



**ZARDOYA OTIS S.A.**

**ANNUAL REPORT  
2014**



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Free translation  
of the Annual Report  
originally issued in Spanish  
for the year:  
12.1.2013 to 11.30.2014  
presented by the Board of  
Directors at the General Meeting  
of Shareholders held on May,  
25, 2014 upon the first call, or  
May 26, 2014 upon the second call.

**ANNUAL  
REPORT  
2014**

**OTIS**  
United Technologies



**MARIO ABAJO**  
Presidente

May 26, 2015

## CHAIRMAN'S REPORT

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Dear Shareholders,

First, let us remember with warmth and affection our Honorary President and founder, Mr Javier Zardoya, who, as you know, passed away on September 26, 2014. During his professional career, he adopted strategic decisions that converted a small elevator workshop in San Sebastián into the largest company in the sector in Spain.

- The industrialization of elevator manufacturing and assembly.
- The merger with Otis.
- The stock market flotation and the generous shareholder remuneration model.

It was a pleasure to watch the natural, straightforward and clear manner in which he conducted the General Shareholders' Meetings, which he prepared conscientiously, and to see how much our shareholders appreciated him. I can bear witness to this.

I learned so much from him: generosity, unseen charity, caution, persistence. We will miss both him and his son Javier very much. God rest their souls.

We have a heavy Agenda at this Meeting due to the entry into force of the Capital Companies Law of December 2014, which has meant that, among other matters, we have to appoint a new independent director and amend some articles of the Bylaws, the Regulations of the Board of Directors and the Regulations of the General Shareholders' Meeting. The Nominating Commission will now be known as the Nominating and Compensation Commission and the 2014 Annual Director Compensation Report will be submitted to a consultative ballot, among other matters.

The Spanish economy has returned to growth after 7 years of difficulties and the GDP rose by 1.4% in 2014.

In this context, our company has, as we will see, continued with the strategy it commenced in 2008, which covers the years up to 2015 and concentrates on five basic elements:

1. Priority on attention to our customers, with innovations in products and services and development of the modernization and adaptation of elevators, meaning that the service activity represented 74% of our sales in 2014.
2. Acquisition of companies in the sector, which continues to be one of our main sources of growth. In 2014, we acquired Hemen in Vitoria.
3. Cost reduction, with an austerity plan to cut expense and the adaptation of our capacity to the heavy reduction in the sales of new installations.
4. Priority attention to collection management and cash generation, which has allowed an increase in the final cash position in comparison with the preceding year, after a pay-out of 96% and settlement of the investments made.
5. Expansion of export markets. Consolidated net exports were 21.7% higher to the 2013 figure and accounted for 20.66% of total sales.

## 1. KEY DATA AT NOVEMBER 30, 2014

### • PROFIT

The consolidated profit before tax was 220.2 million euros, 0.6% up on the 218.9 million euros obtained in 2013, restated after the adoption of IAS 19.

Consolidated profit attributable to shareholders (after tax and non-controlling interests) was 154.0 million euros, 2.1% higher than in the same period of 2013.

The EBITDA fell by 1.8% in 2014.

### • SALES

Total consolidated sales for 2014 were 739.0 million euros, in comparison with the 759.2 million euros of 2013, representing a decrease of 2.7%. The contribution of the 2013 acquisition "Enor" to consolidated sales was 41.7 million euros in 2014.

#### Sales of New Installations

- **Work completed.** This totalled 39.4 million euros, showing a drop of 26.8% on the preceding year.
- **Orders received.** These were 76.9 million euros, 1.8% higher than in 2013. In this respect, it is important to note that, as we will see later, the upward trend in orders received in 2014 was maintained in the first quarter of 2015.
- **Backlog of unfilled orders.** In the second half of 2014, this was 4.2% lower than in 2013.

#### Service

- **Sales.** Total service billing was 546.9 million euros last year, 5.7% down on 2013. It was affected principally by the drop in the consumer price index and the lower volume of repairs and modernizations. As I said previously, Service now represents 74% of total billing.
- **Units under maintenance.** In 2014, the units under maintenance remained at the same levels as in 2013. The Group maintains a total of 284,418 units.

#### Exports

Consolidated net export sales were 152.7 million euros, 21.7% higher than the 2013 figure.

Exports represented 20.66% of group consolidated sales in 2014 (16.53% in 2013).

### • DIVIDENDS

In line with the results obtained, while maintaining our policy of remunerating the shareholder with a pay-out of close to 100%, we paid 3 quarterly dividends, supplemented with the partial cash distribution of the share premium. Together, these totalled 147.2 million euros, representing a pay-out of 95.6% and a reduction of 0.3% on the amount paid in the preceding year.

## • CAPITAL INCREASES

In July 2014, a new capital increase took place with a ratio of one new share for every 25 old shares. It was a bonus issue charged to the voluntary reserve and was for a total amount of 1,672,964.20 euros. This was our 35th bonus issue.

The new shares were listed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges effective September 12, 2014.

## • ACQUISITION OF TREASURY STOCK

At November 30, 2013, the Company held 29,176 of its own shares with an acquisition value of 250,938 euros. After using part of them (18,500 shares) in January 2014 to acquire 8.33% of Admotion, it currently holds 11,103 of its own shares, which have an acquisition value of 91,822 euros.

## 2. STOCK MARKET DATA AT DECEMBER 31, 2014

### • CAPITAL DATA

As a result of the capital increases mentioned previously, 16,729,642 new shares were issued in July 2014 and the share capital rose to 43,497,070.20 euros, represented by 434,970,702 shares with a par value of 0.10 euros each. The new shares were listed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges effective September 12, 2014.

### • PROFIT PER SHARE

The profit per share was 0.354 euros in 2014.

The profit per share dropped by 1.9%. If we consider the profit per share adjusted by the capital increase, it increased by 2.1%.

### • DIVIDEND AND PARTIAL CASH DISTRIBUTION OF THE SHARE PREMIUM PER SHARE

This was 0.352 euros per share, with a reduction of 0.3% on the preceding year. This figure is adjusted by the capital increase.

### • STOCK MARKET PRICE

At December, 31, 2014, the ZARDOYA OTIS share was quoted at 9.20 euros, which represented a fall of 27.2% on the preceding year's price adjusted by the previous year's capital increases. In the same period, the IBEX rose by 3.7%.

### • TRADING FIGURES

The effective value traded on the Stock Exchange was 1,494 million euros, an increase of 116.21% on the 691 million euros of 2013.

### • STOCK MARKET RATIOS

|         |       |
|---------|-------|
| PER     | 26.0  |
| Pay-Out | 95.6% |



### **3. OTHER INFORMATION**

On January 9, 2015, Zardoya Otis, S.A. was informed of the end of the syndication agreement that had been put in place between its two main shareholders, United Technologies Holdings, S.A.S. and Euro-Syns, S.A., on August 3, 2012 within the framework of the transaction to acquire Grupo Ascensores Enor, S.A.. The syndication agreement was to conclude on the date on which UTC became the owner of shares representing 50.01% or more of the company's share capital, which UTH notified to the National Stock Market Commission on January 12, 2015 in the pertinent notification of a significant shareholding.

### **4. BUSINESS EVOLUTION IN THE FIRST QUARTER OF 2015**

#### **Sales**

Total consolidated sales for the first quarter of 2015 were 176.8 million euros, showing a 2.9% decrease on those obtained in the first quarter of 2014.

In New Installations, the work completed of 8.4 million euros was 10.9% down on that of the first quarter of 2014.

Service Sales totalled 132.6 million euros, with a 2.7% drop in comparison with the first quarter of 2014, principally affecting the volume of repairs and modernizations.

Net consolidated Export Sales were 35.8 million euros, similar to the previous year's figure.

#### **Profit and Loss**

The EBITDA in the first quarter of 2015 was 54.3 million euros, in comparison with the 61.5 million euros obtained in 2014, representing a decrease of 10.3%.

Consolidated profit before tax totalled 49,000 million euros in the first quarter of 2015, 12.5% lower than last year's 55.7% million euros.

Profit after tax was 33.9 million euros, a drop of 12.5% on the 38.7 million euros obtained in the same period of 2014.

The percentage decrease in the results is principally due to a lower maintenance margin and an increase in the volume of elevator sales in previously-existing buildings, which affects the total Service margin.

#### **Orders received for New Installations**

Orders received for New Installations in the first quarter, for both new buildings and already-existing ones, was 20.3 million euros, representing an increase of 30.4% on the same period in 2014, representing the consolidation of the upward trend that could be seen in the preceding quarter.

The backlog of unfilled orders in 2015 is 74.8 million euros, showing a 2.0% increase on the same period of the preceding year.

In the first quarter of 2015, the elevator installation activity contributed 8.6% of total consolidated sales.

#### **Units under maintenance**

In the first quarter of 2015, units under maintenance remained at the same level as in the first quarter of 2014. The Group has a total of 283,348 units under maintenance

- **KEY DATA**

At the end of the first quarter of the 2015 fiscal year (December 1, 2014 – February 28, 2015, the total consolidated figures and the comparison with those of the preceding year were as follows:

*(Consolidated figures in millions of euros)*

| <b>Profit and Loss</b>  | <b>2015</b>  | <b>2014</b>  | <b>% var. 15/14</b> |
|-------------------------|--------------|--------------|---------------------|
| EBITDA                  | 54.3         | 60.5         | (10.3)              |
| Profit before tax       | 49.0         | 55.7         | (12.0)              |
| Profit after tax        | 33.9         | 38.7         | (12.5)              |
| <b>Sales</b>            | <b>2015</b>  | <b>2014</b>  | <b>% var. 15/14</b> |
| New Sales               | 8,4          | 9,4          | (10,9)              |
| Service                 | 132,6        | 136,3        | (2,7)               |
| Exports                 | 35,8         | 36,3         | (1,3)               |
| <b>Total</b>            | <b>176.8</b> | <b>182.0</b> | <b>(2.9)</b>        |
|                         | <b>2015</b>  | <b>2014</b>  | <b>% var. 15/14</b> |
| Orders received         | 20.3         | 15.6         | 30.4                |
| Unfilled orders         | 74.8         | 73.4         | 2.0                 |
| Units under maintenance | 283,348      | 283,572      | (0.1)               |

- **DIVIDENDS**

On March 24, 2015, Zardoya Otis, S.A. declared its first interim dividend charged to the 2015 profit, payable on April 10, 2015, for a gross amount of 0.085 euros per share, resulting in a total amount of 36,972 thousand euros.

At this General Meeting, we will approve the payment of 0.08 euros per share to be paid on June 10, 2015 in the form of a cash distribution of the share premium and, immediately afterwards, a bonus issue of 1 new share for every 25 old shares, charged to reserves.

And, on behalf of the Board of Directors and on my own behalf, I conclude by expressing our deep gratitude to:

- Our customers, without whom we would not exist
- All those who work for and collaborate with our Group, without whose effort and dedication we would not be what we are
- Our shareholders, assuring you that we will do everything possible to maintain the trust you have placed in us

Kind regards

Mario Abajo Garcia





# KEY DATA AT NOVEMBER 30



(Fiscal year end)

(Consolidated figures in millions of euros)

| ANNUAL RESULTS    | 2014  | 2013* | 2012  | 2011  | 2010  | % variance over prior year |        |       |       |
|-------------------|-------|-------|-------|-------|-------|----------------------------|--------|-------|-------|
|                   |       |       |       |       |       | 14/13                      | 13/12  | 12/11 | 11/10 |
| Profit before tax | 220.2 | 218.9 | 261.0 | 276.1 | 291.8 | 0.6                        | (16.1) | (5.5) | (5.4) |
| Profit before tax | 154.0 | 150.8 | 181.1 | 194.0 | 205.1 | 2.1                        | (16.7) | (6.7) | (5.4) |
| EBITDA            | 242.6 | 247.0 | 278.0 | 289.2 | 305.5 | (1.8)                      | (11.1) | (3.9) | (5.3) |
| Cash-Flow         | 176.2 | 177.8 | 197.9 | 209.2 | 221.0 | (0.9)                      | (10.2) | (5.4) | (5.3) |
| Dividends paid    | 147.2 | 147.7 | 176.7 | 191.5 | 194.3 | (0.3)                      | (16.4) | (7.7) | (1.5) |

(\*) Restated figures in application of NIC 19-R

| SHAREHOLDERS' EQUITY    | 2014  | 2013* | 2012  | 2011  | 2010  | % variance over prior year |       |       |       |
|-------------------------|-------|-------|-------|-------|-------|----------------------------|-------|-------|-------|
|                         |       |       |       |       |       | 14/13                      | 13/12 | 12/11 | 11/10 |
| Capital y Reserves (**) | 412.1 | 407.1 | 238.5 | 229.5 | 244.0 | 1.2                        | 70.7  | 3.9   | (6.0) |

(\*) Restated figures in application of NIC 19-R

(\*\*) Includes Treasury Stock

| SALES DATA                     | 2014  | 2013  | 2012   | 2011   | 2010   | % variance over prior year |        |        |        |
|--------------------------------|-------|-------|--------|--------|--------|----------------------------|--------|--------|--------|
|                                |       |       |        |        |        | 14/13                      | 13/12  | 12/11  | 11/10  |
| New installations              | 39.4  | 53.8  | 74.3   | 93.7   | 115.5  | (26.8)                     | (27.5) | (20.7) | (18.8) |
| Service                        | 546.9 | 579.9 | 602.8  | 631.0  | 666.7  | (5.7)                      | (3.8)  | (4.5)  | (5.3)  |
| Total Exports                  | 160.5 | 133.4 | 144.6  | 109.2  | 94.4   | 20.4                       | (7.8)  | 32.4   | 15.7   |
| Export to Portugal (*)         | (7.9) | (7.9) | (12.5) | (14.8) | (13.7) | (0.1)                      | (37.0) | (15.8) | 8.1    |
| Net Exports (without Portugal) | 152.7 | 125.5 | 132.1  | 94.3   | 80.6   | 21.7                       | (5.0)  | 40.0   | 17.0   |
| Total                          | 739.0 | 759.2 | 809.1  | 819.1  | 862.8  | (2.7)                      | (6.2)  | (1.2)  | (5.1)  |

(\*) Deducted as they are already included in consolidated sales.

| NEW INSTALLATIONS | 2014 | 2013 | 2012 | 2011 | 2010  | % variance over prior year |       |        |        |
|-------------------|------|------|------|------|-------|----------------------------|-------|--------|--------|
|                   |      |      |      |      |       | 14/13                      | 13/12 | 12/11  | 11/10  |
| Orders received   | 76.9 | 75.5 | 78.6 | 90.4 | 114.1 | 1.8                        | (3.8) | (13.1) | (20.8) |
| Backlog           | 72.8 | 76.1 | 66.6 | 87.6 | 107.6 | (4.2)                      | 14.2  | (24.0) | (18.5) |

| SERVICE DATA            | 2014    | 2013    | 2012    | 2011    | 2010    | % variance over prior year |       |       |       |
|-------------------------|---------|---------|---------|---------|---------|----------------------------|-------|-------|-------|
|                         |         |         |         |         |         | 14/13                      | 13/12 | 12/11 | 11/10 |
| Units under maintenance | 284,418 | 284,940 | 270,082 | 268,915 | 268,147 | (0.2)                      | 5.5   | 0.4   | 0.3   |
| Maintenance centers     | 371     | 372     | 375     | 364     | 374     | (0.3)                      | (0.8) | 3.0   | (2.7) |

| PLANTILLA      | 2014  | 2013  | 2012  | 2011  | 2010  | % variance over prior year |       |       |       |
|----------------|-------|-------|-------|-------|-------|----------------------------|-------|-------|-------|
|                |       |       |       |       |       | 14/13                      | 13/12 | 12/11 | 11/10 |
| Total manpower | 5,137 | 5,399 | 5,332 | 5,425 | 5,602 | (4.9)                      | 1.3   | (1.7) | (3.2) |



# STOCK MARKET DATA AT DECEMBER 31



(euros)

| SHARE CAPITAL                                  | 2014        | 2013*       | 2012        | 2011        | 2010        |
|--|-------------|-------------|-------------|-------------|-------------|
| Amortized shares                               |             |             |             |             |             |
| Number of shares before share capital increase | 418,241,060 | 385,241,499 | 366,896,666 | 349,425,397 | 332,786,093 |
| Number of shares (Non-monetary contribution)   | 0           | 16,913,367  |             |             |             |
| Splits   | -           | -           | -           | -           | -           |
| Share capital increase (bonus) ratio           | 1x25        | 1x25        | 1x20        | 1x20        | 1x20        |
| Number of shares at December 31                | 434,970,702 | 418,241,060 | 385,241,499 | 366,896,666 | 349,425,397 |
| Par value                                      | 0.10        | 0.10        | 0.10        | 0.10        | 0.10        |
| Share capital (millions)                       | 43.5        | 41.8        | 38.5        | 36.7        | 34.9        |

(\*) Restated figures in application of NIC 19-R

| PROFIT PER SHARE                    | 2014  | 2013*  | 2012  | 2011  | 2010  |
|-------------------------------------|-------|--------|-------|-------|-------|
| Profit after tax                    | 0.354 | 0.361  | 0.470 | 0.529 | 0.587 |
| P.A.T. adjusted by capital increase | 0.354 | 0.347  | 0.416 | 0.446 | 0.471 |
| Adjusted P.A.T. Variance %          | 2.1   | (16.7) | (6.7) | (5.4) | 1.5   |
| EBITDA per share                    | 0.558 | 0.591  | 0.722 | 0.788 | 0.874 |
| EBITDA adjusted by capital increase | 0.558 | 0.568  | 0.639 | 0.665 | 0.702 |
| Adjusted EBITDA variance %          | (1.8) | (11.1) | (3.9) | (5.3) | 2.0   |

(\*) Restated figures in application of NIC 19-R

| DIVIDEND PER SHARE*                   | 2014   | 2013    | 2012   | 2011   | 2010   |
|---------------------------------------|--------|---------|--------|--------|--------|
| Dividend per share                    | 0.352  | 0.367   | 0.482  | 0.548  | 0.584  |
| Dividend adjusted by capital increase | 0.352  | 0.353   | 0.424  | 0.460  | 0.467  |
| % variance adjusted dividend          | (0.31) | (16.81) | (7.74) | (1.48) | (1.89) |

(\*) Calculated with dividends charged to F.Y. and partial distribution of share premium, with number of shares on December 31 th

| PRICE PER SHARE                          | 2014   | 2013  | 2012  | 2011  | 2010   |
|--|--------|-------|-------|-------|--------|
| Price                                    | 9.20   | 13.15 | 10.80 | 10.60 | 10.54  |
| Price adjusted by share capital increase | 9.20   | 12.64 | 9.57  | 8.94  | 8.47   |
| % adjusted price variance                | (27.2) | 32.2  | 7.0   | 5.6   | (18.7) |

| ANNUAL YIELD OF ONE SHARE (%) (*) | 2014     | 2013   | 2012   | 2011   | 2010     |
|-----------------------------------|----------|--------|--------|--------|----------|
| Dividend                          | 2.667    | 3.400  | 4.542  | 5.199  | 4.291    |
| Increase in market value          | (27.240) | 32.189 | 6.981  | 5.598  | (18.685) |
| Total                             | (24.563) | 35.589 | 11.524 | 10.797 | (14.394) |

(\*) Calculated with dividends charged to F.Y. and partial distribution of share premium, for a share owned on January 1st and valued at last price on December 31 th

| TRADING DATA                      | 2014  | 2013  | 2012  | 2011  | 2010  |
|-----------------------------------|-------|-------|-------|-------|-------|
| Market capitalization (millions)  | 4,002 | 5,500 | 4,161 | 3,889 | 3,683 |
| Trading frequency (%)             | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Effective value traded (millions) | 1,494 | 691   | 570   | 831   | 1,167 |

| STOCK MARKET RATIOS                     | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|------|------|------|------|------|
| PER (Price/net profit: number of times) | 26.0 | 36.5 | 23.0 | 20.0 | 18.0 |
| Pay-out % (Dividends paid / net profit) | 95.6 | 97.9 | 97.6 | 98.7 | 94.8 |

| STOCK MARKET RATIOS  | 2014    | 2013    | 2012    | 2011    | 2010    |
|--|---------|---------|---------|---------|---------|
| <b>Zardoya Otis, S.A.</b>  |         |         |         |         |         |
| Market capitalization at December 31 (€ Millions)                            | 4,002   | 5,500   | 4,161   | 3,889   | 3,683   |
| Market capitalization at January 1, 1990 (€ Millions))<br>(Start of IBEX-35) | 331     | 331     | 331     | 331     | 331     |
| Market capitalization variance since January 1, 1990                         | 3,670   | 5,168   | 3,829   | 3,558   | 3,352   |
| % Variance market capitalization since January 1, 1990                       | 1,107.6 | 1,559.6 | 1,155.5 | 1,073.6 | 1,011.4 |
| % inter-annual variance market capitalization                                | (27.2)  | 32.2    | 7.0     | 5.6     | (18.7)  |
| <b>IBEX-35</b>   |         |         |         |         |         |
| IBEX-35 at December 31   | 10,280  | 9,917   | 8,168   | 8,566   | 9,859   |
| IBEX-35 at start (January 1, 1990)   | 3,000   | 3,000   | 3,000   | 3,000   | 3,000   |
| Variance IBEX-35 since January 1, 1990                                       | 7,280   | 6,917   | 5,168   | 5,566   | 6,859   |
| % Variance IBEX-35 since January 1, 1990                                     | 242.7   | 230.6   | 172.3   | 185.5   | 228.6   |
| % inter-annual variance IBEX-35  | 3.7     | 21.4    | (4.7)   | (13.1)  | (17.4)  |



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# MANAGEMENT REPORT OF ZARDOYA OTIS

(Consolidated Accounts fiscal year 2014)  
(thousands of euros)



## PRESENTATION OF THE ANNUAL FINANCIAL STATEMENTS

The consolidated annual financial statements of the Zardoya Otis Group at November 30, 2014 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.





