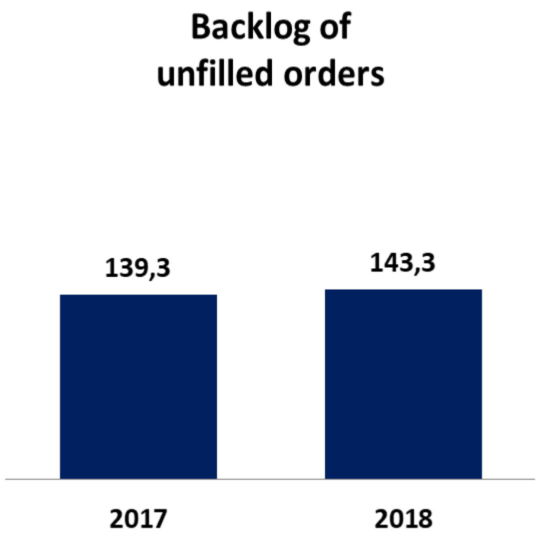
Profit after tax was 145.7 million euros, 4.6% down on the 152.7 million euros obtained in 2017.

In the second half of the 2017 period, the Group commenced a digitalization plan. The figures for the second semester of 2018 include expenses related to this process. Likewise, the price of raw materials evolved adversely, which had an impact on us in 2018.

** Consolidated profit after tax for the period on continuing activities attributable to the Company's shareholders during the 12 months of each fiscal year.*

2. OTHER KEY FIGURES:

(Millions of euros – information at fiscal year end)



(Millions of euros – information at fiscal year end)

Orders received and backlog of unfilled orders

The amount of orders received for installations at the end of 2018, including both new and existing buildings, was 189.1 million euros, showing a decrease of 4.1% on 2017.

Without considering the export orders of our Marine Division, local orders in the areas where we have activity continue to show double-digit growth.

The backlog of unfilled orders was 143.3 million euros at the end of 2018, 2.8% higher than in 2017.

Units under maintenance

We ended 2018 with 288,467 units under maintenance, representing 0.9% growth on the number of units at the end of 2017.

(*) Includes the figures for New Sales and Modernizations.

3. DIVIDENDS

The Company distributed four quarterly dividends in 2018, as follows:

Date	Gross per share	Charged to	Shares entitled to dividend	Gross total
Dividends:				
January 10	0.080 euros	3rd interim 2017	470,464,311	37,637,144.88 €
April 10	0.080 euros	1st interim 2018	470,464,311	37,637,144.88 €
July 10 (*)	0.080 euros	Charged to reserves	470,464,311	37,637,144.88 €
October 10	0.080 euros	2nd interim 2018	470,464,311	37,637,144.88 €
Total received by owners				**150,548,579.52 €**

Additionally, at its meeting of December 11, 2018, the Board of Directors of Zardoya Otis, S.A. passed a resolution to distribute the third interim dividend charged to the 2018 fiscal period, to be paid out in January 2019.

Date	Gross per share	Charged to	Shares entitled to dividend	Gross total
Dividends:				
January 10	0.080 euros	3rd interim 2018	470,464,311	37,637,144.88 €
Total received by owners				**188,185,724.44 €**

4. TREASURY STOCK

At November 30, 2017, Zardoya Otis, S.A. did not hold any treasury shares.

(*) Dividend charged to reserves approved at the General Shareholders' Meeting held on May 23, 2018.

5. FINANCIAL RISK MANAGEMENT 2018

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 adverse effects on the Company's financial profitability.

Risk management is controlled by Company Management as described in the supplementary information to the Annual Corporate Governance Report at November 30, 2017. 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.

6. SIGNIFICANT EVENTS IN THE SECOND SEMESTER OF 2018 AND AFTER THE END OF THE REPORTING PERIOD

In 2018, companies belonging to the Zardoya Otis Group (Spain) CGU acquired 100% of the shares of the companies Ascensores Limarlift S.L (April 5, 2018), Integra Ascensores SL (June 26, 2018), Elko sistemtes d´elevacion SL (September 11, 2018) and Euroascensores Alcaraz SL (November 26, 2018). All the aforementioned companies are engaged in the elevator maintenance and repair activity. Likewise, 80% of Soluciones de accessibilidad LV3 S.L. This company is engaged in the elimination of architectural barriers and providing accessibility solutions using stair lifts and platforms, all of them for a total acquisition value of EThs 14 802.

In December 2017, the merger project for the merger of the company M. Casas S.A. into Conservación A.E. Express, S.L. was carried out. Likewise, in March and May 2018, respectively, Sistemas Automáticos de Elevación S.L. and Liftsur Elevadores S.L. were merged into Ascensores Ingar S.A. Similarly, in April 2018, the company Elevadores Castalia S.A. was merged into Ascensores Pertor, S.L. All the aforementioned companies are engaged in the elevator maintenance and repair activity.

On July 19, 2018, Zardoya Otis, S.A. sold the land and facilities of its old modernizations centre located in Munguía. The impact of the gain on the disposal of property, plant and equipment on the profit for the second half of 2018 was around EThs 3 635. The Company intends to reinvest the capital gain in the new plant projected in San Sebastian.

On December 27, 2018, Zardoya Otis, S.A. acquired 100% of the shares of the company Otis-Lliset SLU for a value of EThs 4 280. This company' activity is the maintenance and repair of elevators in Andorra.

On December 11, Zardoya Otis, S.A. declared the fourth dividend in the calendar year 2018, the third charged to the profit for the period, for a gross amount of 0.08 euros per share. The result was a total gross dividend of EThs 37,637, to be paid out on January 10, 2019.

7. EXHIBIT – KEY FIGURES:

At the end of the second semester of 2018 (December 1, 2017 to November 30, 2018), the total consolidated figures and the comparison thereof with those for the 2017 period were as follows:

Key Data, 2nd Semester 2018

Consolidated figures in millions of euros

Results	*2018*	*2017*	*% variance 17/16*
EBITDA	208,7	220,8	(5,5)
Profit before tax	191,4	201,3	(4,9)
Profit after tax	145,7	152,7	(4,6)

Sales	*2018*	*2017*	*% variance 17/16*
New Installations	56,5	48,8	16,0
Service	550,7	545,4	1,0
Exports	177,2	184,2	(3,8)
Total	784,4	778,3	0,8

Orders received and backlog of unfilled orders (*)	*2018*	*2017*	*% variance 17/16*
Orders received	189,1	197,2	(4,1)
Backlog	143,3	139,3	2,8

Units under maintenance	*2018*	*2017*	*% variance 17/16*
Units under maintenance	288.467	285.840	0,9

(*) Includes New Installations and Modernizations