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Secretaria del Consejo de Administración

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Madrid, 26 de Enero de 2018

Acompañando esta carta, adjuntamos la siguiente información en inglés:

- Notes to the Interim Financial Statements for the 2nd Semester of 2017
- Quarterly Report for 2nd Semester 2017

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 2017

ZARDOYA OTIS S.A. AND SUBSIDIARIES
NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND SEMESTER OF 2017

1. Accounting policies

The accounting policies and consolidation processes applied in these consolidated interim financial statements for this six-month period are the same as those used in the consolidated annual financial statements for the annual reporting period ended November 30, 2016. The consolidated financial statements of the Group as of November 30, 2016 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, 2017 include standards that came into force during 2017 and were adopted by the Group. During the 2017 reporting period, there were no value adjustments that had a significant effect on the items of the assets, liabilities, equity, results 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 Decree 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 2017, the following transactions and changes in the consolidated Group took place:

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 Acresa Cardellach, S.L. from non-controlling interests. This transaction meant a change in Zardoya Otis, S.A.'s holding in Acresa Cardellach, S.L., which rose from 94.57% to 96.76%.

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

At the date of approval of these Notes to the interim financial statements for the second semester of 2017, Companies belonging to the CGU Zardoya Otis Group (Spain) and the CGU Zardoya Otis Group (Portugal) had acquired companies engaged in elevator maintenance and repair in Spain. This information is included in Note 7 below.

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 Group (Spain), formulated a merger project with other Group companies and, during the period, were dissolved without liquidation, the whole of their respective equities being transferred en bloc to the absorbing company.

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 consolidated statement of financial position would not have been material.

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 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, 2017.

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 7 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, 2017, there were outstanding payables in currencies other than the euro the equivalent amount of which was euros was EThs 879 (EThs 740 in 2016).

(ii) Price risk

The Group has only 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, 2017, said provision was EThs 89 041 (EThs 94 659 at November 30, 2016). 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, 2017, the Group held current deposits with financial institutions of EThs 16 034 (EThs 26 695 at November 30, 2016). 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, 2016, cash and cash equivalents were EThs 60 854 (EThs 61 070 at November 30, 2016), 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:

	2017	2016
Cash at beginning of period	**62 344**	**65 553**
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)
Cash at end of period	**60 854**	**62 344**

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, 2017 and 2016, 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.

	2017	2016
Borrowings (current and noncurrent)	323	324
Other current & noncurrent financial liabilities	6 072	13 709
Cash and cash equivalents	(60 854)	(62 344)
Net debt	(54 459)	(48 311)
Equity	440 992	437 576
Leverage (*)	**-0.15**	**-0.12**

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

At November 30, 2017, net debt represented -0.2756 (-0.2121 at the end of 2016). (EBITDA: Operating profit + depreciation + amortization).

6. Property, plant and equipment and intangible assets

In 2017, investments of EThs 4 147 and EThs 8 835 were made in property plant and equipment and intangible assets, respectively (EThs 6 360 and EThs 20 531, respectively, in 2016).

At November 30, 2017, there were purchase commitments for the acquisition of property, plant and equipment for a value of EThs 2 729 (EThs 334 in 2016), EThs 714 of which had been paid to suppliers in advance (EThs 138 in 2016).

As stated in Note 4 above, in 2017, several transactions with non-controlling interests and mergers between Group companies were carried out and had an effect on Group decision-making. In this respect, Management has assessed the way in which the Cash-Generating Units (CGUs) were assigned in preceding periods and determined that, at present, the Group's cash generation and both its financial and operational decision-making fall within three CGU's: Zardoya Otis Group (Spain), Zardoya Otis Group (Portugal) and Zardoya Otis Group (Morocco). Thus, the cash-generating units align with the financial, operational and strategic information that underlies the decision-making of the Management and directors of the Group parent.

In 2017, 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 2017 financial information, no impairment of intangible assets has been recognized.