## PROFIT AND LOSS

The consolidated profit before tax at the 2014 year end was 220.2 million euros, with a 0.6% increase in respect of 218.9 million euros obtained in 2013 after the impact of NIC 19 adoption.

The EBITDA amount (operating profit + depreciation + amortization) in 2014 was 242.6 million euros, 1.8% lower to the 247.0 million achieved in 2013.

The consolidated profit after tax attributable to shareholders (net profit after non-controlling interest) was 154.0 million euros, 2.1% more to that of 2013, affected by the re-calculation of deferred taxes as a consequence of the enforcement of Law 27/2014 on Corporate Income Tax.

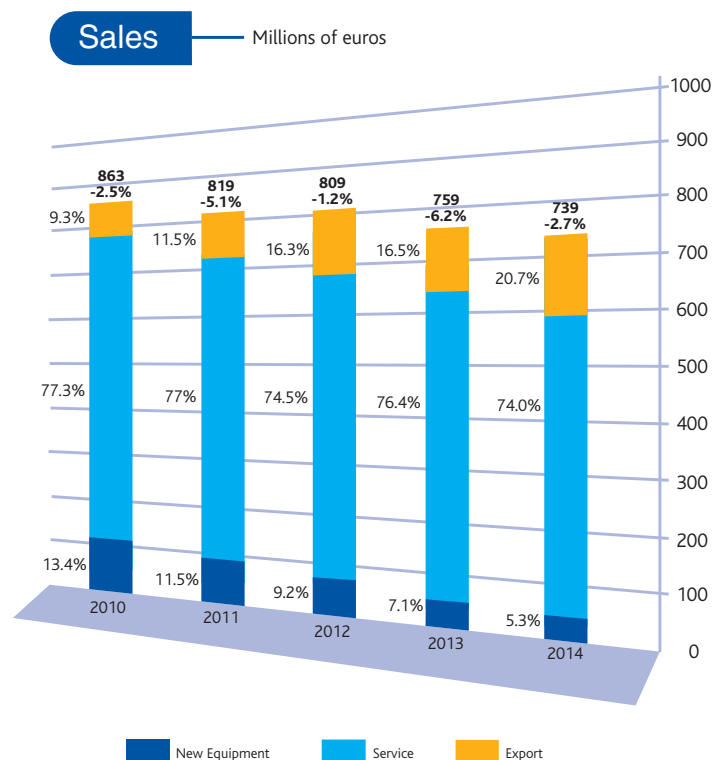
The consolidated Cash Flow (net profit + depreciation + amortization) at the end of 2014 was 176.2 million euros, 0.9% lower to that of 2013.

In 2013 figures included the consolidation as of February of the results of the Enor group; in the fiscal year 2014 Enor contributes with a profit before taxes of 9.0 million euros and an additional assets amortization of 3.9 million euros.

## TOTAL SALES

The total consolidated sales figure reached 739.0 million euros, in comparison with the 759.2 million euros of 2013, or a drop of 2.7%.

The contribution of the 2014 sales of Enor group to the consolidated sales was 41.7 million euros.





## NEW SALES

**Work completed:** The value of work completed in 2014 was 39.4 million euros, lower by 26.8% in relation to 2013, consequence of the already known lower activity in the construction sector in general and especially in residential construction.

In 2014, New Sales represented 5.30% of total billing (7.09% in 2013).

**Orders received:** The amount obtained in 2014 for orders received of New Installations, was 76.9 million euros, 1.8% above the figure obtained in 2013.

**Backlog of unfilled orders,** the backlog of unfilled orders at the end of 2014 decreases by 4.2% over 2013, reaching the figure of 72.8 million euros.

## SERVICE

**Sales:** Overall consolidated Service sales were 546.9 million euros, 5.7% less than in 2013, mainly affected by the moderation of level of consumer prices and the lower volume of completed modernization and repair projects

Service activity represented in 2014, 74.0% of total Group revenue.

### Units under maintenance of the Zardoya Otis Group:

In 2014 the number of units ended in line with the preceding year. In total, the maintenance portfolio reached by the Group is 284.418 units after the integration of the Enor group units.

## EXPORTS

Sales totalled 152,7 million euros, with an increase of 21.7% on the figure obtained last year. In 2014, exports represented 20.66% of the Group's total consolidated revenue (16.53% in 2013).

## EMPLOYEE HEADCOUNT

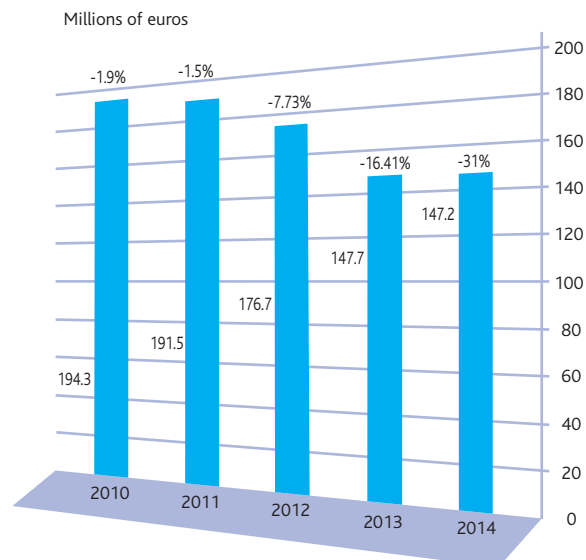
At the end of 2014, Zardoya Otis Group employees were 5,137, which represent a decrease of 4.9%, compared with 2013.



# DIVIDENDS

Dividends and distribution of share Premium in 2014 were:

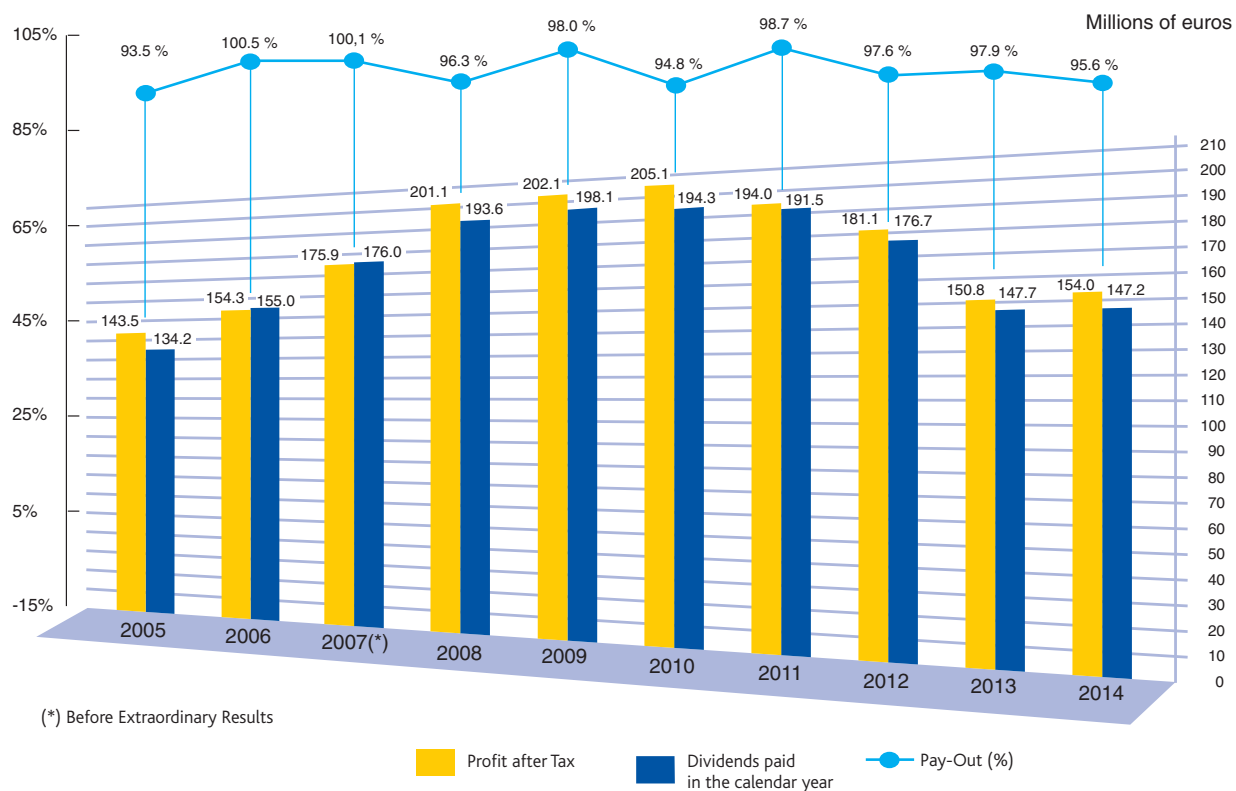
| Data                                | Gross per Share | Charged to Shares entitled to the dividend | Total Gross Dividend    |
|-------------------------------------|-----------------|--|-------------------------|
| 10 April                            | 0.100 euros     | 1 <sup>st</sup> a cta. 2014                | 402,154,866             |
| 10 July                             | 0.080 euros     | Distribution of share Premium              | 402,154,866             |
| 10 October                          | 0.090 euros     | 2 <sup>nd</sup> a cta. 2014                | 418,241,060             |
| 12 January                          | 0.090 euros     | 3 <sup>rd</sup> a cta. 2014                | 418,241,060             |
| <b>TOTAL DIVIDENDS PAID IN 2014</b> |                 |  | <b>147,220,853.05 €</b> |



At November 30, 2014, interim dividends were declared for the year ended on said date for an amount of EThs 76 787 (EThs 77 850 in 2013). These interim dividends were paid for shares 1 to 418,241,060 (1st and 2nd interim dividend). Additionally share premium was distributed partially to shares 1 to 418,241,060 on July 10, 2014, for an amount of Eths 33 459. Thus the total number of shares entitled to dividends rose excluding the treasury stock.

Dividends and partial distribution of share premium declared in 2014 totalled 147.2 million euros, with a reduction of 0.3% in comparison with the preceding year and represent a pay-out of 95.6% of the consolidated profit for the year attributable to shareholders of Zardoya Otis, S.A, continuing with the Company's policy of distributing to shareholders an amount close to a 100% pay-out.

## PROFIT AFTER TAX VS. DIVIDENDS PAID IN THE CALENDAR YEAR (PAY-OUT %)





## CAPITAL INCREASE

The capital increase approved by the General Meeting of Shareholders on May 26, 2014 -by means of bonus shares in the proportion of one new share for each twenty five old outstanding ones- took place from July 15, 2014 until July 30, 2014.

Once the Share Capital increase has been completed, the Capital Stock is 43,497,070.20 Euros, is represented by 434,970,702 ordinary shares, with a par value of 0.10 euros each.

The new shares were authorized for trade on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, on September 12, 2014.

## TREASURY STOCK

As of November, 30 2014 Zardoya Otis, S.A maintain 11.103 treasury shares (29.176 at 2013 year-end). The above mentioned figure includes 427 shares received in the bonus issue.



# EVOLUTION OF ZARDOYA OTIS ON THE STOCK MARKET

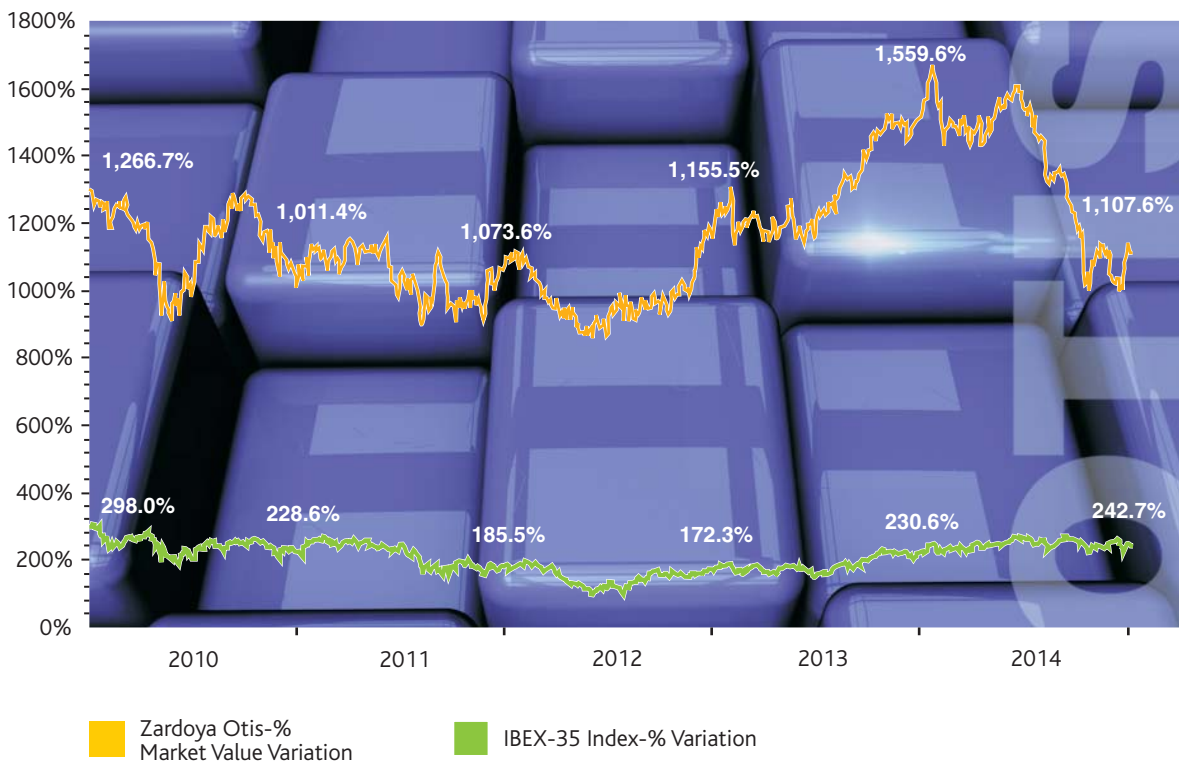
The quoted price at the 2014 year end was 9.20 euros per share, which meant an decrease in value of 27.2 %, compared to the adjusted price of 2013, while the IBEX value went increase by 3.7 %.

The share price is adjusted for comparative purpose as a consequence of the 1 x 25 bonus issue that took place in July 2014.



## STOCK INDEXES-% OF VARIATION

Base 100 = 1 / 1 / 1990 (Starting IBEX-35)



# HISTORICAL STOCK MARKET DATA



(euros)

## Shares price

| Year   | Capital increase and Splits | Last Price | Adjusted Price | Variance % | P.E.R.   | Pay-Out % | Market Capitalization (Millions) |
|--------|-----------------------------|------------|----------------|------------|----------|-----------|----------------------------------|
| dec-74 |                             | 37.68      | <b>0.03</b>    |            | 14.3     |           | 13.3                             |
| dec-90 |                             | 63.71      | <b>0.81</b>    | 5.7        | 13.8     | 80.1      | 350.2                            |
| dec-91 | 1 x 5                       | 61.30      | <b>0.93</b>    | 15.5       | 14.0     | 75.5      | 404.4                            |
| dec-92 |                             | 52.23      | <b>0.79</b>    | (14.8)     | 11.0     | 79.8      | 344.6                            |
| dec-93 | 1 x 10                      | 81.74      | <b>1.36</b>    | 72.2       | 17.0     | 80.8      | 593.1                            |
| dec-94 | 1 x 10                      | 82.28      | <b>1.51</b>    | 10.7       | 17.4     | 57.4      | 656.8                            |
| dec-95 | 1 x 10                      | 79.63      | <b>1.61</b>    | 6.5        | 17.0     | 98.4      | 699.2                            |
| dec-96 | 1 x 10                      | 90.75      | <b>2.02</b>    | 25.4       | 19.5     | 100.8     | 876.5                            |
| dec-97 | 1 x 10                      | 106.68     | <b>2.61</b>    | 29.3       | 22.0     | 80.8      | 1,133.4                          |
| dec-98 | split 5 x 1 and 1 x 6       | 26.62      | <b>3.79</b>    | 45.6       | 28.9     | 84.7      | 1,649.8                          |
| dec-99 | split 2 x 1 and 1 x 10      | 9.77       | <b>3.06</b>    | (19.3)     | 21.2     | 89.9      | 1,332.1                          |
| dec-00 | 1 x 10                      | 9.35       | <b>3.22</b>    | 5.3        | 19.7     | 94.0      | 1,402.3                          |
| dec-01 | 1 x 10                      | 10.42      | <b>3.92</b>    | 21.5       | 20.7     | 90.8      | 1,703.6                          |
| dec-02 | 1 x 10                      | 12.55      | <b>5.16</b>    | 31.8       | 22.9     | 88.9      | 2,245.2                          |
| dec-03 | 1 x 10                      | 16.50      | <b>7.47</b>    | 44.6       | 28.0     | 87.4      | 3,247.1                          |
| dec-04 | 1 x 10                      | 18.87      | <b>9.39</b>    | 25.8       | 31.2     | 91.7      | 4,084.9                          |
| dec-05 | 1 x 10                      | 21.40      | <b>11.72</b>   | 24.7       | 35.5     | 93.5      | 5,095.8                          |
| dec-06 | 1 x 10                      | 22.98      | <b>13.84</b>   | 18.1       | 39.0     | 100.5     | 6,019.2                          |
| dec-07 | 1 x 10                      | 19.37      | <b>12.83</b>   | (7.3)      | 31.7 (*) | 100.1(*)  | 5,581.0                          |
| dec-08 | 1 x 10                      | 12.69      | <b>9.25</b>    | (27.9)     | 20.0     | 96.3      | 4,022.0                          |
| dec-09 | 1 x 20                      | 13.61      | <b>10.41</b>   | 12.6       | 22.4     | 98.0      | 4,529.2                          |
| dec-10 | 1 x 20                      | 10.54      | <b>8.47</b>    | (18.7)     | 18.0     | 94.8      | 3,682.9                          |
| dec-11 | 1 x 20                      | 10.60      | <b>8.94</b>    | 5.6        | 20.0     | 98.7      | 3,889.1                          |
| dec-12 | 1 x 20                      | 10.80      | <b>9.57</b>    | 7.0        | 23.0     | 97.6      | 4,160.6                          |
| dec-13 | 1 x 25                      | 13.15      | <b>12.64</b>   | 32.2       | 36.5     | 97.9      | 5,499.9                          |
| dec-14 | 1 x 25                      | 9.20       | <b>9.20</b>    | (27.2)     | 26.0     | 95.6      | 4,001.7                          |

(\*) Without Extraordinary Result

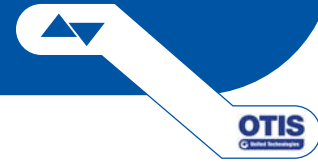




In 2014 has continued the decrease in sales as a result of the general economic environment and in particular in the difficulties in the construction sector. Therefore, the backlog of unfilled orders is 1.8% increase than last year, while in Service the reduction in sales is only 5.7%.

At the end of 2014, New Installation sales represented only 5.3% of total while the principal activity, Service accounted for 74.0% of the total and Exports with a strong increase of 20.66%.





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.

In note 3 of the account of the year 2014 is presented the information with the following risks:

- a) market risk:
  - a. risk of exchange
  - b. rate risk of price
  - c. risk of interest rate flows of cash and the fair value
- b) risk of credit
- c) risk of liquidity
- d) risk of the capital

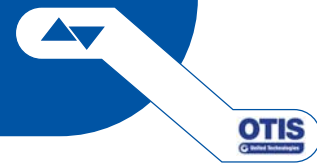
The Audit Committee is responsible for periodically reviewing the internal control and risk management systems, so that the main risks are properly identified, managed and disclosed, through control devices that allow the main potential risks of the Company and its Group to be evaluated and the evaluation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

Also, 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. Management assesses and hedges financial risks in close collaboration with the Group's operating units

The Group has no significant concentrations of risk with customers and there are no significant old credit balances, nevertheless given the deterioration in the 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.

## SIGNIFICANT EVENTS AT NOVEMBER 30, 2014



In January, 2014 Zardoya Otis, S.A. acquired the remaining 8.33% of the non-controlling interest of the company Admotion, S.L., thus completing the 100% ownership of such company. The payment was done using the treasury stock (18.500 shares).

In May 2014, the subsidiary Acresa Cardellach, S.L. carried out a capital increase through a non-monetary contribution of EThs 8.084 which was subscribed by the entirety of the shareholders of the subsidiary Montoy S.L., which after the capital increase is 100% owned by Acresa Cardellach, S.L.. This transaction resulted in a change of participation by Zardoya Otis, S.A. in the mentioned subsidiary Acresa Cardellach S.L. holding directly the 94,57% of shares and indirectly the same percentage on Montoy S.L.

In June, 2014 Zardoya Otis, S.A. acquired 3.66% of the non-controlling interest of the company Puertas Automáticas Portis SL., for an amount of Eths 1.432, this transaction represents a change in the Zardoya Otis S.A. participation that increases to 93.83% ownership of such company.

In September 2014, Zardoya Otis, S.A. has acquired 90% of the share capital of Electromecánica Hemen Elevadores, S.L. and 100% de Ascensores Hemen, S.L., both companies dedicated to the maintenance and repair of elevators in the provinces of Álava, Guipúzcoa, Burgos and Navarra. The total cost of the business combination has been determined provisionally in EThs 9 888



The Group has adopted in 2014 retrospectively the modified IAS 19. Its effect is the elimination of the corridor approach and the recognition of actuarial losses and gains when they arise; therefore, net equity as of November 30, 2013 increases by Eths 11.823 corresponding to the initial recognition of the actuarial gains as mentioned of Eths 12.884, and the effect of the recognition of the actuarial gains and retained generated in the fiscal year 2013 for Eths 1.061 and a reduction in profit of the year for an amount of EThs 6.205.

The enforcement of Law 27/2014 on Corporate Income Tax requires the re-estimate of the figures registered by the Group with an impact of a reduction in deferred tax assets of EThs 3 907 and a reduction of deferred tax liabilities of EThs 5 157.

## **S**IGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

On December 10, 2014 Zardoya Otis, S.A declared the third dividend corresponding to 2014, third on account of the fiscal year profit, for an amount of 0.085 Euros gross per share, resulting in a total dividend gross of EThs. 36.972 (Note 8). Payment of the dividend was done on January 12, 2015.

In December 2014 the subsidiary Puertas Automaticas Portis, S.L. acquired 1.06% of the non-controlling interest of its own shares for an amount of Eths 394. These own shares were amortized by means of a capital reduction at the same date. The transaction represents a change in the Zardoya Otis S.A. participation that increases from 93.83% to 94.83% ownership of such company.

In January 2015, Zardoya Otis, S.A. was informed of the conclusion of the syndication agreement concluded in the frame of the Enor transaction between the two major shareholders of the company: United Technologies Holdings, S.A.S. and Euro Syns, S.A. on August 3, 2012. The syndication agreement should end on the date in which UTC owns shares representing 50.01% or more of the share capital of the company, which has been notified on 12 January 2015 by UTH to the "Comision Nacional del Mercado de Valores" by means of the corresponding communication of significant participation.



## **A**NNUAL CORPORATE **G**OVERNANCE REPORT

The report annual of corporate governance of the financial year 2013, is part of the present management report.

This report is on page 109 of this annual report.



## SAFETY

In 2014, the Safety, Health and Environment Commitment signed by the Company's directors was renewed, reinforcing involvement in the continuing improvement of one of the basic pillars of Zardoya Otis.

This Commitment was supported from all the work centres on February 25, on which Safety Day has been celebrated for many years. In 2015, the slogan chosen for the day was "For all those who will need you tomorrow, please work safely and look after the environment today".

A sound Health, Work and Environment management system implemented efficiently at all the work centres and backed by the occupational risk prevention certificates OHSAS 18001 and ISO14001 (environment) allowed the accidentability results to improve for a further year.

The innovative development of safer equipment, tools, methods and work processes, together with the continuing safety education that our technical employees receive, the concern for enhancement of our products' safety standards and the collaboration of our technical personnel and customers, enabled us to reach our safety targets.

Among the most significant aspects contributing to these achievements were:

- Risk assessment in all processes, methods and designs in order to establish preventive and control measures.
- Installation of safety standards in the maintenance units.
- Continuing education through monthly meetings of each supervisor with his or her technical

personnel and courses on danger identification in key aspects, such as work at height, electrical risk, use of equipment and tools, load lifting and suspension, office ergonomics and driving risks, among others.

- Training audits on serious accident prevention and certification of the technical personnel and subcontractors.
- Monthly communication to the whole company of all the result control metrics and the lessons learnt from the analysis of incidents and audits.
- Analysis and investigation of incidents and accidents to establish the preventive measures to avoid recurrence.
- Awards and recognitions for safety achievements.



These are the aspects that allow both our customers and the users of our products and services to distinguish us from the other companies in the sector and value us favourably as one of the safest companies with one of the most complete Safety and Health Management Systems.

In fact, last year Zardoya Otis was recognized by Ibermutuamur for its special importance in innovative occupational risk prevention programs. During the ceremony at which the diploma was awarded, Carlos Alonso, Zardoya Otis's Safety and Works Manager, spoke about the project "Productivity with Present and Committed People" and the Company's objective: zero accidents, zero tolerance.

Enor was another of the group companies to win an award for its activities in the occupational risk prevention field. The multiple actions that have taken place over recent years (regular meetings, training, assessments, implementation of a safety room, audits, safety recognitions, etc.) led to an accidentability rate of almost zero in the last year, which merited one of the "Prever 2014" National Occupational Risk Prevention Awards. These awards have been conferred annually since 1998 through the General Council of Industrial Relations and Work Sciences (CGRICT) and are a benchmark in the field, both in Spain and internationally.







## ETHICS

In accordance with the 2014 Training Plan, all employees received training on different aspects of the Code of Ethics, distributed as follows:

- On-line courses for employees with a computer and intranet access
- Annual in-person course imparted by members of management to all employees
- Course on information system security for employees (1,232 people)
- Launching at plants and regional offices of the Ethics Tool Box training tool for workers and technical personnel, where general concepts of the Code of Ethics are shown once a quarter.

Regarding compliance with the Code of Ethics, all the relevant employees completed the 2014 annual certification of conflicts of interest on line, while workers and technical personnel without access to a computer did so through questionnaires.

All reports of breaches of the Code of Ethics, most of which were received through the Dialogue program, were analyzed and the appropriate measures were taken to correct them where necessary.

Possible risks that could affect the company were reviewed and assessed on a quarterly basis and 27 actions to mitigate them were defined and carried out in their entirety. There was no deviation from the forecast plan.

The International Trade Compliance export rules were complied with and all the company's customers and suppliers in 2014 were filtered to check their suitability.

## SERVICE EXCELLENCE

Several years have passed since Zardoya Otis brought this program into operation with the intention of attaining maximum customer satisfaction. The Service Excellence program started with an exhaustive training calendar for all employees and gave rise to a corporate declaration of eight commitments upon which the Zardoya Otis's relationship with its customers and users is based.

The maxim of customer satisfaction implies constant evolution, not only of the product launched on the market, but also of the quality in providing both the preventive and corrective maintenance services. In a competitive market where customer needs are changing constantly, Zardoya Otis makes every effort to be near to the customer when required and, in this respect, we have the most extensive service office network in the sector.

In this process of surpassing our customers' expectations, we carry out telephone and written surveys of more than 40,000 customers every year, in order to find out, not only their degree of satisfaction with the service provided, but also their concerns, how we can help them, how we can improve ... At the end of 2014, 96% of our customers had expressed their satisfaction with the service received and recommended us to other consumers as a provider.

The Customer Ombudsman, whose task is to receive, analyze and provide a solution to customer complaints, solves the cases that arise in an average of two days, notifying the customer of the solution and ensuring that it is put into practice.





At Zardoya Otis, social sensitivity is a fundamental aspect for both employees and shareholders and, therefore, we are involved in different initiatives.

We collaborate with the non-profit organization Special Olympics through the voluntary involvement of a number of employees, who collaborate to make it possible for different events aimed at the social integration of disabled people through sport to take place on a quarterly basis.



Specifically, the following activities took place in 2014:

- In June, a day of hiking took place, oriented at valuing and respecting the natural environment. Sportspeople and 30 volunteers from the company took part in this activity.
- In September, the II Unified Football 7 Tournament took place, sponsored by Zardoya Otis. Six teams formed by company volunteers and sportspeople with intellectual disabilities participated.
- In November, the I Special Olympics Madrid Unified Basketball Day was held at the facilities of the Asociación de Padres de Minusválidos de Iberia (Association of Parents of Disabled Children of Iberia - APMIB) in Colmenar Viejo, sponsored by the company. Five teams formed by Otis volunteers, sportspeople with intellectual disabilities and trainers took part in this event.

We combine our elevator technology with solidarity and, in this respect, in 2014 Zardoya Otis signed an agreement with the NGO Manos Unidas to, among other activities, publicize the Campaign against Hunger using the DMS screens installed in the elevators. With this solidarity initiative, a campaign intended to alleviate the nutritional deficiencies suffered by the poorest developing countries was given visibility.

Among other activities last year, Zardoya Otis collaborated with the campaign conducted by the Red Cross and the Madrid Metro to respond to requests for school supplies for low-income families, thus helping many children at the start of the school year.

We also collaborated with the Fundación Banco de Alimentos de Madrid (Madrid Food Bank Foundation) by collecting foodstuffs, thus assisting the charitable organizations that provide attention to those most in need through hostels, canteens, welfare activities, etc.

Locally, Zardoya Otis and its employees participated in a number of activities that expressed their commitment to the community and the citizens.





In the second half of 2014, for the first time since the beginning of the crisis, a considerable and sustained increase was noted in orders received for activities related to the renovation of existing buildings and, at the year end, the backlog of unfilled orders was higher than that of the preceding year.

Zardoya Otis obtained important contracts in the service area, among which we can highlight the two-year contract signed with the Ministry of Justice for maintenance of its equipment at various court premises throughout Spain. Attention should also be drawn to the contracts awarded by the University of Zaragoza, the Murcia Health Service and the Quirón hospital network.

Among the unique buildings in which we installed new equipment was the NH Collection Eurobuilding Hotel in Madrid. After the remodelling it underwent last year, one of the highlights of the decoration is the two Otis GeN2 Flex panoramic elevators in the area of the hotel's dome. These elevators are fully integrated into the aesthetics of the building and favour accessibility for mobility-impaired people. The result achieved provides an overall image of lightness, giving the sensation that the elevators are floating in the air.

Another project that is at the centre of public attention is the new Gourmet Experience that El Corte Inglés opened at the end of the year at its store in Calle Serrano, Madrid. The gastronomy it offers brings together three informal concepts created by three great chefs who have a total of 7 Michelin stars between them. Here, Zardoya Otis installed two GeN2 Comfort panoramic units with glass doors, fully integrated into the exclusive atmosphere of the surroundings.

Lastly, the Zardoya Otis Group continued to collaborate with the most emblematic building that currently continues to be under construction in Spain: Gaudí's Basilica of the Holy Family. The contract to install two hybrid elevators in the sacristy of the Passion Façade was signed and we are working on the design of another fully panoramic elevator that will be installed inside one of the towers of the apse of said façade.

## **AUTOMATIC DOORS: CONTINUING GROWTH**

Portis, a group company engaged in the installation and maintenance of pedestrian and garage doors, has shown continuing growth since it joined the group, crowning this achievement with average increases of around 10% in its portfolio over recent years.

Portis does not owe its growth only to the confidence placed in it by new customers, but also to the recognition of others who were already on its portfolio and have continued to place their trust in the company for their new installations.

Portis's product diversity has made it possible to meet the needs of customers in every sector: hotels, hospitals, distribution, shopping centres, etc., among which we can highlight Makro, Ikea, Sol Meliá, Leroy Merlin and the ONCE (Spanish National Association for the Blind).







Zardoya Otis considers the relationship with its customers to be a basic pillar in building up trust in and loyalty to our products and services. In this respect, we carried out a number of professional and recreational activities in 2014, in order to keep our customers informed of all the new developments in the company and the sector and to enable us to build closer professional and social bonds.

## TRAINING CYCLE FOR PROPERTY ADMINISTRATORS

The conviction that, at a time when market competition is increasingly demanding, we can only continue to distinguish ourselves from the competition and lead the market by explaining the huge value-added of our products and services led

us to hold a cycle of mixed training days for property administrators and company sales personnel.

In this project, which was carried out throughout Spain, in addition to explaining the value of the company's services, useful courses and discussions were held on key property administration issues, with the collaboration of expert speakers.

These training days were a great success and, in the light of the favourable comments they received, we plan to repeat them in the future.

## LECTURES IN PROFESSIONAL TRAINING FORUM

Company managers took part in numerous business, entrepreneurial and university forums to talk about Zardoya Otis's experience in the different areas of its activity.

The presence of speakers from the company was requested by technical schools and universities, associations of architects and technical architects, property developers associations and even fire stations. Subjects like safety, the efficient renovation of buildings, universal accessibility, new elevator technology and new developments in the legislation were discussed by the Zardoya Otis experts at multiple events, which were attended by more than two thousand people interested in finding out about changes in the sector.

## RECREATIONAL EVENTS

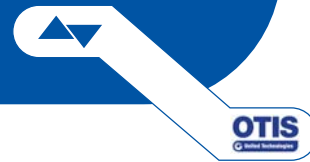
In 2014, the regional offices organized numerous sports events in which more than a thousand customers participated. Our traditional golf tournaments, a total of seven throughout Spain, attracted those most faithful to this sport, who take the yearly opportunity to enjoy a relaxed atmosphere and magnificent facilities.

The eight padel tournaments that we organize each year attract an increasing number of players of this ever more popular sport.

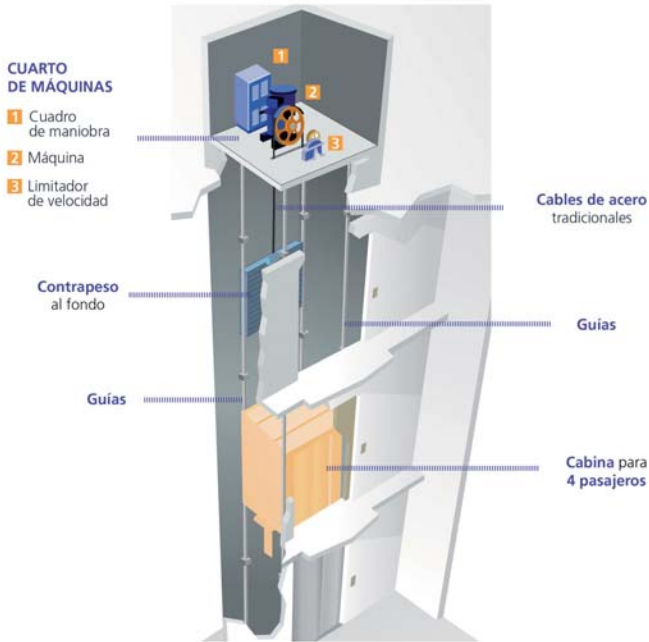
In addition to simple pleasure, these events are intended to favour an atmosphere of proximity among sector professionals, allowing for a more personal and satisfactory day-to-day relationship. To judge by the comments and congratulations received, both objectives were surpassed.



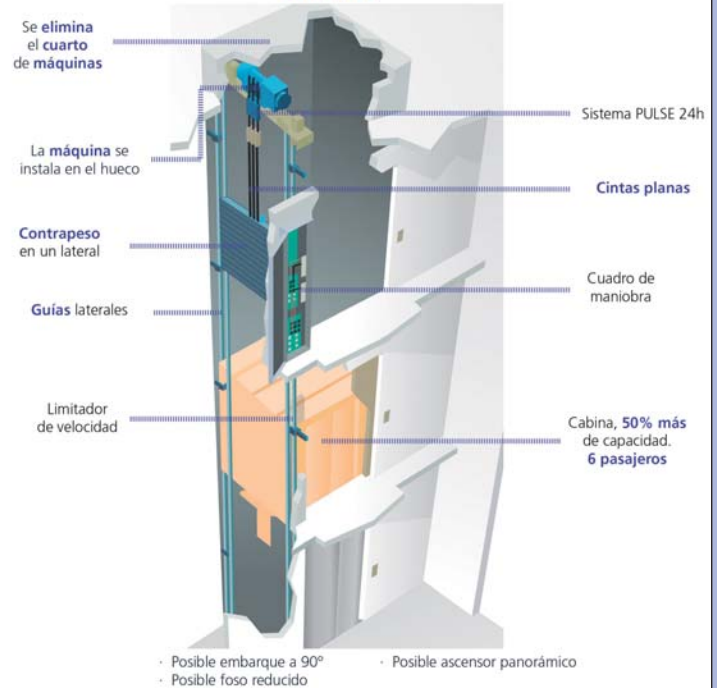
# A SOLUTION FOR EVERY NEED



## 4 PAX.



## 6 PAX.



## OTIS GEN2 FLEX: WHERE FOUR FIT, SIX FIT

Lack of space in buildings often does not allow a large elevator car to be installed. To solve this problem, Otis has designed the Gen2 Flex elevator, a model which allows a car with capacity for 6 people to be installed in the same hoistway in which only a car for 4 would fit.

This is an elevator with all the advantages of Gen2 technology and, in addition to not requiring a machine room, makes optimal use of the hoistway, maximizes the space available and offers the possibility of increasing the car's capacity by 50%.

The Gen2 Flex elevator thus provides a great advantage in existing buildings, irrespective of whether they already have an elevator or not. In the former case, the flexibility of this model allows the car to be changed for a larger one that makes it possible to transport people in wheelchairs or with impaired mobility. In the latter, it allows the

installation of an elevator in a space where this was previously impossible. In newly-constructed buildings, architects do not need to allow so much space for the elevator in their designs and, at the same time, a larger car will fit into less space. Or a larger elevator in the case of a new one.

Since this product belongs to the Gen2 family, the Otis Gen2 Flex has minimal consumption, regenerates energy and is available in a version with Switch technology, which means that it can run on 220v single-phase electricity, with a power requirement of only 500W.

Its installation in buildings without an elevator using a freestanding modular structure has a minimal impact on the surrounding architecture. Thus, this new elevator combines maximum use of the size of the hoistway, possibilities of access to floors with different orientations and minimal consumption.



## DIGITAL MULTI SCREEN: AN OUTSIDE WINDOW IN THE ELEVATOR

All elevators for the national market that are manufactured at our Leganés facilities are equipped with the Digital Multi Screen, a screen that works as an intercom with videoconferencing.

With this device, the elevator is in permanent communication with the service centre of Zardoya Otis, where a team of more than 80 people provide 24-hour-a-day attention to customers and users, ensuring their safety.

If someone is trapped in the car, the Digital Multi Screen will put him or her into contact with the service centre and they can see and hear the person providing the attention, inspiring great confidence and peace of mind. While the trapped person is conversing with the employee, the service centre will contact the nearest technical person for a speedy rescue.

The car device is also an indicator of position and direction, enables the unit to be identified and allows all kinds of contents to be broadcast.



## PERSONALIZED AND SPECIAL ELEVATORS

Now that two years have passed since Enor was acquired by the Zardoya Otis Group, the number of orders placed for personalized and special elevators has been multiplied by four, with orders for a value of over 5 million euros.

Among the most significant contracts, we can highlight:

- Louvre Museum: 15 elevators, 6 of which are for 3,500 kg and 9 for more than 12 tonnes.
- Auchan supermarkets: 10 heavy-load elevators for various shopping centres in France.
- Stavros Niarchos Foundation: for this cultural centre located in Athens and designed by the famous architect Enzo Piano, we are supplying variable-frequency electromagnetic equipment for a load of 12,900 kg. The doors measure 3x2.5 metres.

Regarding marine equipment, thanks to the cooperation between different Otis companies worldwide, important contracts were obtained in 2014. We can highlight the two "flotels" that the Mexican oil company Pemex will be building at two shipyards in Galicia: Barreras in Vigo and Navantia in Ferrol.



The marine area's development and potential is obvious from the evolution of elevator sales for this sector, which grew by 20% in comparison with the preceding year, exceeding 3 million euros in 2014.

# A SOLUTION FOR EVERY NEED

OTIS



## OTIS GEN2 SWITCH: A SALES SUCCESS

The launching of the Gen2 Switch model at the end of 2013 has, without any doubt, been one of Otis's successes over recent years. This elevator, in addition to incorporating Gen2 flat-belt technology with a gearless machine 50% more efficient than a conventional one, is able to regenerate energy.

It is equipped with a system of accumulators that, in the event of a cut in the power supply, allows autonomy for more than a hundred rides and, thus, its performance is currently unmatched.

The Gen2 Switch needs only a 220V single-phase electricity supply to be installed and power of 500W in order to operate. Both characteristics make it the perfect elevator for both new and already-existing buildings.

All these advantages, combined with the fact that it is a product that was fully developed in Spain, have been recognized by the market, making it a sales success, with 400 units sold in 2014.

Finally, Zardoya Otis's R&D team, committed to the company's environmental protection and energy saving policy, developed the first solar elevator in the world and launched it on the market. This new elevator incorporates compatibility with photovoltaic solar panels, which generate the energy required to operate it, with the advantages of the Switch system. The Gen2 Switch Solar runs on 100% clean energy, with no CO2 emissions, and achieves a zero energy balance, allowing users to forget about the electricity bill. Only months after it was launched, the first 10 units have been installed in Spain.

The launching of this new elevator on the market had a great impact in the media, in both the general and specialized press, and the innovative spirit and technological competence of the Spanish R&D team was rewarded by the corporation at world level at a ceremony held in Lyon, where Philippe Delpech gave the Spanish management a diploma of recognition in the Innovation category.