7. Business combinations

2017:

In 2017, companies belonging to the CGU Zardoya Otis 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), both of which are engaged in elevator maintenance and repairs in Spain. Additionally, the company Otis Elevadores Lda., which belongs to the CGU Zardoya Otis Group (Portugal), acquired 100% of the shares in the companies Liftime – Elevadores Unipessoal and Joaquim Férias e Filhos – Elevadores Unipessoal, Lda. (January 1, 2017). All these companies are engaged in elevator maintenance and repair.

2016:

In 2016, companies belonging to the CGU Zardoya Otis Group (Spain) had acquired, for the sum of ETHs 19 020, 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 maintenance and repair in Spain.

8. Dividends and partial cash distribution of the share premium

Three quarterly dividends were distributed in 2017 and a partial distribution of the share premium was also paid out, as follows:

Date	Gross per Share	Charged to	Shares entitled to dividend	Gross total
Dividends:				
April 19	0.080 euros	1st interim 2017	470,464,311	37,637,144.88 €
Treasury shares			0	0
Total			470,464,311	**37,637,144.88 €**
October 10	0.080 euros	2nd interim 2017	470,464,311	37,637,144.88 €
Treasury shares				
Total			470,464,311	**37,637,144.88 €**

Partial cash distribution of share premium:

Date	Amount	No. of shares	Total
July 10	0.079 euros	470,464,311	37,166,680.57 €
Treasury shares		0	0
Total		470,464,311	**37,166,680.57 €**

Additionally, on December 12, 2017, Zardoya Otis, S.A. declared the third interim dividend charged to the 2017 profit:

Date	Gross per share	Charged to	Shares entitled to dividend	Gross total
January 10	0.080 euros	3rd interim 2017	470,464,311	37,637,144.88 €
Treasury shares			0	0
Total			470,464,311	**37,637,144.88 €**

9. Treasury shares

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

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, 2017 and 2016, 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 2017 reporting period was EThs 258 (2016: Eths 173).

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 0 (2016: EThs 0).

As of November 30, 2017:

	Current	2018	2019	Noncurrent
Borrowings from financial institutions	155	-	-	-
Other	168			
EThs	323	-	-	-

As of November 30, 2016:

	Current	2017	2018	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 condensed financial statements attached hereto shows an expense of EThs 1 978 (2015: EThs 1 378) 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:

	2017	**2016**
Current service cost	2 233	1 975
Interest cost	679	829
Expected return on plan assets	(732)	(961)
Settlements	(202)	(465)
Actuarial (gains)/losses	-	-
EThs	**1 978**	**1 378**

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, 2015	22 578	25 416
P&L impact	625	(1 535)
Impact of tax rate change	-	-
Business combinations	3	2 911
As of November 30, 2016	23 206	26 792
P&L impact	789	(3 951)
Impact of tax rate change	-	1 422
Business combinations	-	-
As of November 30, 2017	23 994	24 263