## OTIS GEN2 MOD: THE ADVANTAGES OF A NEW ELEVATOR WITHOUT BUILDING WORKS

As a result of the combined work of the service and works teams, Zardoya Otis provides its customers with the possibility of modernizing their old installations with the latest Gen2 technology.

The change in the equipment's performance is noticeable as from the first day, since the Gen2 MOD solution guarantees noiselessness and smooth rides, with precision -to the millimetre- in the stops. It incorporates the Digital Multi Screen into the car's aesthetics and allows energy saving of up to 80% in comparison with the previous situation.

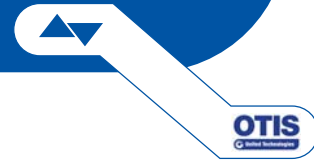
An additional advantage of this solution is that it allows any elements of the old elevator that are in good condition to be used. Therefore, the work is carried out in a very short space of time and no building works are required.

As a result, our customers have recognized modernization with Gen2 as a star service and, in terms of units sold, it showed growth of over 62% on the previous year in 2014.





WE SUPPORT THE ARCHITECTURE  
OF THE FUTURE



## “TRAZA CIUDAD” ARCHITECTURE PRIZES

Last June, Zardoya Otis awarded the 'Traza Ciudad' architecture prizes for architecture students, which the company organizes in collaboration with the Fundación Arquitectura y Sociedad. (Architecture and Society Foundation).

These prizes are awarded for projects concerning a small urban fragment of a Spanish city. On this occasion, the subject was the remodelling and revitalization of the Lavapiés area in Madrid.

The jury, formed by Juan Herreros, an architect and lecturer in Architecture at the University of Columbia in New York; Emilio Tuñón, an architect and partner of the Tuñón and Mansilla studio; and Bernard Calleja, Zardoya Otis's Chief Executive Officer, analyzed the 28 projects submitted by architecture students in Spain and Portugal, evaluating originality, boldness and the contribution of creative architectural solutions.

The winners were Elena Jiménez and Abelardo Linares of the Seville School of Architecture with a project entitled "Macondo", which suggested the construction of a central axis running from the north to the south of the Lavapiés area, with a design that maximized the habitable area of the buildings through a structure that occupied less space at its base than in the elevated habitable part, thus releasing public space for different uses.

The prize-giving ceremony took place during the III International Architecture Congress, which was held in Pamplona on June 11, 12, and 13 with the title "Necessary Architecture" and which was attended by people of great importance in international architecture, such as Álvaro Siza and Dominique Perrault.

## VI EDITION OF THE ASCENSORES ENOR ARCHITECTURE PRIZES

Last November, the headquarters of Grupo Ascensores Enor was the venue for the award-giving ceremony of the VI Ascensores Enor Architecture Prizes, which have been being organized since 2005 with the intention of

giving visibility to the best architecture carried out in Spain and Portugal.

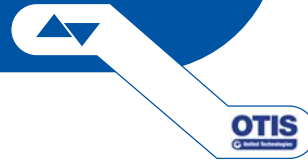
The Madrid architect José María Sánchez won the "Gran Premio Enor" for his work "Perimeter Building and Adaptation of the Surroundings of the Temple of Diana" in Mérida, Badajoz. María González and Juanjo López of the SOL 89 studio were awarded the "Premio Enor de Arquitectura Joven" (for young architects) for the "Catering School in the Old Abattoir" in Medina Sidonia, Cádiz.

The jury for these prizes was composed of the architects Carlos Quintáns, Juan Domingo -winner of the Gran Premio Enor in 2011-, Juan Creus, Luis Martínez and Fredy Massad and chaired by the Pritzker prize winner Eduardo Souto de Mora.

The prize has grown in every edition, thanks to the important support received from all the architects that have participated. In this edition, with more than 300 works submitted, attention can also be drawn to the increase in private works in comparison to public works, with more activities aimed at the renovation and adaptation of existing buildings.







Zardoya Otis has a committed human team with talent and dedication, which allows the company to adapt to a complex and demanding environment. Our employees form part of a solid project that bets on employment with good working conditions and employee development through training, thus enabling us to stand out and be more competitive in a very complex environment.

From Zardoya Otis, we bet on the development of our employees and the development of their careers at international level, exporting talent to other group companies.

## TRAINING AND PROFESSIONAL DEVELOPMENT

The bet on continuing education has been latent even in the most difficult years. Thus, in 2014, an average of 35.87 hours of training per employee was imparted on safety, ethics, technical training, quality, sales and languages, among other subjects.

As a novelty, last year the Zardoya Otis Group's new on-line training platform, e-campus, was brought into operation. On this platform, the company places a set of resources to develop different abilities and skills at the disposal of all its employees. In the first phase, courses were available on a number of subjects: skills training, office automation tools, stress management, effective meetings, etc.



In the specific training area, the different individual educational programs continued to be available, such as the Employee Scholar Program, BIS University and other skill development programs for employees identified as having potential, training programs for Otis Trainers, engineering software programs and management programs for middle management.

In order to obtain better knowledge of our employees and their needs, in 2014 special emphasis was placed on the performance management of our employees, using the different assessment tools that exist in the company.

## SOCIAL BENEFITS

Zardoya Otis makes very different and varied social benefits available to all its workers.

In 2014, the company continued with the flexible remuneration system introduced in 2013, extending this possibility to the associated companies that form part of the Group.

The Support Unit continued to manage the requests received and to provide support to many employees in respect of disablement and accessibility.

The company offers grants for the specialized education of workers' children with some kind of disability or special need. Likewise, all employees with school- or kindergarten-aged children receive a sum for education.

Other assistance available consists of loans for the acquisition or renovation of homes or the availability of personal loans. We also have a voluntary collective insurance scheme that covers death, disablement and retirement.

In addition to the economic benefits, enhancements of some kinds of remunerated leave of absence are provided, as well as specific health programs (vaccinations, special diagnostic tests, anti-smoking programs, etc.).

In 2014, the Medical Service launched the "Walk for your health" campaign, with the objective that company workers should improve their health through daily exercise.

In order to favour our employees' sense of belonging, more advantageous conditions are also offered in areas related to leisure and services.

## WE LISTEN TO OUR EMPLOYEES

We listen to our We have different internal communication channels, since our employees' opinions are very important, There are several ways in which the workers can let us have any opinions, suggestions, considerations or complaints that they see fit.

Through the Suggestion Program, all our workers can propose new ideas that can be used to improve any process, product or service and prizes are awarded for the best ones received.

In 2014, 500 suggestions were received and applying them will lead to a forecast annual saving of 150,000 euros.

The Dialogue program is a communication channel through which an employee may, on a fully confidential basis, inform of any problem, complaint or non-compliance with the Code of Ethics of which he or she is aware, both nationally and internationally.

In 2014, the employees gave their opinion through a survey and, with their contributions and suggestions, help us all to make a better company

Last year our collective labour agreement was extended until December 31, 2016. Thus, we continue to guarantee the stability of our workers' employment situation.



Zardoya Otis was the first elevator company to be certified under ISO-9001 (Quality Management System), which it obtained with AENOR in 1992. Thanks to ISO-9001, we were also able to obtain certification in compliance with the European Lifts Directive 95/16/EC, in accordance with the requirements established for both elevators and safety components.

We were also the first maintenance company to be certified with AENOR under Royal Decree 88/2013 in June 2013. Said Royal Decree establishes the Supplementary Technical Instructions of the Elevating Apparatus and Maintenance Regulations, known as ITC MIE-AEM 1, required for maintenance personnel in order to meet service requirements and undertake important modifications to existing elevators for approval by the authorities.

Likewise, we hold ISO 14001 certification (Environmental Management System) and certification under the OSHAS 18001 standard (Occupational Health and Safety), which allow us to manage aspects concerning safety, health and risk prevention for all our workers in all our activities.

We renew these certifications annually through external audits, which confirm that our management systems are corrected focused on compliance therewith.

Zardoya Otis was the sector pioneer in seeking total quality. In 2013, we celebrated 20 years of implementation of the excellence programs called "Regional Offices towards Excellence" and "Associates towards Excellence", through which, by monitoring 12 metrics grouped into aspects concerning safety, customer satisfaction, process improvement and

business indicators, the objectives and score of each regional office are established, as well as its position in the overall ranking. The same procedure is carried out for group associates. This tool allows us to consider each improvement initiative objectively, promote healthy competition and identify internal benchmarking opportunities by recognizing and adapting the best practices, attaining sustainable improvement, year after year, in the excellence score and the quality levels perceived by the customer.

ACE (Achieving Competitive Excellence) is the operating system that enables us to analyze and improve, with the intention of making the improvement sustainable, with enhanced processes, in order to consolidate it.

Implemented in all UTC group companies, ACE is fully integrated into Zardoya Otis, confirmed by the consolidation of Silver level in all the 2014 international audits and through improvement projects intended to solve problems -known as "treasures"- detect their causes and improve the process, so as to increase the company's capacity to surmount obstacles and attain its objectives.

Focused on orienting our processes towards the customer efficiently in issues that contribute value-added, ACE enables us to analyze, improve, implement and verify all our activities, structured into the processes considered of key importance in improving our market presence and business results.

The ACE tools allow us to discover the improvement opportunities in our activity and make use of the competitive advantages that form part of our business strategy. To do this, the monitoring of the main indicators summarized in the Metrics Tower provide visibility to the evolution of each parameter in respect of the objective that is fixed annually for all the business units: plants, regional offices, branches and head offices.

A colour criterion allows metrics that do not meet the objective to be identified and the prioritization of activities to analyze a change in trend (if negative), implement actions and carry out monitoring in order to improve (through an action plan).

ACE is the system that enables us to analyze and improve, with the intention of obtaining a sustainable improvement, since the new enhanced processes must be the support for its consolidation.



Achieving Competitive Excellence

The United Technologies Operating System

## ACE CERTIFICATION PROGRAM

One of the key aspects for all the company that uses the ACE tools is training in these tools and this requires dedication in order to acquire the knowledge necessary to allow them to be used to their best advantage in the day-to-day work.

With on-line access to the ACE Certification Program (ACP) established worldwide for the implementation of and training in ACE, Zardoya Otis is making a great effort in both theoretical and practical training in the different ACE tools.

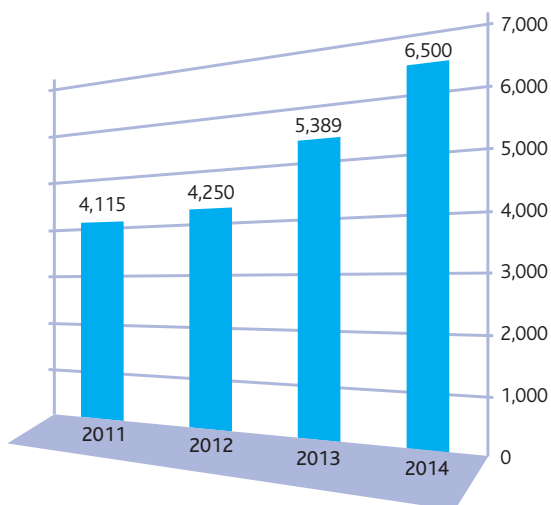
In 2014, Zardoya Otis acquired the objective of having all its employees reach the basic Associate level. To do this, a training plan, which will be completed in 2015, has been established and this meant a total of 9,840 hours devoted to ACE training in 2014, with 100% of employees (indirect) registered in the ACP and close to 200 people who have now obtained the Associate level certificate.





In 2014, Zardoya Otis beat all records in relation to the number of units sold to Otis companies and agents outside Spain: no less than 6,500 elevators, representing 21% more than in 2013.

## EVOLUTION OF INTERNATIONAL SALES (Nº. UNITS)



Several factors were involved in achieving these results:

- The expansion of the available product range. In 2014, the Engineering Department developed a wide range of products, expanded the existing load and speed combination possibilities and made it possible to install an elevator in a hoistway with a reduced pit or overrun.

- An increase in the number of countries that have come to form part of our customer portfolio. From the 105 countries that purchased from us in 2013, we increased to 129 in 2014. Special mention should be made of the Far Eastern countries (India, Indonesia, Thailand, Vietnam, Philippines, Cambodia, Malaysia and Singapore), to which we sold units for the first time in our history.

- The consolidation of our products in the Middle Eastern countries. The construction boom in countries like Saudi Arabia, Dubai or Bahrain, combined with the preferences of the Otis companies for our product, as well as the close commercial relationship with all of them, meant that our sales in this region were more than 2,000 units in 2014.

- The increase in exports of the different elevator components from the San Sebastián plant: almost 10% in GeN2 machines, 45,000 units of which were issued.



Innovation is our way of working and, in 2015, we will continue to add new technical developments to our elevators to meet the demands and needs of our customers and users.

In this respect, we are working on a new line of aesthetics in keeping with modern architectural trends, meaning that our lifts are easy to integrate into the aesthetic surroundings of the new buildings.

We are also aware of the evolution of society and the ageing of the population. These factors open up a new elevator market in single-family homes. The growth in this type of home on the outskirts of the large cities and the architectural barriers that exist in them, making it difficult for elderly people to move, have led us to develop a low-consumption elevator model that is easy to install and respects the environment. This new elevator model will be launched in the next few months.

The San Sebastián plant has been reorganized in order to better adapt its production to the needs of both the national and international markets. As part of this process, the last geared machines were manufactured in 2014.

In addition, almost one million euros were invested in implementing a new assembly line for GeN2 machines. This new development will mean that the entire machine can be assembled on the same line, rather than assembling one part at the San Sebastián facilities and the engine at the Reivaj plant, as has been the case up to now. Thus, the cost of the machine is reduced, productivity is increased and there are important savings in transport and handling.

Finally, compliance with the EN 81 20/50 standard implies that our elevators will incorporate additional elements in the doors, the car roof, the car and the pit, meaning that our equipment must be redesigned.







## Consolidated Annual Financial Statements

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## **Audit Committee**

The Audit Committee met eight times in 2014, deliberating and providing favourable reports to the Board of Directors on the following items:

1. Review of the quarterly reporting (interim statements or quarterly financial reporting) sent to the National Securities Markets Commission (CNMV) and the Stock Exchanges.
2. Reports on payment of the quarterly dividends charged to 2014 profit and a monetary distribution of share premium.
3. Review, with the Company's external auditors, of the individual Annual Financial Statements and the consolidated Annual Financial Statements of the Group for the year ended in 2013 and the interim statements related to the first half of 2014, which were subsequently formulated by the Board of Directors.
4. Review of the Annual Corporate Governance Report for the year 2013 and the supplementary information to the report, with the description of the Internal Control Systems and Risk Management, in relation to the issuance of financial information reporting (ICFR) process applied in the company.
5. Review of the report prepared by PwC related to the assessment of the level of compliance with company requirements referred to above, in terms of internal controls and risk management systems.
6. Review of Annual Report on Director Compensation for the year 2013.
7. Review of related-party transactions.
8. Proposal to the Board of Directors for appointment of external auditors of Zardoya Otis, S.A. and the consolidated Group for the year 2014.
9. Review of the Report on External Auditors Independence for the works performed regarding 2012 year end financial statements.
10. Director compensation.
11. Monitoring of 2013 Internal Control Program and review of 2014 program, along with supervision of the Internal Control over Financial Reporting (ICFR) system.
12. Review of the risk control system: operational, technological, financial, legal, reputational and strategic risks.
13. Review of the process audit conducted in accordance with the requirements for listed groups in the USA (Sarbanes Oxley), which was first performed in the Zardoya Otis Group in 2004.
14. Analysis of the scope of the information to be sent together with the Annual Corporate Governance Report in relation to the Internal Control over financial Reporting (ICFR) system.
15. Bonus issue and the closure thereof.
16. Review of the confidential communication channels put in place by the Group, together with the relevant action plans to be carried out.
17. Conflicts of interest and annual certification.
18. Review of business combinations.
19. Review of the impairment test performed over goodwill.



***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**

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

We have audited the consolidated annual accounts of Zardoya Otis, S.A. (the Company) and its subsidiaries (the Group), consisting of the consolidated balance sheet at 30 November 2014, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As explained in Note 1, the Directors of the Company are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2014 present fairly, in all material respects, the consolidated financial position of Zardoya Otis, S.A. and its subsidiaries at 30 November 2014 and the consolidated results of its operations and the consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

The accompanying consolidated Directors' Report for 2014 contains the explanations which the Company's Directors consider appropriate regarding the Group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated Directors' Report is in agreement with that of the consolidated annual accounts for 2014. Our work as auditors is limited to checking the consolidated Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the accounting records of Zardoya Otis, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Original Spanish version signed by Stefan Mundorf

18 March 2015

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# Zardoya Otis, S.A. and Subsidiaries

## Consolidated Statement of Financial Position

At November 30, 2014 and 2013 (Thousands of Euros - EThs)

|   | 2014                  | 2013(*)               |
|---|-----------------------|-----------------------|
| <b>ASSETS</b>                               |                       |                       |
| <b>NONCURRENT ASSETS</b>                    |                       |                       |
| Property, plant & equipment (Note 5)        | 64,657                | 66,744                |
| Intangible assets (Note 6)                  | 199,303               | 206,917               |
| Goodwill (Note 6)                           | 141,257               | 134,643               |
| Financial investments (Note 7)              | 730                   | 725                   |
| Deferred tax assets (Note 18)               | 21,417                | 25,532                |
| Other noncurrent assets (Note 7 and 8)      | 6,455                 | 6,093                 |
|   | <u>433,819</u>        | <u>440,654</u>        |
| <b>CURRENT ASSETS</b>                       |                       |                       |
| Inventories (Note 9)                        | 22,692                | 25,090                |
| Financial receivables (Note 7)              | 308                   | 373                   |
| Trade and other receivables (Notes 7 and 8) | 183,270               | 202,921               |
| Cash and cash equivalents (Notes 7 and 10)  | 72,029                | 44,895                |
|   | <u>278,299</u>        | <u>273,279</u>        |
| <b>TOTAL ASSETS</b>                         | <u><b>712,118</b></u> | <u><b>713,933</b></u> |

(\*) Restated in application of IAS 19R (See note 2 of the Notes to the Consolidated Annual Financial Statements for the years 2014)

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

|   | 2014            | 2013(*)         |
|---|-----------------|-----------------|
| <b>EQUITY</b>   |                 |                 |
| Share capital (Note 11)                                 | 43,497          | 41,824          |
| Share premium   | 108,411         | 141,870         |
| Legal Reserve (Note 13)                                 | 8,699           | 8,445           |
| Reserves in subsidiaries & other reserves (Note 14)     | 174,368         | 142,226         |
| Treasury stock (Note 12)                                | (92)            | (251)           |
| Retained earnings (Note 15)                             | 154,031         | 150,800         |
| <b>INTERIM DIVIDENDS PAID (Note 29)</b>                 | <b>(76,787)</b> | <b>(77,850)</b> |
| <b>FOREIGN EXCHANGES DIFFERENCES</b>                    | <b>(23)</b>     | <b>(283)</b>    |
| <b>NON-CONTROLLING INTERESTS (Notes 2 and 15)</b>       | <b>16,478</b>   | <b>15,601</b>   |
| <b>TOTAL EQUITY</b>                                     | <b>428,582</b>  | <b>422,382</b>  |
| <b>LIABILITIES</b>                                      |                 |                 |
| <b>NONCURRENT LIABILITIES</b>                           |                 |                 |
| Trade and other payables (Notes 7 and 16)               | 3,725           | 7,909           |
| Borrowings (Notes 7 and 20)                             | 4,900           | 10,050          |
| Welfare commitments (Note 19)                           | -               | -               |
| Provisions for other liabilities and expenses (Note 21) | 5,603           | 4,797           |
| Deferred tax liabilities (Note 18)                      | 28,525          | 33,618          |
|   | <b>42,753</b>   | <b>56,374</b>   |
| <b>CURRENT LIABILITIES</b>                              |                 |                 |
| Trade and other payables (Notes 7 and 16)               | 209,983         | 201,336         |
| Current tax liabilities (Note 17)                       | 8,011           | 6,881           |
| Borrowings (Notes 7 and 20)                             | 5,411           | 9,031           |
| Provisions for other liabilities and expenses (Note 21) | 17,378          | 17,929          |
|   | <b>240,783</b>  | <b>235,177</b>  |
| <b>TOTAL LIABILITIES</b>                                | <b>283,536</b>  | <b>291,551</b>  |
| <b>TOTAL EQUITY AND LIABILITIES</b>                     | <b>712,118</b>  | <b>713,933</b>  |

(\*) Restated in application of IAS 19R (See note 2 of the Notes to the Consolidated Annual Financial Statements for the years 2014)

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

## Consolidated Income Statements

For the years ended November 30, 2014 and 2013  
(Thousands of euros - EThs)

|   | 2014           | 2013(*)        |
|---|----------------|----------------|
| Sales (Note 22)   | 738,954        | 759,231        |
| Other revenue   | 4,046          | 3,831          |
| Raw materials and consumables used (Note 24)  | (195,544)      | (197,413)      |
| Employee benefit expense (Note 23)  | (247,060)      | (258,086)      |
| Amortization, depreciation and impairment losses (Note 5.6)   | (22,194)       | (26,966)       |
| Other net expense (Note 25)   | (57,845)       | (60,575)       |
| <b>OPERATING PROFIT</b>   | <b>220,357</b> | <b>220,022</b> |
| Revenue from financing activities (Note 26)   | 737            | 817            |
| Costs of financing activities (Note 26)   | (933)          | (2,089)        |
| Net foreign exchange differences (Note 26)  | (70)           | 57             |
| Share in (loss)/profit of associates  | -              | -              |
| <b>OTHER GAINS AND LOSSES</b>   | <b>82</b>      | <b>140</b>     |
| <b>PROFIT BEFORE TAX</b>  | <b>220,173</b> | <b>218,947</b> |
| Income tax expense (Note 27)  | (64,885)       | (67,007)       |
| <b>PROFIT FROM CONTINUING OPERATIONS<br/>AFTER TAX (Note 15)</b>  | <b>155,288</b> | <b>151,940</b> |
| <b>ATTRIBUTABLE TO:</b>   |                |                |
| Shareholders of the Company (Note 15)   | 154,031        | 150,800        |
| Non controlling interests (Note 15)   | 1,257          | 1,140          |
| <b>EARNINGS PER SHARE FOR THE PROFIT OF CONTINUING<br/>OPERATIONS ATTRIBUTABLE TO THE SHAREHOLDERS<br/>OF THE COMPANY IN THE YEAR (Euros per share) (Note 28)</b> |                |                |
| - Basic   | 0,36           | 0,38           |
| - Diluted   | -              | -              |

## Consolidated Statement of comprehensive income

For the years ended November 30, 2014 and 2013  
(Thousands of euros - EThs)

|  | 2014           | 2013(*)        |
|--|----------------|----------------|
| Profit for the year (Note 15)                                | 155,288        | 151,940        |
| <b>Other comprehensive income:</b>                           |                |                |
| <b>Items that can be transferred to profit:</b>              |                |                |
| Exchange rate differences                                    | 260            | (67)           |
| Other comprehensive income for the year, net of taxes        | 1,247          | 5,144          |
| <b>Total comprehensive income for the year, net of taxes</b> | <b>156,795</b> | <b>157,017</b> |
| Attributable to:   |                |                |
| - Shareholders of the Company                                | 155,538        | 155,877        |
| - Non controlling interests                                  | 1,257          | 1,140          |

(\*) Restated in application of IAS 19R (See note 2 of the Notes to the Consolidated Annual Financial Statements for the years 2014)

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



## Consolidated Statement of Changes in Equity

For the years ended November 30, 2014 and 2013  
(Thousands of euros - EThs)

|   | Attributable to shareholders |                |               |                |  |   |                   | Non controlling Interests | Total Equity   |
|---|------------------------------|----------------|---------------|----------------|--|---|-------------------|---------------------------|----------------|
|   | Share Capital                | Share Premium  | Legal Reserve | Treasury Stock | Accumulated Foreign Exchange Differences | Reserves in subsidiaries & other reserves | Retained earnings |                           |                |
| <b>Balance at December 01, 2012 (*)</b>     | <b>38,524</b>                | <b>-</b>       | <b>7,705</b>  | <b>(425)</b>   | <b>(216)</b>                             | <b>101,805</b>                            | <b>103,735</b>    | <b>24,073</b>             | <b>275,201</b> |
| Comprehensive profit for the year (Note 15) |                              |                |               |                | (67)                                     |   | 155,944           | 1,140                     | 157,017        |
| Distribution of profit 2012 (Note 15)       |                              |                | 740           |                |  | 47,740                                    | (181,097)         |                           | (132,617)      |
| Dividend relating to 2012 (Note 29)         |                              |                |               |                |  |   | 132,617           |                           | 132,617        |
| Capital increase (Note 11)                  | 3,300                        | 174,039        |               |                |  | (1,609)                                   |                   |                           | 175,730        |
| Treasury stock transactions (Note 12)       |                              |                |               | 174            |  | 26  |                   |                           | 200            |
| Dividend 2013 (Note 29)                     |                              |                |               |                |  |   | (120,221)         |                           | (120,221)      |
| Share premium distribution (Note 29)        |                              | (32,169)       |               |                |  |   |                   |                           | (32,169)       |
| Business combinations (Note 33)             |                              |                |               |                |  | (23,764)                                  |                   | (7,629)                   | (31,393)       |
| Other movements                             |                              |                |               |                |  |   |                   | (1,983)                   | (1,983)        |
| <b>Balance at November 30, 2013 (*)</b>     | <b>41,824</b>                | <b>141,870</b> | <b>8,445</b>  | <b>(251)</b>   | <b>(283)</b>                             | <b>124,198</b>                            | <b>90,978</b>     | <b>15,601</b>             | <b>422,382</b> |
| Comprehensive profit for the year (Note 15) |                              |                |               |                | 260                                      |   | 155,278           | 1,257                     | 156,795        |
| Distribution of profit 2013 (Note 15)       |                              |                | 254           |                |  | 38,288                                    | (154,031)         |                           | (115,489)      |
| Dividend relating to 2013 (Note 29)         |                              |                |               |                |  |   | 115,489           |                           | 115,489        |
| Capital increase (Note 11)                  | 1,673                        |                |               |                |  | (1,673)                                   |                   |                           |                |
| Treasury stock transactions (Note 12)       |                              |                |               | 159            |  | (50)                                      |                   | (109)                     |                |
| Dividend 2014 (Note 29)                     |                              |                |               |                |  |   | (114,426)         |                           | (114,426)      |
| Share premium distribution (Note 29)        |                              | (33,459)       |               |                |  |   |                   |                           | (33,459)       |
| Business combinations (Note 33)             |                              |                |               |                |  | (2,439)                                   |                   | 596                       | (1,843)        |
| Other movements                             |                              |                |               |                |  |   |                   | (867)                     | (867)          |
| <b>Balance at November 30, 2014</b>         | <b>43,497</b>                | <b>108,411</b> | <b>8,699</b>  | <b>(92)</b>    | <b>(23)</b>                              | <b>158,324</b>                            | <b>93,288</b>     | <b>16,478</b>             | <b>428,582</b> |

Notes 1 to 37 form an integral part of these Consolidated Annual Financial Statements. (\*) Restated in application of IAS 19R.

## Consolidated Statements of Cash Flows

For the years ended November 30, 2014 and 2013  
(Thousands of euros - EThs)

|  | 2014             | 2013(*)          |
|--|------------------|------------------|
| <b>NET PROFIT</b>  | <b>154,031</b>   | <b>150,800</b>   |
| Adjustments to profit:   |                  |                  |
| Amortization/depreciation/provisions (Notes 5, 6 and 8)                | 23,606           | 31,262           |
| Taxes (Note 27)  | 64,884           | 67,007           |
| Other losses and gains (Note 26)                                       | 196              | 1,272            |
| Gains/(losses) on sales of fixed assets                                | (83)             | (140)            |
| Tax payment for the year (Note 27)                                     | (66,232)         | (62,001)         |
| Net cash generated by operating activities                             | 21,815           | (6,464)          |
| Profit attributable to non-controlling interests (Note 15)             | 1,257            | 1,140            |
| <b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES (Note 30)</b>           | <b>199,474</b>   | <b>182,876</b>   |
| Investment in property, plant & equipment/intangible assets (Note 5.6) | (7,406)          | (6,024)          |
| Acquisition of subsidiaries (Notes 6 and 33)                           | (6,442)          | (17,637)         |
| Acquisition of other financial assets                                  | 65               | 226              |
| Business combinations in kind (Note 33)                                | 265              | 12,781           |
| <b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>                         | <b>(13,518)</b>  | <b>(10,654)</b>  |
| Dividends paid (Note 29)   | (147,884)        | (152,390)        |
| Treasury stock acquisition (Note 12)                                   | -                | -                |
| Bank debt (Note 29)  | (8,771)          | (12,043)         |
|  | (2,167)          |                  |
| <b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>                         | <b>(158,822)</b> | <b>(164,433)</b> |
| <b>VARIATION IN CASH AND CASH EQUIVALENTS</b>                          | <b>27,134</b>    | <b>7,789</b>     |
| Cash and cash equivalents at the beginning of the period (Note 10)     | 44,895           | 37,106           |
| Cash and cash equivalents at the end of the period (Note 10)           | 72,029           | 44,895           |

Notes 1 to 37 form an integral part of these Consolidated Annual Financial Statements. (\*) Restated in application of IAS 19R.

# Notes to the Consolidated Annual Financial Statements for the years 2014 and 2013

(Thousands of euros - EThs)

## NOTE 1. GENERAL INFORMATION

The main business activity of Zardoya Otis, S.A. (the Company) and its subsidiaries (together, the Group) is the manufacture 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 Sebastián and Modernization Centres in Munguia (Vizcaya) and Vigo (Pontevedra).

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

United Technologies Holding S.A., incorporated in France, holds a majority interest in the Group of 49.63% of the Company's shares at November 30, 2014. The company forms part of the UTC Group, incorporated in the United States of America (Note 34). Zardoya Otis, S.A. 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 24, 2015 and are pending the approval of the Annual Shareholders' Meeting. Nevertheless, Management considers that the above mentioned accounts will be approved as presented.

## NOTE 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 Basis of presentation

The consolidated financial statements of the Group as of November 30, 2014 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, 2014 include the figures for the preceding year to allow a comparison to be made. Likewise, they have been drawn up under the going concern principle.

The preparation of 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 judgement and estimates are constantly reviewed and are based principally on historical experience and future events that are deemed reasonable.

The Group has adopted in 2014 retrospectively the modified IAS 19. As a result, comparative information for the year ended November 30, 2013 in the consolidated financial statements differs from the ones presented in the previous periods.

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

#### a) 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 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 reestimations, 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) Welfare commitments**

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 balance sheet 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 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 is not material. They are de-consolidated from the date that control ceases.

Investments in subsidiaries are recognized at cost less accumulated impairment losses. The cost is adjusted to reflect changes in the amount of the consideration resulting from variations in the contingent consideration.

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 balance sheet and profit and loss items arising from the accounting records. Certain reclassifications have been made in order to improve the presentation of the consolidated financial statements and the related non controlling interests.

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 the acquisition agreement. Identifiable assets acquired and liabilities and contingent liabilities accepted in a business combination are measured initially at their fair values at the acquisition date. 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 excess of 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 over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If this amount were lower than the fair value of the net assets of the acquiree, the difference is recognized as bargain purchase gain in the comprehensive income statement. The costs related to acquisition 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) Subsidiary companies

The list of subsidiaries and information thereon are as follows:

| Company and registered office                                  | Activity  | 2014            |                      | 2013            |                      | Parent Company              |
|--|---|-----------------|----------------------|-----------------|----------------------|-----------------------------|
|  |   | Carrying amount |                      | Carrying amount |                      |                             |
|  |   | %               | (thousands of euros) | %               | (thousands of euros) |                             |
| (+) Ascensores Eguren, S.A. (Bilbao)                           | Installation & Service of Elevators                         | 100.00%         | 6,635                | 100.00%         | 6,635                | Zardoya Otis, S.A.          |
| Ascensores Ingar, S.A. (Granada)                               | Installation of Elevators                                   | 100.00%         | 3,404                | 100.00%         | 3,404                | Zardoya Otis, S.A.          |
| (+) Cruxent-Edelma, S.L. (Barcelona)                           | Installation & Service of Elevators                         | 100.00%         | 26,504               | 100.00%         | 26,504               | Zardoya Otis, S.A.          |
| (+) Ascensores Serra, S.A. (Gerona)                            | Installation & Service of Elevators                         | 75.00%          | 605                  | 75.00%          | 605                  | Zardoya Otis, S.A.          |
| (+) Mototracción Eléctrica Latierro, S.A. (Vitoria)            | Manufacturing Elevator Engines                              | 100.00%         | 4,073                | 100.00%         | 4,073                | Zardoya Otis, S.A.          |
| (+) Puertas Automáticas Portis, S.L. (Madrid)                  | Installation & Service of Automatic Doors                   | 93.83%          | 16,825               | 90.12%          | 15,394               | Zardoya Otis, S.A.          |
| (+) Otis Elevadores Lda. (Portugal)                            | Installation & Service of Elevators                         | 100.00%         | 11,742               | 100.00%         | 11,742               | Zardoya Otis, S.A.          |
| Masel Otis Elevadores Madeira Lda. (Portugal)                  | Installation & Service of Elevators                         | 60.00%          | 2,104                | 60.00%          | 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.          |
| (+) Acresca Cardellach, S.L. (Barcelona)                       | Installation & Service of Elevators                         | 94.57%          | 18,025               | 97.62%          | 10,882               | Zardoya Otis, S.A.          |
| (+) Conservación de Aparatos Elevadores Express, S.L. (Madrid) | Installation & Service of Elevators                         | 100.00%         | 1,771                | 100.00%         | 1,771                | Zardoya Otis, S.A.          |
| Admotion, S.L. (Zaragoza)                                      | Research, development & manufacture of electronic equipment | 100.00%         | 1,583                | 91.66%          | 1,330                | Zardoya Otis, S.A.          |
| (+) Otis Maroc, S.A. (Marruecos)                               | Installation & Service of Elevators                         | 100.00%         | 21,949               | 100.00%         | 21,948               | Zardoya Otis, S.A.          |
| Ascensores Aspe, S.A. (Balears)                                | Installation & Service of Elevators                         | 100.00%         | 9,122                | 100.00%         | 9,122                | Ascensores Eguren, S.A.     |
| Montoy, S.L. (Lérida)  | Installation & Service of Elevators                         | 100.00%         | 8,084                | 60.00%          | 7,143                | Zardoya Otis, S.A.          |
| (+) Montes Tallón, S.A. (Alicante)                             | Installation & Service of Elevators                         | 52.00%          | 10,823               | 52.00%          | 10,823               | Zardoya Otis, S.A.          |
| (+) Grupo Ascensores Enor, S.A. (Pontevedra)                   | Installation & Service of Elevators                         | 100.00%         | 175,730              | 100.00%         | 175,730              | Zardoya Otis, S.A.          |
| (+) Ascensores Enor, S.A. (Pontevedra)                         | Installation & Service of Elevators and Automatic Doors     | 100.00%         | 4,950                | 100.00%         | 4,950                | Grupo Ascensores Enor, S.A. |
| (+) Electromecánica del Noroeste, S.A. (Pontevedra)            | Installation & Service of Elevators                         | 100.00%         | 715                  | 100.00%         | 715                  | Grupo Ascensores Enor, S.A. |
| (+) Enor Elevação e Equipamentos Industriais Lda (Portugal)    | Installation & Service of Elevators                         | 100.00%         | 935                  | 100.00%         | 935                  | Grupo Ascensores Enor, S.A. |
| Electromecánica Hermen Elevadores, S.L. (Vitoria)              | Installation & Service of Elevators                         | 90.00%          | 6,980                | -               | -                    | Zardoya Otis, S.A.          |
| Ascensores Hermen, S.L. (Vitoria)                              | Installation & Service of Elevators                         | 100.00%         | 2,908                | -               | -                    | Zardoya Otis, S.A.          |

(+) Companies audited by PwC.

In fiscal year 2013 there have been the following changes in the Group:

In december 2012, Puertas Automáticas Portis, S.L. signed an agreement to acquire its own shares from a minority shareholder for a 3.07% for amount to EThs 1,201. This transaction does not change the Zardoya Otis S.A. percentage of ownership in the subsidiary.

Also in December, 2012, Zardoya Otis, S.A. acquired 49% of the company electric Mototracción Eléctrica Latierro, S.A. for an amount of EThs 3.573; as of the transaction date the noncontrolling interest book value was EThs 2.889.

As mentioned in Note 33, in February 2013, Zardoya Otis, S.A. acquired 100% of the share capital of Grupo Ascensores Enor, S.A. for a total of EThs 175,730 by contribution of 3,338,463 registered shares of Grupo Ascensores Enor, S.A. representing the entirety of its share capital, in exchange of 16,913,367 new ordinary shares issued to that purpose. With this acquisition the entities: Grupo Ascensores Enor, S.A.; Electromecánica del Noroeste, S.A.; Ascensores Enor, S.A. and Enor Elevação e Equipamentos Industriais, Lda. are 100% directly or indirectly owned by Zardoya Otis, S.A.

In July, 2013, Zardoya Otis, S.A. acquired the remaining 30% of Cruxent-Edelma, S.L., for an amount of EThs 13,328; as of the transaction date the non-controlling interest book value was EThs 4,779.

Additionally, in July, 2013 Zardoya Otis, S.A. acquired the 8.33% of the non-controlling interest of the company Admotion, S.L. valued in EThs 200 using the Treasury Stock (18,904) shares held in portfolio) for payment. In October, 2013 Zardoya Otis, S.A. acquired another 8.33% of the non-controlling interest of the company Admotion, S.L. for an amount of EThs 230 paid in cash, as of the transaction date the non-controlling interest book value was EThs 40.

In November 2013, Portis, S.L. used its own shares held since December 2012 in payment of the EThs 1,179 outstanding from the acquisition of Fercas. The rest of treasury stock, EThs 22, were cancelled against the company equity.

In fiscal year 2014 there have been the following changes in the Group:

In January, 2014 Zardoya Otis, S.A. acquired the remaining 8.33% of the non-controlling interest of the company Admotion, S.L., thus completing the 100% ownership of such company. The payment was done using the treasury stock (18,500 shares).

In May 2014, the subsidiary Acresa Cardellach, S.L. carried out a capital increase through a non-monetary contribution of EThs 8,084 which was subscribed by the entirety of the shareholders of the subsidiary Montoy, S.L., which after the capital increase is 100% owned by Acresa Cardellach, S.L. This transaction resulted in a change of participation by Zardoya Otis, S.A. in the mentioned subsidiary Acresa Cardellach, S.L. holding directly the 94.57% of shares and indirectly the same percentage on Montoy, S.L.

In June, 2014 Zardoya Otis, S.A. acquired 3.66% of the non-controlling interest of the company Puertas Automáticas Portis, S.L. for an amount of EThs 1,432, this transaction represents a change in the Zardoya Otis, S.A. participation that increases to 93.83% ownership of such company.

In September, 2014 Zardoya Otis, S.A. has acquired 90% of the share capital of Electromecánica Hemen Elevadores, S.L. and 100% of Ascensores Hemen, S.L., both companies dedicated to the maintenance and repair of elevators in the provinces of Álava, Guipúzcoa, Burgos and Navarra. The total cost of the business combination has been determined provisionally in EThs 9,888.

Transactions with non-controlling interests are included in the financial statements in accordance with the Group policy (Note 2.2b) therefore not impacting the consolidated profit for the year.

If these changes 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.

#### **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 minority interests, the difference between any consideration paid and the relevant share acquired in the carrying amount of net assets of the subsidiary is recorded in the equity. Gains or losses on disposals to 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.



### **c) Joint business**

The Group recognizes the proportional part of the jointly-controlled assets and jointly-incurred liabilities in accordance with its percentage holding, together with the assets attached to the joint operations that are under its control and the liabilities incurred as a consequence of the joint business.

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

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

### **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 time devoted or 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 Financial Statements are presented in thousands of Euros, which is the Group's functional and 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 "revenue and expenses from financing activities".

#### **(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 at the end of the reporting period.

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 dates).

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 is taken to the shareholders' equity. When sold, these exchange differences are recognized on the Income Statement 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 year-end exchange rate.

### **2.5 Property, plant and equipment**

The land and buildings comprise the 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 the Income Statement 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 revalued amounts to their residual values over their estimated useful lives, as follows:

|                                       |                       |
|---------------------------------------|-----------------------|
| Buildings .....                       | 33 years              |
| Machinery .....                       | 4, 8, 10 and 13 years |
| Vehicles.....                         | 5 and 6 years         |
| Furniture, fittings & equipment ..... | 4, 10 and 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 and 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, 2014 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 EThs 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, 2014, the aforementioned restatement had an impact of EThs 326 on the net carrying amount of property, plant and equipment. Consequently, the effect of this restatement on the provision for the year 2014 is EThs 19.

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 revaluations 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 (5 to 20 years depending on the characteristics of the portfolio).

Impairment tests are conducted regularly whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Trademarks and other related assets resulting from portfolios acquisition 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 related to acquisitions of subsidiaries is included in the intangible assets. Goodwill recognized separately is submitted to annual impairment tests and is valued 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, since they do not meet requirements to be capitalized under IFRS.

## 2.7 Impairment losses on non-financial assets

Assets that have an undefined useful life are not subject to amortization and are tested regularly for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). The possible reversal of impairment losses on non-financial assets other than goodwill is reviewed at the end of each reporting period.

## **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 or 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. At November 30, 2014 and 2013, the Group did not hold any financial assets at fair value through profit and loss.

#### **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 end of the financial period. 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.

#### **c) Financial assets available for sale**

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 end of the reporting period.

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

Acquisition and disposal of investments are recognized on the date they are negotiated, on 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 realise 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 the end of each reporting period. 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 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 of principal payments; it becoming probable that the borrower will enter bankruptcy or financial re-organization; the disappearance of an active market for that financial asset because of financial difficulties; 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 cannot be objectively attributed to an event that has occurred after the impairment was recognized, the reversal of the previously-recognized impairment loss is 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 covered by forward contracts the impact of which is included in the Income Statement as net financial cost, 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. In the years 2014 and 2013, the Group did not enter into any contracts for derivative hedging instruments and no forward contracts existed at the 2014 and 2013 year ends.