15. Events after the end of the reporting period

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

ZARDOYA OTIS, S.A

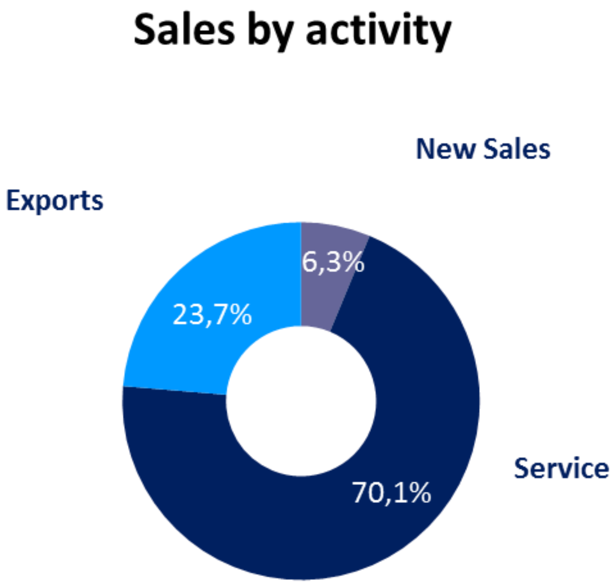
REPORT FOR THE

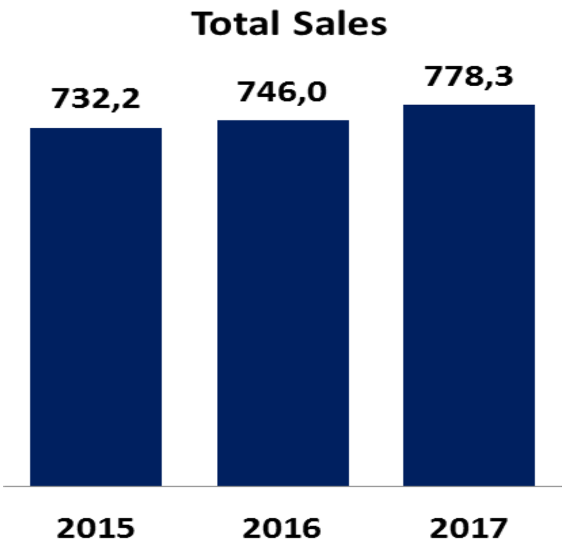
FISCAL YEAR 2017

FISCAL YEAR: DECEMBER 1, 2016 – NOVEMBER 30, 2017

1. BUSINESS EVOLUTION

SALES:





(Millions of euros – information at fiscal year end)

Total consolidated sales for 2017 were 778.3 million euros, in comparison with the 746.0 million euros obtained in 2016, representing an increase of 4.3%.

New Sales

The value of new sales was 48.8 million euros at the end of 2017, an increase of 16.8 million euros on the 2016 figure.

As in the preceding quarters of 2017, the construction segment continued to recover in the Iberian and Moroccan markets.

At the end of 2017, new installations sales accounted for 6.3% of total Sales (5.6% at the end of 2016).

Service

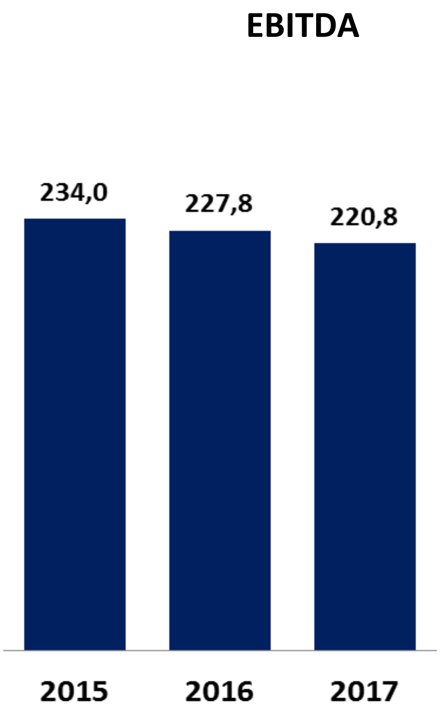
Consolidated Service sales totalled 545.4 million euros (534.4 million euros in 2016), representing a 2.0% increase on the 2016 figure.

Service activity accounted for 70.1% of the Group’s total billing in 2017 (71.6% in 2016).

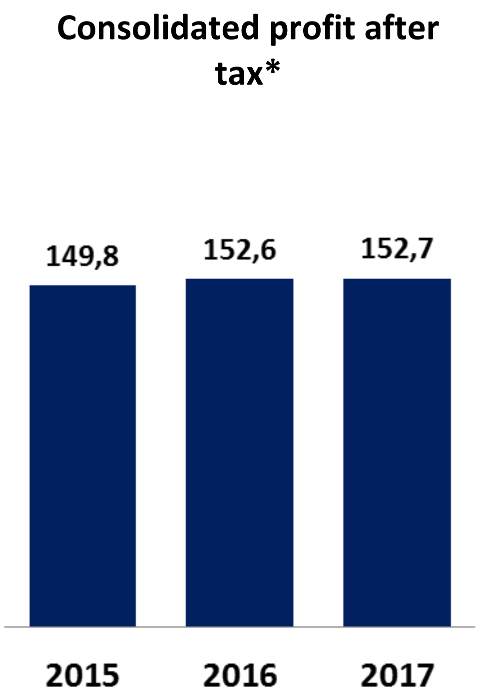
Exports. Net consolidated Export sales were 184.2 million euros (169.9 million in 2016), 8.4% up on 2016.