## **2.12 Inventories**

Inventories are valued at the lower of market 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 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.

## **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.

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 included as borrowings in current liabilities in the Statement of Financial Position.

## **2.15 Share capital 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 reserve account corresponds to reserves freely available for distribution.

As a general rule and unless there's a more reliable valuation, the fair value of the equity instruments or financial liabilities issued as consideration in a business combination shall be their quoted price, if such instruments are admitted to quote in 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). Other wise, they are shown as noncurrent liabilities.

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

## **2.17 Current and deferred taxes**

The consolidated Income Statement for the year 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 balance sheet 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 profits 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.

## **2.18 Welfare commitments**

In accordance with Royal Decree 1588/1999, whereby the Regulations on Pension Commitments between companies and employees were enacted and which provides 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. had been the last payment for the financing of the agreement signed.

The liability recognized on the Balance Sheet in respect of the defined-benefit pension plans is the present value of the defined benefit obligation at the balance sheet date 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. 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.

As mentioned in the notes 2.1 and 19, the Group has adopted in 2014 retrospectively the modified IAS 19. For comparison, in the consolidated statement of changes in equity, balance of the beginning of the prior year (started on December 1, 2012) includes the unrecognized actuarial gains as of november 30, 2012 for a total amount of EThs 12,884. Likewise the net equity as of november 30, 2013 increases by EThs 11,823 corresponding to the initial recognition of the actuarial gains as mentioned of EThs 12,884, and the effect of the recognition on the actuarial gains as mentioned of EThs 12,884, and the effect of the recognition of the actuarial gains and retained generated in the fiscal year 2013 for EThs 1,061 and a reduction in profit of the year for an amount of EThs 6,205.

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.

## **2.19 Provisions**

In general, the Group recognizes a provision when it is legally or contractually liable or when past practices have created an implicit obligation.

Provisions are measured at the present value of the payments that are expected to be required to settle the obligation, applying a rate before tax that reflects the current market's estimates of the time value of money and the specific risks of the obligation. The increase in the provision as time passes is recognized as interest expense.

## **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 installations 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 revenue 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 difference between the funds obtained (net of the costs necessary to obtain them) and the repayment value is recognized in the Income Statement 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 an unconditional right to defer settlement for at least the twelve following months after the year end of the reported period.

#### **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 the Income Statement on a straight-line basis over the period of the lease.

#### **2.24 New rules and IFRIC interpretations**

The IASB has approved and published certain accounting rules, amendments to existing ones and IFRIC interpretations that came into force in the present year:

- a) IAS 19: "Employee Benefits" was amended in June 2011. The effect on the Group will be as follows: the corridor approach will be eliminated and all actuarial losses and gains will be recognized in other comprehensive income when they arise; all costs of past services will be recognized immediately; and interest, calculated by applying the discount rate to the net defined benefit liabilities (assets). The Group will adopt IAS 19 no later than the first accounting period commencing after January 1, 2014. At November 30, 2014 the unrecognized actuarial gains recorded amount to EThs 11,823, being this figure the total impact in the financial statements starting on December 1, 2014.
- b) IFRS 10 "Consolidated Financial Statements" is drawn up using existing principles identifying the control concept as the factor that determines whether an entity should be included in the consolidated financial statements of its parent. The Group will adopt IFRS 10 no later than the first accounting period commencing after January 1, 2014.
- c) IFRS 11 "Joint Business". The Group will adopt IFRS 11 no later than the first accounting period commencing after January 1, 2014.
- d) IFRS 12 "Disclosure of Interests in other Entities" includes the reporting requirements for all types of interests in other entities, including joint arrangements and associates. The Group will adopt IFRS 12 no later than the first accounting period commencing after January 1, 2014.
- e) IFRS 13 "Fair Value Measurement" is intended to improve consistency and reduce complexity by providing a clear definition of fair value and a sole source for measuring it, together with reporting requirements for the use thereof in IFRS. The requirements do not extend the use of fair value accounting, provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or U.S. GAAP. The Group will adopt IFRS 13 no later than the first accounting period commencing after January 1, 2014.

f) IFRS 7 (Amendment), "Disclosures - Transfers of Financial Instruments". This requires additional disclosures on the risk exposures arising from financial instruments transferred to third parties. Among others, the amendment would affect financial asset sale transactions, factoring agreements and securities loan transaction. The amendments to IFRS 7 are mandatory for all annual periods commencing after January 1, 2014.

Likewise, IASB has approved and published certain accounting rules, amendments to existing ones and IFRIC interpretations that will come into force in after the closing of the fiscal year not adopted earlier:

a) IAS 32 "Financial Instruments: Presentation", issued to clarify certain requirements for offsetting financial assets and liabilities in the statement of financial position. The Group will adopt IAS 32 no later than the first accounting period commencing after January 1, 2014.

b) IFRS 9 "Financial Instruments" addresses the classification, measurement and recognition of financial assets and liabilities. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made upon initial recognition. The main change in fair value that is the consequence of the entity's own credit risk is recognized in other comprehensive income, rather than in profit and loss, unless this would create an accounting mismatch. The Group will adopt IFRS 9 no later than the first accounting period commencing after January 1, 2015.

### **NOTE 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 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 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 in a change in the interest rate would not have a material effect on the Group's financial statements.

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., which net assets are exposed to the risk of Foreign exchange differences at the 2014 and 2013 year ends. However their value is not significant and the effect in a change in the exchange rate would not have a material effect on the Group's financial statements.

Receivables from related Otis Group companies originating principally from trading transactions originated in euros (EThs 26,944 in 2014 and EThs 31,639 in 2013, Note 34). Since these are commercial collection rights in euros, the Company is not exposed to foreign exchange risk in relation to these accounts.

(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, 2014, said provision was EThs 101,512 (EThs 100,101 in 2013) (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 impaired at November 30, 2014 and 2013 is as follows:

|                                 | <u>2014</u>   | <u>2013</u>   |
|---------------------------------|---------------|---------------|
| Between 6 months & 1 year ..... | 13,175        | 15,323        |
| Between 1 & 2 years .....       | 10,668        | 10,093        |
| More than 2 years .....         | -             | -             |
| EThs                            | <u>23,843</u> | <u>25,416</u> |

Amounts receivable for exports relate to balances with related companies (Otis Group).

As stated in Note 10, at November 30, 2014 and 2013, the Group held current deposits with financial institutions of EThs 25.451 and EThs 21,009, 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, 2014, cash and cash equivalents represented EThs 72,029 (EThs 44,895 in 2013), including amounts held as cash, in banks and as current deposits with financial institutions. As stated in Note 20, during the year 2011, the Company signed a framework agreement for the financing of company acquisitions with Banca March, S.A. for a period of three years, up to a maximum amount of a hundred million euros. The change in the Statement of Cash Flows in relation to operating, investing and financing activities is shown below:

|  | <u>2014</u>      | <u>2013</u>      |
|--|------------------|------------------|
| <b>Cash at the beginning of the year</b> ..... | <b>44,895</b>    | 37,106           |
| Cash flows from operating activities .....     | 199,474          | 182,876          |
| Cash flows from investing activities .....     | (13,518)         | (10,654)         |
| Cash flows from financing activities .....     | <u>(158,822)</u> | <u>(164,433)</u> |
| <b>Cash at the year end</b> .....              | <b>72,029</b>    | 44,895           |



#### (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. In accordance with group treasury policies, the Group does not acquire or hold financial derivatives for trading.

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

As stated in Note 20, at the 2014 year end, the noncurrent amount for this items was EThs 4,900 (EThs 10,050 in 2013). At November 30, 2014 and 2013, the Company did not hold any borrowings at a fixed interest rate and the sensitivity of the result to the variation of the interest rates on the borrowings from financial institutions was not significant in relation to the interest expense for the year, which was EThs 1,202 (EThs 1,473 in 2013).

#### (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 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 the 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.

|  | 2014     | 2013     |
|--|----------|----------|
| Borrowings (current and noncurrent) .....              | 10,311   | 19,202   |
| Other current & noncurrent financial liabilities ..... | 15,781   | 11,092   |
| Cash and cash equivalents .....                        | (72,029) | (44,895) |
| Net financial debt .....                               | (45,937) | (14,601) |
| Equity .....   | 428,582  | 422,382  |
| Leverage (*) .....                                     | -0.12    | -0.03    |

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

At November 30, 2014 this net debt represents -0.2147 to EBITDA (2013: -0.057) (EBITDA: operating profit + depreciation + amortization).

#### NOTE 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 unique 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.

Additionally, the non-elevator business, mainly automatic doors, is shown, given its distinctive characteristics: a much less mature market with lower margins and higher risks but with significant growth prospects. Therefore, it is an activity clearly differentiated from traditional Group business and, in Management's option, information is relevant for the shareholders.

As started 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.

|  | Sales        | Operating profit/(loss) | Assets  |                                  |                                   | Liabilities |
|--|--------------|-------------------------|---------|----------------------------------|-----------------------------------|-------------|
|  |              |                         | Total   | Depreciation Amortization Charge | Non current investments in assets |             |
| <b>2014</b>                            |              |                         |         |                                  |                                   |             |
| Zardoya Otis Group - Spain             | 725,021      | 203,068                 | 621,950 | 21,688                           | 18,524                            | 228,908     |
| Otis Elevadores Group - Portugal       | 59,097       | 21,584                  | 59,880  | 450                              | 537                               | 31,796      |
| Otis Maroc - Morocco                   | 14,459       | 976                     | 30,288  | 56                               | 73                                | 22,832      |
| Eliminations - intragroup transactions | (59,623)     | (5,271)                 | -       | -                                | -                                 | -           |
| Consolidated                           | ETHs 738,954 | 220,357                 | 712,118 | 22,194                           | 19,134                            | 283,536     |

|  | Sales        | Operating profit/(loss) | Assets  |                                  |                                   | Liabilities |
|--|--------------|-------------------------|---------|----------------------------------|-----------------------------------|-------------|
|  |              |                         | Total   | Depreciation Amortization Charge | Non current investments in assets |             |
| <b>2013</b>                            |              |                         |         |                                  |                                   |             |
| Zardoya Otis Group - Spain             | 739,932      | 205,331                 | 625,814 | 26,200                           | 191,941                           | 239,694     |
| Otis Elevadores Group - Portugal       | 63,277       | 24,203                  | 63,966  | 707                              | 112                               | 31,339      |
| Otis Maroc - Morocco                   | 15,143       | 1,162                   | 24,153  | 59                               | 51                                | 20,518      |
| Eliminations - intragroup transactions | (59,121)     | (4,469)                 | -       | -                                | -                                 | -           |
| Consolidated                           | ETHs 759,231 | 220,022                 | 713,933 | 26,966                           | 192,104                           | 291,551     |

|   | Sales          | Operating profit/(loss) | %            | Fixed assets acquired |
|---|----------------|-------------------------|--------------|-----------------------|
|   |                |                         |              |                       |
| Zardoya Otis, S.A. (aggregate of 116 branches) .....        | 562,306        | 173,696                 | 30.88        | 6,019                 |
| Spanish Group Companies - elevators (13 companies) .....    | 113,372        | 25,039                  | 22.23        | 12,234                |
| Otis Elevadores Group - Portugal .....                      | 59,097         | 21,584                  | 36.52        | 537                   |
| Otis Maroc - Morocco .....                                  | 14,459         | 976                     | 6.75         | 73                    |
| <b>Total Elevators</b>                                      | <b>749,234</b> | <b>221,295</b>          | <b>29.56</b> | <b>18,863</b>         |
| Spanish Group Companies - non elevators (3 companies) ..... | 49,343         | 4,423                   | 8.96         | 272                   |
| <b>Total Group</b>  | <b>798,577</b> | <b>225,628</b>          | <b>28.28</b> | <b>19,134</b>         |
| Eliminations - intragroup transactions.....                 | (59,623)       | (5,271)                 | -            | -                     |
| <b>ETHs Consolidated</b>                                    | <b>738,954</b> | <b>220,357</b>          | <b>29.80</b> | <b>19,134</b>         |

|   | Sales          | Operating profit/(loss) | %            | Fixed assets acquired |
|---|----------------|-------------------------|--------------|-----------------------|
|   |                |                         |              |                       |
| Zardoya Otis, S.A. (aggregate of 95 branches) .....         | 576,115        | 168,644                 | 29.27        | 4,753                 |
| Spanish Group Companies - elevators (13 companies) .....    | 116,590        | 28,112                  | 24.11        | 186,597               |
| Otis Elevadores Group - Portugal .....                      | 63,277         | 24,203                  | 38.25        | 112                   |
| Otis Maroc - Morocco .....                                  | 15,143         | 1,162                   | 7.67         | 51                    |
| <b>Total Elevators</b>                                      | <b>771,125</b> | <b>222,121</b>          | <b>28.80</b> | <b>191,513</b>        |
| Spanish Group Companies - non elevators (3 companies) ..... | 47,227         | 2,370                   | 5.02         | 591                   |
| <b>Total Group</b>  | <b>818,352</b> | <b>224,491</b>          | <b>27.43</b> | <b>192,104</b>        |
| Eliminations - intragroup transactions.....                 | (59,121)       | (4,469)                 | -            | -                     |
| <b>ETHs Consolidated</b>                                    | <b>759,231</b> | <b>220,022</b>          | <b>28.98</b> | <b>192,104</b>        |

## NOTE 5. PROPERTY, PLANT AND EQUIPMENT

Details of the different categories of property, plant and equipment and movements on these accounts are shown below:

|  | Land &<br>Buildings | Machinery     | Furniture, fittings<br>& equipment | Total         |
|--|---------------------|---------------|------------------------------------|---------------|
| <b>As of November 30, 2012</b>                 |                     |               |                                    |               |
| Cost.....                                      | 41,056              | 38,963        | 68,539                             | 148,558       |
| Accumulated depreciation .....                 | (10,060)            | (28,697)      | (57,126)                           | (95,883)      |
| Impairment loss .....                          | -                   | -             | -                                  | -             |
| <b>Net carrying amount .....</b> ETHs          | <b>30,996</b>       | <b>10,266</b> | <b>11,413</b>                      | <b>52,675</b> |
| <b>2013</b>                                    |                     |               |                                    |               |
| Business combinations .....                    | 15,806              | 179           | 1,614                              | 17,599        |
| Increases .....                                | -                   | 2,549         | 631                                | 3,180         |
| Decreases .....                                | -                   | (491)         | (377)                              | (868)         |
| Depreciation charge .....                      | (1,041)             | (2,967)       | (2,594)                            | (6,602)       |
| Eliminations from depreciation .....           | -                   | 443           | 317                                | 760           |
| Impairment losses recognized in the year ..... | -                   | -             | -                                  | -             |
| Impairment losses reversed .....               | -                   | -             | -                                  | -             |
| Other movements .....                          | -                   | -             | -                                  | -             |
|  | 14,765              | (287)         | (409)                              | 14,069        |
| <b>Al 30 de Noviembre de 2013</b>              |                     |               |                                    |               |
| Cost.....                                      | 58,917              | 41,859        | 73,038                             | 173,814       |
| Accumulated depreciation .....                 | (13,156)            | (31,880)      | (62,034)                           | (107,070)     |
| Impairment loss .....                          | -                   | -             | -                                  | -             |
| <b>Net carrying amount .....</b> ETHs          | <b>45,761</b>       | <b>9,979</b>  | <b>11,004</b>                      | <b>66,744</b> |
| <b>2014</b>                                    |                     |               |                                    |               |
| Business combinations .....                    | -                   | -             | 87                                 | 87            |
| Increases .....                                | 8                   | 2,929         | 1,500                              | 4,437         |
| Decreases .....                                | -                   | (1,254)       | (719)                              | (1,973)       |
| Depreciation charge .....                      | (1,160)             | (3,149)       | (2,302)                            | (6,611)       |
| Eliminations from depreciation .....           | -                   | 1,254         | 719                                | 1,973         |
| Impairment losses recognized in the year ..... | -                   | -             | -                                  | -             |
| Impairment losses reversed .....               | -                   | -             | -                                  | -             |
| Other movements .....                          | -                   | -             | -                                  | -             |
|  | (1,152)             | (220)         | (715)                              | (2,087)       |
| <b>As of November 30, 2014</b>                 |                     |               |                                    |               |
| Cost.....                                      | 58,925              | 43,534        | 73,906                             | 176,365       |
| Accumulated depreciation .....                 | (14,316)            | (33,775)      | (63,617)                           | (111,708)     |
| Impairment loss .....                          | -                   | -             | -                                  | -             |
| <b>Net carrying amount .....</b> ETHs          | <b>44,609</b>       | <b>9,759</b>  | <b>10,289</b>                      | <b>64,657</b> |

The property, plant and equipment figure includes assets in progress for a total value of ETHs 264 in 2014 and ETHs 428 in 2013.

The principal property, plant and equipment comprises buildings and installations related to the Leganés plant, work on which was completed in the year 2008. The value of the buildings and installations recognized as property, plant and equipment is ETHs 23,345. In 2013 it also include the manufacturing facilities and offices of the Grupo Enor: Ascensores Enor, S.A. and Electromecánica del Noroeste, S.A. in the technological park of Valladares (Vigo), opened in 2007 and included at the fair value in the business combination for an amount of ETHs 15,786.

At November 30, 2014 and 2013, the following items of property, plant and equipment were fully depreciated:

|   | 2014        | 2013   |
|---|-------------|--------|
| Land and buildings .....                | 4,749       | 4,655  |
| Vehicles and machinery.....             | 29,890      | 29,920 |
| Furniture, fittings and equipment ..... | 39,088      | 37,755 |
|   | ETHs 73,727 | 72,330 |

Of the total property, plant and equipment net of depreciation, the value of which is EThs 64,657, the amount of EThs 373 is in Portugal and the amount of EThs 177 in Morocco (EThs 186 and 164 respectively in 2013). 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, 2014 and 2013, none of the Group's financial liabilities was secured by property, plant and equipment and, therefore, all the property, plant and equipment were free of any charges.

## NOTE 6. INTANGIBLE ASSETS

Details of the main categories of intangible assets and the movement on these accounts are shown:

|  | Maintenance<br>Contracts | Goodwill       | Other        | Total          |
|--|--------------------------|----------------|--------------|----------------|
| <b>As of November 30, 2012</b>                 |                          |                |              |                |
| Cost.....                                      | 220,361                  | 56,663         | 3,090        | 280,114        |
| Accumulated amortization .....                 | (86,499)                 | -              | (2,910)      | (89,409)       |
| Impairment loss .....                          | -                        | -              | -            | -              |
| <b>Net carrying amount .....</b> EThs          | <b>133,862</b>           | <b>56,663</b>  | <b>180</b>   | <b>190,705</b> |
| <b>2013</b>                                    |                          |                |              |                |
| Increases .....                                | 443                      | -              | 2,518        | 2,961          |
| Business combinations .....                    | 78,432                   | 83,873         | 6,011        | 168,316        |
| Decreases .....                                | (395)                    | -              | -            | (395)          |
| Amortization charge .....                      | (11,897)                 | -              | (2,574)      | (14,471)       |
| Eliminations from amortization .....           | 337                      | -              | -            | 337            |
| Impairment losses recognized in the year ..... | -                        | (5,893)        | -            | (5,893)        |
| Impairment losses reversed .....               | -                        | -              | -            | -              |
| Other movements .....                          | -                        | -              | -            | -              |
|  | 66,920                   | 77,980         | 5,955        | 150,855        |
| <b>At November 30, 2013</b>                    |                          |                |              |                |
| Cost.....                                      | 298,841                  | 140,536        | 9,093        | 448,470        |
| Accumulated amortization .....                 | (98,059)                 | -              | (2,958)      | (101,017)      |
| Impairment loss .....                          | -                        | (5,893)        | -            | -              |
| <b>Net carrying amount .....</b> EThs          | <b>200,782</b>           | <b>134,643</b> | <b>6,135</b> | <b>341,560</b> |
| <b>2014</b>                                    |                          |                |              |                |
| Increases .....                                | 317                      | -              | 2,679        | 2,996          |
| Business combinations .....                    | 5,004                    | 6,614          | -            | 11,618         |
| Decreases .....                                | (196)                    | -              | -            | (196)          |
| Amortization charge .....                      | (12,835)                 | -              | (2,749)      | (15,584)       |
| Eliminations from amortization .....           | 166                      | -              | -            | 166            |
| Impairment losses recognized in the year ..... | -                        | -              | -            | -              |
| Impairment losses reversed .....               | -                        | -              | -            | -              |
| Other movements .....                          | -                        | -              | -            | -              |
|  | (7,544)                  | 6,614          | (70)         | (1,000)        |
| <b>At November 30, 2014</b>                    |                          |                |              |                |
| Cost.....                                      | 303,966                  | 147,150        | 11,772       | 462,888        |
| Accumulated amortization .....                 | (110,728)                | -              | (5,707)      | (116,435)      |
| Impairment loss .....                          | -                        | (5,893)        | -            | (5,893)        |
| <b>Net carrying amount .....</b> EThs          | <b>193,238</b>           | <b>141,257</b> | <b>6,065</b> | <b>340,560</b> |

The goodwill and intangible assets with indefinite useful lives have been assigned to the Group's cash-generating units (CGUs) as follows:

|   | 2014           | 2013    |
|---|----------------|---------|
| Otis Maroc, S.A. ....                                 | 17,780         | 17,780  |
| Zardoya Otis, S.A. ....                               | 25,794         | 19,180  |
| Conservación de aparatos elevadores Express, S.L..... | 8,083          | 8,083   |
| Puertas Automáticas Portis, S.L .....                 | 3,299          | 3,299   |
| Montes Tallón, S.A. ....                              | 2,428          | 2,428   |
| Grupo Ascensores Enor .....                           | 83,873         | 83,873  |
| EThs  | <b>141,257</b> | 134,643 |



In 2014, increases due to business combinations, both in maintenance contracts and goodwill, relate to the acquisitions made during the year (Note 33): Grupo Ascensores Enor, S.A.