Exports accounted for 23.7% of the Group's consolidated sales in 2017 (22.8% in 2016).

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 2017 was 220.8 million euros, 3.1% lower than the 2016 figure.

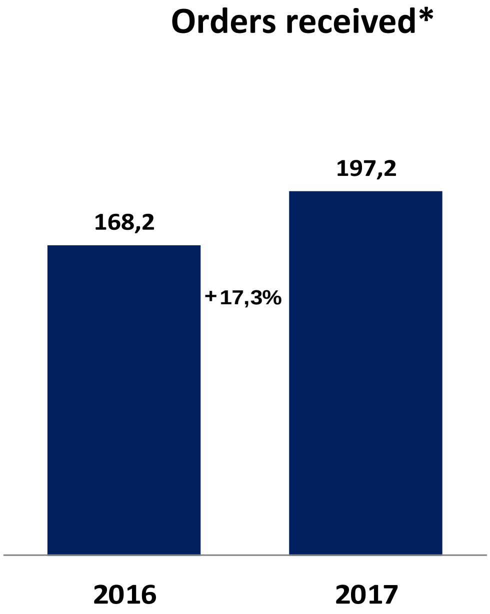
Consolidated profit before tax at the end of 2017 was 201.3 million euros, likewise 3.1% lower than the 2016 figure.

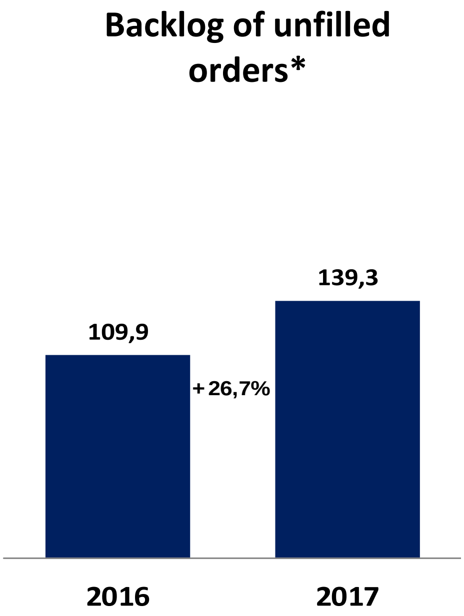
Profit after tax was 152.7 million euros, 0.1% up on the 152.8 million euros obtained in 2016.

The tax rate in Spain dropped from 28% to 25% in 2017.

** 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)

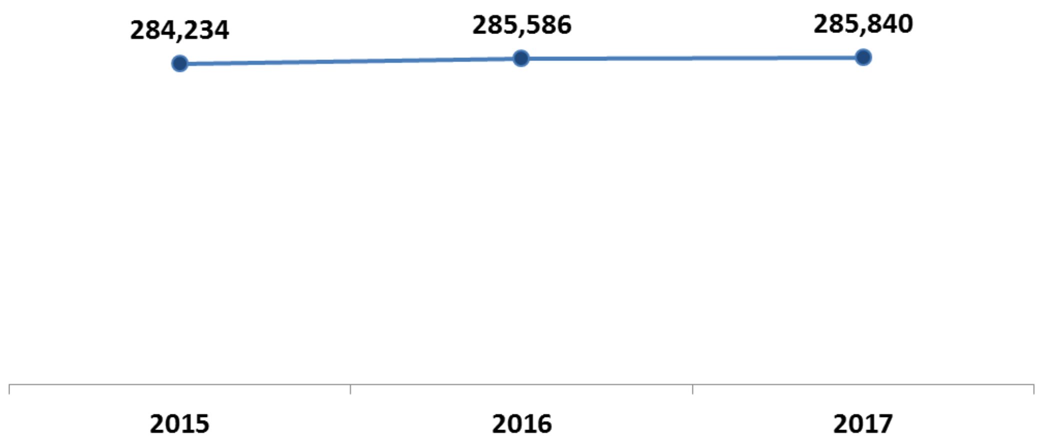
Orders received and backlog of unfilled orders

The amount of orders received for installations, including both new and existing buildings was 197.2 million euros, showing an increase of 17.3% on 2016.

The backlog of unfilled orders was 139.3 million euros at the end of 2017, 26.7% higher than the 2016 figure.

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

Units under maintenance



(Units – information at fiscal year end)

Units under maintenance

We ended 2017 with 285,840 units under maintenance, which represented an increase of 0.1% on the units under maintenance in 2016.
Excellence in our service quality has allowed us to maintain the trust placed in us by our customers.

3. DIVIDENDS

In the 2017 fiscal period, a partial distribution of the share premium was paid out and three interim dividends charged to profit for the period were distributed, as follows:

Date	Gross per share	Charged to	Shares entitled to dividend	Gross total
Dividends:				
April 10	0.080 euros	1st interim 2017	470,464,311	37,637,144.88 €
Treasury shares (*)			0	0
Total			470,464,311	37,637,144.88 €
October 10	0.080 euros	2nd interim 2017	470,464,311	37,637,144.88 €
Treasury shares (*)			0	0
Total			470,464,311	37,637,144.88 €
Partial cash distribution of share premium:				
July 10	0.079 euros	Share premium	470,464,311	37,166,680.57 €
Treasury shares (*)			0	0
Total			470,464,311	37,166,680.57 €
Total received by owners				**112,440,970.33 €**

Additionally, at its meeting of December 12, 2017, the Board of Directors of Zardoya Otis, S.A. passed a resolution to pay out the third interim dividend charged to the 2017 fiscal period.

Date	Gross per share	Charged to	Shares entitled to dividend	Gross total
Jan 10	0.080 euros	3rd interim 2017	470,464,311	37,637,144.88€
Treasury shares (*)			0	0
Total			470,464,311	37,637,144.88 €
Total to be received by owners				**150,078,115.21€**

(*) Treasury share position at the payment date of the dividend or partial cash distribution of the share premium.

4. TREASURY SHARES

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

5. SIGNIFICANT EVENTS FISCAL YEAR OF 2017 AND AFTER THE END OF THE REPORTING PERIOD

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 Acresa Cardellach, S.L. from non-controlling interests. This transaction meant a change in Zardoya Otis, S.A.'s holding in Acresa Cardellach, S.L., which rose from 94.57% to 96.76%.

In 2017, companies belonging to the CGU Zardoya Otis 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), both of which are engaged in elevator maintenance and repairs in Spain. Additionally, the company Otis Elevadores Lda., which belongs to the CGU Zardoya Otis Group (Portugal), acquired 100% of the shares in the companies Liftime – Elevadores Unipessoal and Joaquim Férias e Filhos – Elevadores Unipessoal, Lda. (January 1, 2017). All these companies are engaged in elevator maintenance and repairs.

On December 12, Zardoya Otis, S.A. declared the third interim dividend charged to the 2017 profit, for a gross amount of 0.08 euros per share. The result was a total gross dividend of EThs 37,637, which was paid out on January 10, 2018.

6. EXHIBIT – KEY FIGURES:

At the end of the second semester of 2017 (December 1, 2016 to November 30, 2017), the total consolidated figures and the comparison thereof with those for the same period of 2016 were as follows:

Key Data, 2nd Semester 2017

Consolidated figures in millions of euros

Results	*2017*	*2016*	*% variance 17/16*
EBITDA	220,8	227,8	(3,1)
Profit before tax	201,3	207,8	(3,1)
Profit after tax	152,7	152,6	0,1

Sales	*2017*	*2016*	*% variance 17/16*
New Installations	48,8	41,7	16,8
Service	545,4	534,4	2,0
Exports	184,2	169,9	8,4
Total	778,3	746,0	4,3

Orders received and backlog of unfilled orders (*)	*2017*	*2016*	*% variance 17/16*
Orders received	197,2	168,2	17,3
Backlog	139,3	109,9	26,7

Units under maintenance	*2017*	*2016*	*% variance 17/16*
Units under maintenance	285.840	285.586	0,1

(*) Includes New Installations and Modernizations