For each business combination, the Group requires an external company of recognized prestige to verify the fair value of the net assets acquired. The recoverable amount is determined by using cash-flow projections in financial budgets approved by Management for a maximum 15-years period, based on past performance and market development expectations. The growth rates applied maximum 2.9% and growth rate used for projections subsequent to the period considered is 2%. The discount rate used is around 9.00% (2013: 9.68%).

To determine the value of the service contracts at the business combination date, the free discounted cash flow method (DCF) is used, applied to the portfolio that exists at the business combination date and adjusted for each year by the customer cancellation and turnover rate in accordance with the information and statistics held by Group Management.

To calculate the discount rate, the Group uses a long term Treasury bond rate, growth expectations, the cash-generating unit (CGU) effective tax rate and the Group's cost of debt. The perpetuity growth rate used is in line with the one used by similar industries in the countries in which the Group operates.

|  | Period in<br>years budgeted | Subsequent<br>growth rate | Discount rate<br>(acquisition date) |
|--|-----------------------------|---------------------------|-------------------------------------|
| Otis Maroc, S.A. ....                                  | 15                          | 2.0%                      | 8.2%                                |
| Conservación de aparatos elevadores Express, S.L. .... | 5 to 15                     | 2.0%                      | 8.3%                                |
| Puertas Automáticas Portis, S.L. ....                  | 5 to 15                     | 2.0%                      | 9%                                  |
| Zardoya Otis, S.A. ....                                | 5 to 15                     | 2.0%                      | From 8% to 9%                       |
| Montes Tallón, S.A. ....                               | 5                           | 2.0%                      | 9.7%                                |
| Grupo Ascensores Enor .....                            | 15                          | 2.0%                      | 10.13%                              |

The discount rate used is after tax and is independent of the specific capital structure of Zardoya Otis, S.A. and its subsidiaries, which does not have significant financial debt, assuming the discount rate structure of the international group and the sector.

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, we consider a cash-generating unit as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The goodwill and service portfolios are regularly tested for impairment reviewing the business expectations drawn up at the time of acquisition using the key assumptions: period considered, discount rate and perpetuity growth rate. Generally, except for Otis Morocco, the amount of goodwill assigned to the different cash-generating units is not significant compared to the value of the CGU itself.

Apart from the discount rate, the most sensitive aspects included 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 2012 goodwill recognized in Montes Tallón from business combinations of Montes Tallón, S.A. and the companies integrated in the year in such CGU (Ascensores Molero, S.L. and Reparación y Mantenimiento de Ascensores, S.L.), was valued at EThs 8,321. In 2013, the value in use of the assets of the CGU obtained from the test for impairment based on the review of business expectations drawn up at the time of acquisition corresponding to service revenue, growth in the contracts on the portfolio from the expected synergies of the business combinations and CGU expense and cost structure, is lower than the net carrying amounts recognized and therefore, the impairment has been recognized in the present financial statements for an amount of EThs 5,893.

As a result of the above process, in 2014 and 2013, except for the fall in value recorded for Montes Tallón in 2013, the values in use of the CGUs calculated in accordance with the above model were, in all cases, higher than the carrying amounts shown in these Consolidated Annual Financial Statements. Therefore, no impairment other than that mentioned above has been recognized. Likewise, it is estimated that any possible reasonable variations that might be undergone by the key assumptions on which the determination of the recoverable amounts of the different CGUs is based would not change the conclusions drawn as to the measurement of the assets.

Considering that, individually, the value of the maintenance contracts from the acquisition of Grupo Ascensores Enor, S.A. has the heaviest weight in the total of said assets with a defined useful life, a sensitivity analysis considering the discount rate and the average growth rate is set forth below:

| Discount rate | Growth rate for the projected period |        |        |        |
|---------------|--------------------------------------|--------|--------|--------|
|               | 0%                                   | 1%     | 2%     | 3%     |
| 9.63%         | 79,482                               | 80,572 | 81,752 | 83,033 |
| 9.88%         | 78,003                               | 79,045 | 80,173 | 81,396 |
| 10.13%        | 76,596                               | 77,592 | 78,672 | 79,842 |
| 10.38%        | 75,199                               | 76,153 | 77,184 | 78,302 |
| 10.63%        | 73,870                               | 74,783 | 75,770 | 76,839 |

In 2014, the trade and other payables heading included an obligation of EThs 13,695 (2013 ETh 13,970) related to the share purchase agreement signed in 2011 with the sellers of Montes Tallón. The obligation was recognized in 2013 after completion of a one-year period since the assignation of the price and review of the company's equity situation. Initial recognition of this obligation was against consolidation and other reserves presented in the consolidated statement of changes in equity in 2013, since the risks and rewards associated to ownership of 48% of the shares of Monte Tallón continued to be held by minority shareholders and the amount was not considered significant in relation to the total liabilities and equity at the end of 2013. In this respect, in 2014, the change in the liabilities was recognized in the consolidated income statement as financial income.

Regarding acquisition of the remaining 48%, under the agreement signed with the sellers, the purchase of all or part of the shares thereof by Zardoya Otis, S.A. may be requested at any time up to December 21, 2016. To determine the price of the shares, the same criteria as those used for the initial purchase will be applied, basically service contracts and equity value.

As stated in Note 33, in 2014, 100% of the company Ascensores Hemen Elevadores, S.L. was acquired for EThs 2,908 and 90% of Sociedad Electromecánica Hemen Elevadores, S.A. for EThs 6,980. The valuation of the company at the business combination date was EThs 7,756, recognizing an obligation of EThs 776 under the trade and other payables heading in relation to the purchase agreement for said shares, which, regarding the acquisition of the remaining 10%, states that the sellers may, at any time during a five-year period, request the purchase of said shares by Zardoya Otis, S.A. The obligation was initially recognized against consolidation and other reserves presented in the consolidated statement of changes in equity in 2014.

As stated in the accounting policies of the Consolidated Notes to the Annual Financial Statements for the years 2014 and 2013, in relation to non-controlling transactions and 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 corresponding proportion of the carrying amount of the subsidiary's net assets is deducted from the equity. For this reason, the obligation was recognized against consolidation and other reserves.

The principal assets, at their carrying amounts in their respective balance sheet, contributed to the consolidation by each one of the CGUs to which goodwill has been assigned are as follows:

| 2014                             |                    |                                   |                  |                                  |                     |                       |
|----------------------------------|--------------------|-----------------------------------|------------------|----------------------------------|---------------------|-----------------------|
|                                  | Conservación de    |                                   |                  |                                  |                     |                       |
|                                  | Zardoya Otis, S.A. | aparatos elevadores Express, S.L. | Otis Maroc, S.A. | Puertas Automáticas Portis, S.L. | Montes Tallón, S.A. | Grupo Ascensores Enor |
| Property, plan & equipment ..... | 45,347             | 54                                | 177              | 109                              | 84                  | 16,692                |
| Other intangible assets.....     | 67,791             | 17,816                            | 8                | 20,453                           | 5,575               | 18                    |
| Deferred tax assets.....         | 11,733             | 334                               | -                | 59                               | 96                  | 269                   |
| Other noncurrent .....           | 3,628              | 16                                | -                | 77                               | 8                   | 917                   |
| Inventories.....                 | 43,831             | 478                               | 252              | 381                              | 212                 | 1,472                 |
| Trade and other receivables..... | 147,233            | 5,581                             | 12,861           | 4,921                            | 1,946               | 11,796                |
| Other current assets .....       | 236                | 14                                | 2                | 6                                | -                   | 28                    |
| Cash and cash equivalents.....   | 30,205             | 323                               | 8                | 437                              | 607                 | 7,479                 |

| 2013                             |                    |                                   |                  |                                  |                     |                       |
|----------------------------------|--------------------|-----------------------------------|------------------|----------------------------------|---------------------|-----------------------|
|                                  | Conservación de    |                                   |                  |                                  |                     |                       |
|                                  | Zardoya Otis, S.A. | aparatos elevadores Express, S.L. | Otis Maroc, S.A. | Puertas Automáticas Portis, S.L. | Montes Tallón, S.A. | Grupo Ascensores Enor |
| Property, plan & equipment ..... | 46,713             | 61                                | 164              | 115                              | 115                 | 17,193                |
| Other intangible assets.....     | 70,687             | 18,172                            | 5                | 21,110                           | 5,967               | 40                    |
| Deferred tax assets.....         | 14,610             | 505                               | -                | 39                               | 77                  | 230                   |
| Other noncurrent .....           | 3,580              | 23                                | -                | 80                               | 8                   | 800                   |
| Inventories.....                 | 39,190             | 50                                | 551              | 429                              | 295                 | 1,381                 |
| Trade and other receivables..... | 173,851            | 5,678                             | 13,643           | 5,760                            | 1,927               | 13,211                |
| Other current assets .....       | 2,619              | 14                                | -                | 40                               | -                   | 14                    |
| Cash and cash equivalents.....   | 11,090             | 559                               | 623              | 605                              | 487                 | 2,959                 |

## NOTE 7. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

|   | Loans & receivables & other | Assets held at fair value through profit & loss | Hedging derivatives | Available for sale | Total          |
|---|-----------------------------|---|---------------------|--------------------|----------------|
| <b>November 30, 2014</b>                                    |                             |   |                     |                    |                |
| <b>Noncurrent assets in statement of financial position</b> |                             |   |                     |                    |                |
| Loans and receivables (Note 8).....                         | 6,455                       | -   | -                   | -                  | 6,455          |
| Other.....  | 730                         | -   | -                   | -                  | 730            |
| <b>Total .....</b>  | <b>7,185</b>                | <b>-</b>  | <b>-</b>            | <b>-</b>           | <b>7,185</b>   |
| <b>Current assets in statement of financial position</b>    |                             |   |                     |                    |                |
| Trade and other receivables (Note 8) .....                  | 176,893                     | -   | -                   | -                  | 176,893        |
| Other .....   | 308                         | -   | -                   | -                  | 308            |
| Cash and cash equivalents (Note 10).....                    | 72,029                      | -   | -                   | -                  | 72,029         |
| <b>Total .....</b>  | <b>249,230</b>              | <b>-</b>  | <b>-</b>            | <b>-</b>           | <b>249,230</b> |

|   | Loans & receivables & other | Assets held at fair value through profit & loss | Hedging derivatives | Available for sale | Total        |
|---|-----------------------------|---|---------------------|--------------------|--------------|
| <b>November 30, 2013</b>                                    |                             |   |                     |                    |              |
| <b>Noncurrent assets in statement of financial position</b> |                             |   |                     |                    |              |
| Loans and receivables (Note 8).....                         | 6,093                       | -   | -                   | -                  | 6,093        |
| Other.....  | 725                         | -   | -                   | -                  | 725          |
| <b>Total .....</b> ETHs                                     | <b>6,818</b>                | <b>-</b>  | <b>-</b>            | <b>-</b>           | <b>6,818</b> |

**November 30, 2013**

**Current assets in statement of financial position**

|  |                |          |          |          |                |
|--|----------------|----------|----------|----------|----------------|
| Trade and other receivables (Note 8) ..... | 194,815        | -        | -        | -        | 194,815        |
| Other .....                                | 373            | -        | -        | -        | 373            |
| Cash and cash equivalents (Note 10).....   | 44,895         | -        | -        | -        | 44,895         |
| <b>Total .....</b> ETHs                    | <b>240,083</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>240,083</b> |

|  | Liabilities held at fair value through profit and loss | Hedging derivatives | Other financial liabilities at amortized cost | Total        |
|--|--|---------------------|---|--------------|
| <b>November 30, 2014</b>   |  |                     |   |              |
| <b>Noncurrent liabilities in statement of financial position</b> |  |                     |   |              |
| Borrowings from financial institutions (Note 20).....            | -  | -                   | 4,900   | 4,900        |
| Trade and other payables .....                                   | -  | -                   | -   | -            |
| Other debts through acquisitions (Note 16) .....                 | -  | -                   | 3,725   | 3,725        |
| <b>Total .....</b> ETHs  | <b>-</b>   | <b>-</b>            | <b>8,625</b>                                  | <b>8,625</b> |

**November 30, 2014**

**Current liabilities in statement of financial position**

|   |          |          |                |                |
|---|----------|----------|----------------|----------------|
| Borrowings from financial institutions (Note 20)..... | -        | -        | 5,411          | 5,411          |
| Trade and other payables (Note 16) .....              | -        | -        | 171,856        | 171,856        |
| Other debts through acquisitions (Note 16) .....      | -        | -        | 12,834         | 12,834         |
| <b>Total .....</b> ETHs                               | <b>-</b> | <b>-</b> | <b>190,101</b> | <b>190,101</b> |

|  | Liabilities held at fair value through profit and loss | Hedging derivatives | Other financial liabilities at amortized cost | Total         |
|--|--|---------------------|---|---------------|
| <b>November 30, 2013</b>   |  |                     |   |               |
| <b>Noncurrent liabilities in statement of financial position</b> |  |                     |   |               |
| Borrowings from financial institutions (Note 20).....            | -  | -                   | 10,050  | 10,050        |
| Trade and other payables (Note 16) .....                         | -  | -                   | -   | -             |
| Other debts through acquisitions (Note 16) .....                 | -  | -                   | 7,909   | 7,909         |
| <b>Total .....</b> ETHs  | <b>-</b>   | <b>-</b>            | <b>17,959</b>                                 | <b>17,959</b> |

**November 30, 2013**

**Current liabilities in statement of financial position**

|   |          |          |                |                |
|---|----------|----------|----------------|----------------|
| Borrowings from financial institutions (Note 20)..... | -        | -        | 9,031          | 9,031          |
| Trade and other payables (Note 16) .....              | -        | -        | 170,300        | 170,300        |
| Other debts through acquisitions (Note 16) .....      | -        | -        | 5,693          | 5,693          |
| <b>Total .....</b> ETHs                               | <b>-</b> | <b>-</b> | <b>185,024</b> | <b>185,024</b> |



## NOTE 8. TRADE AND OTHER RECEIVABLES

|   | 2014      | 2013      |
|---|-----------|-----------|
| Trade receivables .....                             | 224,603   | 243,122   |
| Less: Provision for impairment of receivables ..... | (101,512) | (100,101) |
| Trade receivables - net.....                        | 123,091   | 143,021   |
| Amount due from customers for contract works.....   | 18,696    | 9,185     |
| Other accounts receivable .....                     | 13,554    | 17,975    |
| Prepayments .....                                   | 985       | 1,102     |
| Receivables from related parties (Note 34) .....    | 26,944    | 31,639    |
| Total .....   | 183,270   | 202,921   |

The total amount of the costs incurred at the end of the reporting period was EThs 53,714 (2013: EThs 45,553), this amount includes recognized profits (less recognized losses) on all contracts in progress for EThs 4,341 (2013: EThs 3,952). Amounts due from customers for contract works are shown net, between the cost incurred at the end of the reporting period and the advance payments received from the customers, for an amount of EThs 35,018 (EThs 36,638 in 2013). At November 30, 2014, the trade receivables balance showed an amount of EThs 2,694 (2013: EThs 3,691) 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:

|                              | 2014    | 2013    |
|------------------------------|---------|---------|
| Beginning of the period..... | 100,101 | 89,606  |
| Provision made.....          | 3,719   | 8,345   |
| Business combinations .....  | -       | 6,199   |
| Applications.....            | (2,308) | (4,049) |
| EThs                         | 101,512 | 100,101 |

The provisions and applications are including on the income statement under the heading of "Other expenses, net". The net provision provided in the financial year 2014 has been a 0.19% of Group sales (2013: 0.57%).

Trade receivables includes balances at more than six months for the following amounts:

|                                       | 2014   | 2013   |
|---------------------------------------|--------|--------|
| Between six months and one year ..... | 16,258 | 18,815 |
| Between one and two years .....       | 41,199 | 41,072 |
| More than two years .....             | 15,124 | 12,808 |
| EThs                                  | 72,581 | 72,695 |

The detail of matured receivables age and relative impairment is as follows:

### 2014

| Thousands of euros              | Gross   | Impaired  | Net     | Not Due | Due but not impaired |
|---------------------------------|---------|-----------|---------|---------|----------------------|
| Less than six months            | 111,480 | (12,232)  | 99,248  | 74,102  | 25,146               |
| Between six months and one year | 16,258  | (3,083)   | 13,175  | -       | 13,175               |
| Between one year and two years  | 41,199  | (30,531)  | 10,668  | -       | 10,668               |
| More than two years             | 15,124  | (15,124)  | -       | -       | -                    |
| Under litigation                | 40,542  | (40,542)  | -       | -       | -                    |
| Total                           | 224,603 | (101,512) | 123,091 | 74,102  | 48,989               |

2013

| Thousands of euros              | Gross   | Impaired  | Net     | Not Due | Due but not impaired |
|---------------------------------|---------|-----------|---------|---------|----------------------|
| Less than six months            | 131,888 | (14,283)  | 117,605 | 71,863  | 45,742               |
| Between six months and one year | 18,815  | (3,492)   | 15,323  | -       | 15,323               |
| Between one year and two years  | 41,072  | (30,979)  | 10,093  | -       | 10,093               |
| More than two years             | 12,808  | (12,808)  | -       | -       | -                    |
| Under litigation                | 38,539  | (38,539)  | -       | -       | -                    |
| Total                           | 243,122 | (100,101) | 143,021 | 71,863  | 71,158               |

Additionally, other noncurrent assets includes long-term promissory notes received from customers with maturity dates of more than one year for a total amount of EThs 4,421 (EThs 4,297 in 2013). The breakdown by years until maturity is as follows:

|                             | 2014         | 2013  |
|-----------------------------|--------------|-------|
| Two years .....             | 3,498        | 3,438 |
| Three years .....           | 725          | 659   |
| More than three years ..... | 198          | 200   |
| EThs                        | <b>4,421</b> | 4,297 |

**NOTE 9. INVENTORIES**

|   | 2014          | 2013   |
|---|---------------|--------|
| Raw materials and consumables for production..... | 19,300        | 22,972 |
| Work in progress .....                            | 3,392         | 2,118  |
| EThs  | <b>22,692</b> | 25,090 |

**NOTE 10. CASH AND CASH EQUIVALENTS**

|  | 2014          | 2013   |
|--|---------------|--------|
| Cash and banks .....                               | 46,577        | 23,886 |
| Current deposits with financial institutions ..... | 25,452        | 21,009 |
| EThs   | <b>72,029</b> | 44,895 |

The effective interest rate on current deposits with financial institutions varied from 0.10% and 0.65% in 2014 (2013: from 0.10% to 0.30%) and the maturity of these deposits is less than 3 months. Unlike precedent years, at November 30, 2014 and 2013, the Group did not hold any deposits with Group companies.

For the Statement of Cash Flows, cash and borrowings include:

|   | 2014   | 2013   |
|---|--------|--------|
| Cash and cash equivalents .....EThs                       | 72,029 | 44,895 |
| Borrowings: utilization of bank credit (Note 20).....EThs | 10,122 | 18,815 |

The Group holds committed credit lines for an amount sufficient to maintain flexibility in funding, as stated in Note 3 "Financial Risk Management". Notwithstanding, these lines are only used occasionally. At the 2014 year end, of the total current borrowings balance, the amount of EThs 189 (2013: EThs 266) relates to other non-bank credits granted to the Group and to the interest calculated on acquisitions.

## NOTE 11. SHARE CAPITAL

|                                | No. Shares  | Ordinary<br>Shares | Total       |
|--------------------------------|-------------|--------------------|-------------|
| At November 30, 2012 .....     | 385,241,499 | 385,241,499        | 385,241,499 |
| Capital increase January ..... | 16,913,367  | 16,913,367         | 16,913,367  |
| Capital increase July .....    | 16,086,194  | 16,086,194         | 16,086,194  |
| At November 30, 2013 .....     | 418,241,060 | 418,241,060        | 418,241,060 |
| Capital increase July .....    | 16,729,642  | 16,729,642         | 16,729,642  |
| At November 30, 2014 .....     | 434,970,702 | 434,970,702        | 434,970,702 |

The shares issues carried out in 2014 and 2013 were bonus issues charged to voluntary reserves.

| Owner                                  | Shares             |             | % shareholding |        |
|--|--------------------|-------------|----------------|--------|
|  | 2014               | 2013        | 2014           | 2013   |
| United Technologies Holdings, S.A..... | <b>215,862,730</b> | 203,281,011 | <b>49.63</b>   | 48.60  |
| Euro-Syns, S.A. ....                   | <b>49,212,512</b>  | 47,319,722  | <b>11.31</b>   | 11.31  |
| Other non-controlling interests .....  | <b>169,884,357</b> | 167,611,151 | <b>39.05</b>   | 40.08  |
| Treasury shares .....                  | <b>11,103</b>      | 29,176      | <b>0.01</b>    | 0.01   |
|  | <b>434,970,702</b> | 418,241,060 | <b>100.00</b>  | 100.00 |

No other individual shareholder holds an interest of more than 10% in the capital of the parent company of the Group. All shares of the Parent Group are of the same class and have the same voting rights.

### 2013:

In 2013, the Extraordinary General Shareholders' Meeting of the Company to which took place in January 2014, it was approved to increase the Company's share capital, which is currently 38,524,149.90 euros, by the sum of 1,691,336.70 euros, by issuing 16,913,367 new ordinary shares in the Company with a face value of 0.10 euros each and a share premium of 9.10 per share (giving a total of 153,911,639.70 euros as a share premium) to be exchanged by the 3,338,463 Enor shares, representatives of 100% of its capital.

The new shares were listed effective in March 14, 2014 and to that date a total of 2,198,738 new shares were pledged in favor of the company in compliance with the acquisition agreement.

In this sense, in April 2014 the pledge on 3% of the shares corresponding to the shareholders of Grupo Ascensores Enor, S.A. was cancelled once it was verified the compliance with the guarantee clause related to the Annually-computed Effective Value of the Service Portfolio at September 30, 2013, which, as stated in the initial contribution agreement, was not to be lower than 99% of the Annually-computed Confirmed Value of the Service Portfolio at September 30, 2012.

Additionally, during 2013 and 2014 there was a syndication agreement concluded between the two major shareholders of the company; United Technologies Holdings, S.A.S. ("UTH") and Euro Syns, S.A., which has its origin in the operation of acquisition of Grupo Ascensores Enor, S.A. described above and published by means of relevant fact date January 30, 2014. Referred syndication Pact was held in the interest of the acquisition of Enor operation, so that UTH is holder at any time more than 50% of the voting rights on society.

Also, at the Annual Shareholders' Meeting held on May 27, 2013, a resolution was adopted to increase the share capital by 1,608,619.40 euros against the Voluntary Reserve, in the proportion of one new share for every twenty five old shares, issuing 16,086,194 new shares. Once the capital increase had been completed, the capital amounted to 41,824,106.00 euros and consisted of 418,241,060 shares with a par value of 0.10 euros each. The new shares were entitled to the dividends paid after the date of the capital increase and therefore participated in the second quarterly dividend, second interim dividend paid against 2014 profits on October 10, 2014. The increase was carried out from July 15, 2014 until July 30, 2014, inclusive. The new shares were listed on the Madrid, Barcelona, Valencia and Bilbao stock exchanges effective September 3, 2014.

## 2014:

Also, at the Annual Shareholders' Meeting held on May 26, 2014, a resolution was adopted to increase the share capital by 1,672,964.20 euros against the Voluntary Reserve, in the proportion of one new share for every twenty five old shares, issuing 16,729,642 new shares. Once the capital increase had been completed, the capital amounted to 43,497,070.20 euros and consisted of 434,970,702 shares with a par value of 0.10 euros each. The new shares were entitled to the dividends paid after the date of the capital increase and therefore participated in the second quarterly dividend, second interim dividend paid against 2014 profits on October 10, 2014. The increase was carried out from July 15, 2014 until July 30, 2014, inclusive. The new shares were listed on the Madrid, Barcelona, Valencia and Bilbao stock exchanges effective September 12, 2014.

At November 30, 2014, interim dividends were declared for the year ended on said date for an amount of EThs 76,787 (EThs 77,850 in 2013). These interim dividends were paid (Note 29) for shares 1 to 418,241,060 (1st and 2nd interim dividend). Additionally there was a partial distribution of share premium distributed to shares 1 to 418,241,060, for an amount of EThs 33,459.

Incremental costs directly attributable to the issuance of new shares or options are recognized in the equity as a deduction, net of tax, from the income obtained.

## NOTE 12. TREASURY STOCK

The ordinary General Shareholders' Meeting of Zardoya Otis, S.A. held on May 26, 2014 authorized the Board of Directors to acquire, directly or indirectly, shares of Zardoya Otis, S.A. itself up to the maximum amount permitted by law.

As of November 30, 2014 Zardoya Otis, S.A. maintain 11,103 treasury shares (29,176 at 2013 year-end). Due to the non-controlling interest transaction, Zardoya Otis exchanged 18,904 treasury shares. The above mentioned figure includes 427 shares received in the bonus issue (Note 11 and 2,2).

## NOTE 13. LEGAL RESERVE

The legal reserve has been recognized under the provisions the Capital Company Act, article 274, which requires 10% of annual profit be set aside until 20% of the share capital is reached.

Unless the legal reserve exceeds said limit, it can be used only to offset losses when no other reserves are available.

Details of the legal reserve by company at November 30, 2014 and 2013 are as follows:

| Company  | 2014  | 2013  |
|--|-------|-------|
| Zardoya Otis, S.A. ....                                | 8,699 | 8,445 |
| 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    | 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   |
| Acresa Cardellach, S.L. ....                           | 1,990 | 1,990 |
| Admotion, S.L. ....                                    | 37    | 37    |
| Otis Maroc, S.A. ....                                  | 10    | 10    |
| Ascensores Aspe, S.A. ....                             | 41    | 41    |
| Montoy, S.L. ....                                      | 20    | 20    |
| Montes Tallón, S.A. ....                               | 19    | 19    |
| Grupo Ascensores Enor, S.A. ....                       | 2,704 | 2,704 |
| Ascensores Enor, S.A. ....                             | 601   | 601   |
| Electromecánica del Noroeste, S.A. ....                | 204   | 204   |
| Enor Elevação e Equipamentos Industriais Lda. ....     | 50    | 50    |
| Electromecánica Hemen Elevadores, S.L. ....            | -     | -     |
| Ascensores Hemen, S.L. ....                            | -     | -     |



## NOTE 14. RESERVES IN SUBSIDIARY COMPANIES AND OTHER RESERVES

|  | Subsidiary<br>companies | Other reserves | Total          |
|--|-------------------------|----------------|----------------|
| <b>As of November 30, 2012</b> .....EThs | <b>85,579</b>           | <b>16,226</b>  | <b>101,805</b> |
| Profit 2012.....                         | 36,531                  | 45,699         | 82,230         |
| Dividends paid in the year .....         | (34,552)                | -              | (34,552)       |
| Capital increase .....                   | -                       | (1,609)        | (1,609)        |
| Other movements.....                     | (9,792)                 | (13,884)       | (23,676)       |
| <b>As of November 30, 2013</b> .....EThs | <b>77,766</b>           | <b>46,432</b>  | <b>124,198</b> |
| Profit 2013.....                         | 31,527                  | 30,861         | 62,388         |
| Dividends paid in the year .....         | (24,199)                | -              | (24,199)       |
| Capital increase .....                   | -                       | (1,673)        | (1,673)        |
| Other movements.....                     | (1,614)                 | (776)          | (2,390)        |
| <b>As of November 30, 2014</b> .....EThs | <b>83,480</b>           | <b>74,844</b>  | <b>158,324</b> |

Details by company of reserves in subsidiary companies and other reserves as of November 30, 2014 and 2013 are as follows:

| Company  | 2014            | 2013     |
|--|-----------------|----------|
| Zardoya Otis, S.A. ....                                  | <b>84,803</b>   | 56,389   |
| Ascensores Eguren, S.A. ....                             | <b>(7,571)</b>  | (7,009)  |
| Ascensores Ingar, S.A. ....                              | <b>(5,166)</b>  | (4,795)  |
| Ascensores Serra, S.A.....                               | <b>801</b>      | 444      |
| Cruxent-Edelma, S.L.....                                 | <b>(12,422)</b> | (11,954) |
| Mototracción Eléctrica Latierro, S.A. ....               | <b>1,195</b>    | 877      |
| Grupo Otis Elevadores (Portugal).....                    | <b>49,341</b>   | 49,242   |
| Puertas Automáticas Portis, S.L. ....                    | <b>5,394</b>    | 6,640    |
| Ascensores Pertor, S.L. ....                             | <b>7,286</b>    | 6,691    |
| Conservación de Aparatos Elevadores Express, S.L. ....   | <b>17,305</b>   | 14,277   |
| Acresa Cardellach, S.L. ....                             | <b>24,992</b>   | 22,914   |
| Admotion, S.L.....                                       | <b>(217)</b>    | (538)    |
| Ascensores Aspe, S.A. (dependiente de Eguren, S.A.)..... | <b>(2,186)</b>  | (2,186)  |
| Otis Maroc, S.A. ....                                    | <b>4,074</b>    | 4,712    |
| Montoy, S.L.....   | <b>44</b>       | (430)    |
| Montes Tallón, S.A. ....                                 | <b>(2,176)</b>  | (1,117)  |
| Grupo Ascensores Enor, S.A.....                          | <b>2,786</b>    | -        |
| IFRS adjustments.....                                    | <b>(9,959)</b>  | (9,959)  |
| EThs   | <b>158,324</b>  | 124,198  |

In compliance with the provisions of the Capital Company Act, art 273:4, the Group has recognized a reserve of EThs 4,588 (EThs 4,667 in 2013), equivalent to 5% of the goodwill included in the assets in its Statement of Financial Position. As stated in the Capital Company Act, this reserve is unavailable.

## NOTE 15. PROFIT FOR THE YEAR

Companies' contributions to the Zardoya Otis Group accounts, including the portion allocated to non-controlling interests, are as follows:

| Company  | 2014                |   | 2013                |   |
|--|---------------------|---|---------------------|---|
|  | Consolidated profit | Attributable to non controlling interests | Consolidated profit | Attributable to non controlling interests |
| Zardoya Otis, S.A. ....                                | 122,156             | -   | 118,907             | -   |
| Ascensores Eguren, S.A. ....                           | 702                 | -   | (984)               | -   |
| Ascensores Ingar, S.A. ....                            | (373)               | -   | (371)               | -   |
| Ascensores Serra, S.A. ....                            | 1,462               | 487                                       | 1,425               | 475                                       |
| Cruxent-Edelma, S.L. ....                              | 1,534               | -   | 1,716               | 592                                       |
| Mototracción Eléctrica Latierro, S.A. ....             | 1,229               | -   | 1,610               | -   |
| Grupo Otis Elevadores (Portugal) ....                  | 13,579              | 265                                       | 16,118              | 243                                       |
| Puertas Automáticas Portis, S.L. ....                  | 1,692               | 72  | (438)               | (48)                                      |
| Ascensores Pertor, S.L. ....                           | 2,625               | 164                                       | 2,882               | 180                                       |
| Conservación de Aparatos Elevadores Express, S.L. .... | 2,587               | -   | 3,028               | -   |
| Acresa Cardellach, S.L. ....                           | 2,848               | 82  | 3,397               | 82  |
| Admotion, S.L. ....                                    | 119                 | -   | 372                 | 103                                       |
| Otis Maroc, S.A. ....                                  | 693                 | -   | 609                 | -   |
| Ascensores Aspe, S.A. ....                             | 501                 | -   | 423                 | -   |
| Montoy, S.L. ....                                      | (39)                | 15  | 11                  | 151                                       |
| Montes Tallón, S.A. ....                               | (623)               | 121                                       | (692)               | (638)                                     |
| Grupo Ascensores Enor, S.A. ....                       | 3,339               | -   | 2,787               | -   |
| Electromecánica y Ascensores Hemen, S.L. ....          | -                   | 51  | -                   | -   |
|  | <b>EThs 154,031</b> | <b>1,257</b>                              | <b>150,800</b>      | <b>1,140</b>                              |

The proposed distribution of 2014 profit and other reserves in the parent company that will be submitted for approval at the Annual Shareholders' Meeting, together with the 2013 profit distribution approved, is as follows:

|                                   | 2014                | 2013(*) |
|-----------------------------------|---------------------|---------|
| <b>Available for distribution</b> |                     |         |
| Profit for the year .....         | <b>143,495</b>      | 154,287 |
|                                   | <b>EThs 143,495</b> | 154,287 |
| <b>Distribution</b>               |                     |         |
| To legal reserve .....            | <b>348</b>          | 254     |
| To reserve for goodwill .....     | <b>1,806</b>        | 1,806   |
| Other reserves .....              | <b>27,582</b>       | 36,738  |
| Dividends .....                   | <b>113,759</b>      | 115,489 |
|                                   | <b>EThs 143,495</b> | 154,287 |

(\*) Distribution of 2013 profit approved at the Annual Shareholders' Meeting on May 26, 2014.

## NOTE 16. TRADE AND OTHER PAYABLES

|   | 2014           | 2013    |
|---|----------------|---------|
| Trade payables .....  | 27,836         | 29,798  |
| Payables to related parties (Note 34).....                  | 9,291          | 7,536   |
| Other payables.....   | 16,841         | 16,409  |
| Goods received but not invoiced .....                       | 7,865          | 6,513   |
| Notes payable.....  | 922            | 1,362   |
| Amounts due to customers on work in progress (Note 8) ..... | 29,804         | 25,104  |
| Maintenance billing in advance .....                        | 29,891         | 31,424  |
| Acquisition commitments (Note 7) .....                      | 12,834         | 5,693   |
| Other payables to public authorities (Note 17) .....        | 25,294         | 25,343  |
| Outstanding employee remuneration .....                     | 30,722         | 32,545  |
| Other.....  | 18,683         | 19,609  |
| EThs  | <b>209,983</b> | 201,336 |

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 amounts to EThs 646 (2013: EThs 377)

At November 30, 2014 and 2013, 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 liability mentioned in note 6 for a value of EThs 14,471 (2013: EThs 13,879).

In relation to commitments from acquisitions, the table below shows the maturities of the outstanding amounts for this item presented as other financial liabilities:

| Year 2014                         | Current | 2016  | 2017/18 | Noncurrent |
|-----------------------------------|---------|-------|---------|------------|
| Acquisitions 2013 & earlier ..... | 9,710   | 927   | -       | 927        |
| Acquisitions 2014 .....           | 3,124   | 1,399 | 1,399   | 2,798      |
| EThs                              | 12,834  | 2,326 | 1,399   | 3,725      |
| Year 2013                         | Current | 2015  | 2016/17 | Noncurrent |
| Acquisitions 2012 % earlier.....  | 4,766   | 974   | -       | 974        |
| Acquisitions 2013 .....           | 927     | 6,935 | -       | 6,935      |
| EThs                              | 5,693   | 7,909 | -       | 7,909      |

Summary of the 2014 debt:

|   | Current | Noncurrent |
|---|---------|------------|
| <b>Acquisitions 2014</b>  |         |            |
| Acquisitions CGU Zardoya Otis, S.A.....                                   | 3,124   | 2,798      |
|   | 3,124   | 2,798      |
| <b>Acquisitions 2013 &amp; earlier</b>                                    |         |            |
| Acquisitions non-controlling interests                                    |         |            |
| Latierro .....  | 1,645   | -          |
| Edelma .....  | 5,002   | -          |
| Acquisitions CGU Zardoya Otis, S.A.....                                   | 2,126   | 927        |
| Acquisitions CGU Puertas Automáticas Portis, S.L. ....                    | 40      | -          |
| Acquisitions CGU Conservación de Aparatos y Elevadores Express, S.L. .... | 844     | -          |
| Acquisitions CGU Montes Tallón, S.A.....                                  | 53      | -          |
|   | 9,710   | 927        |
|   | 12,834  | 3,725      |

Summary of the 2013 debt:

|   | <u>Current</u> | <u>Noncurrent</u> |
|---|----------------|-------------------|
| <b>Acquisitions 2013</b>  |                |                   |
| Acquisitions non-controlling interests                                    |                |                   |
| Latierro .....  | 910            | 1,470             |
| Edelma .....  | -              | 5,102             |
| Acquisitions CGU Puertas Automáticas Portis, S.L. ....                    | 17             | 363               |
|   | <u>927</u>     | <u>6,935</u>      |
| <b>Acquisitions 2012 and earlier</b>                                      |                |                   |
| Acquisitions CGU Zardoya Otis, S.A.....                                   | 2,498          | 974               |
| Acquisitions CGU Puertas Automáticas Portis, S.L. ....                    | 202            | -                 |
| Acquisitions CGU Conservación de Aparatos y Elevadores Express, S.L. .... | 2,013          | -                 |
| Acquisitions CGU Montes Tallón, S.A.....                                  | 53             | -                 |
|   | <u>4,766</u>   | <u>974</u>        |
|   | 5,693          | 7,909             |

Company acquisitions agreements in force at November 30, 2014 and 2013 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 in delays in payments made to suppliers. Third Addition Provision "Duty of Information" of Law 15/2010 of July 5.

The year ended November 30, 2011 was the first year in which Law 15/2010 of July 5 was applicable. In this respect, in accordance with said Law, the Company informs that, during 2014, total payments made to suppliers were Eths 316,683 (2013: Eths 294,719), complying with the aforementioned legislation.

| Thousands of euros  | <u>2014</u>    | <u>%</u>   | <u>2013</u>    | <u>%</u>   |
|---|----------------|------------|----------------|------------|
| Payments made and outstanding within the maximum legal period ..... | 315,737        | 99.7       | 291,421        | 98.88      |
| Remainder.....  | 946            | 0,0        | 3,297          | 1.12       |
| Total payments for year.....  | <u>316,683</u> | <u>100</u> | <u>294,718</u> | <u>100</u> |
| Weighted average excess payment period.....                         | -              | -          | -              | -          |
| Delays that exceeded the legal term at the end of the year .....    | 946            | -          | 3,297          | -          |



## NOTE 17. PUBLIC TREASURY

|   | 2014          | 2013     |
|---|---------------|----------|
| <b>Debit balances</b>                             |               |          |
| Social Security .....                             | 753           | 756      |
| Withholding tax .....                             | 612           | 607      |
| Public Treasury, VAT payable .....                | 458           | 1,552    |
| Public Treasury, input VAT .....                  | 4,553         | 5,191    |
| EThs  | <b>6,376</b>  | 8,106    |
| <b>Credit balances</b>                            |               |          |
| Provision for corporate income tax .....          | 67,362        | 68,882   |
| Payments on account of corporate income tax ..... | (59,351)      | (62,001) |
| Public Treasury, withholdings operated .....      | 3,163         | 3,140    |
| Public Treasury, VAT due .....                    | 728           | 504      |
| Public Treasury, output VAT .....                 | 9,207         | 9,356    |
| Social Security .....                             | 12,195        | 12,343   |
| EThs  | <b>33,304</b> | 32,224   |

## NOTE 18. DEFERRED TAXES

|   | 2014          | 2013   |
|---|---------------|--------|
| <b>Deferred tax assets:</b>                     |               |        |
| To be recovered after more than 12 months ..... | 20,516        | 22,563 |
| To be recovered within 12 months .....          | 901           | 2,969  |
| EThs  | <b>21,417</b> | 25,532 |
| <b>Deferred tax liabilities:</b>                |               |        |
| To be recovered after more than 12 months ..... | 26,909        | 32,021 |
| To be recovered within 12 months .....          | 1,616         | 1,597  |
| EThs  | <b>28,525</b> | 33,618 |

Overall movement on the deferred tax account was as follows:

|  | 2014          | 2013    |
|--|---------------|---------|
| <b>Deferred tax assets:</b>                |               |         |
| <b>Beginning of period</b> .....           | <b>25,532</b> | 25,510  |
| Business combinations .....                | -             | 313     |
| P&L impact .....                           | (208)         | (291)   |
| P&L impact: change of statutory rate ..... | (3,907)       | -       |
| <b>End of period</b> .....EThs             | <b>21,417</b> | 25,532  |
| <b>Deferred tax liabilities:</b>           |               |         |
| <b>Beginning of period</b> .....           | <b>33,618</b> | 9,372   |
| Business combinations .....                | 1,500         | 25,318  |
| P&L impact .....                           | (1,436)       | (1,072) |
| P&L impact: change of statutory rate ..... | (5,157)       | -       |
| <b>End of period</b> .....EThs             | <b>28,525</b> | 33,618  |

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

|  | Welfare<br>commitments | Amortization/<br>depreciation | Other   | Total   |
|--|------------------------|-------------------------------|---------|---------|
| <b>Deferred tax assets:</b>                |                        |                               |         |         |
| <b>As of November 30, 2012</b> .....EThs   | 17,046                 | 2,990                         | 5,474   | 25,510  |
| P&L impact .....                           | (1,417)                | 526                           | 600     | (291)   |
| Business combinations .....                | -                      | -                             | 313     | 313     |
| <b>As of November 30, 2013</b> .....EThs   | 15,629                 | 3,516                         | 6,387   | 25,532  |
| P&L impact .....                           | (1,363)                | 1,253                         | (98)    | (208)   |
| P&L impact: change of statutory rate ..... | (2,190)                | (607)                         | (1,110) | (3,907) |
| Business combinations .....                | -                      | -                             | -       | -       |
| <b>As of November 30, 2014</b> .....EThs   | 12,076                 | 4,162                         | 5,179   | 21,417  |

|  | Welfare<br>commitments | Amortization/<br>depreciation | Other | Total   |
|--|------------------------|-------------------------------|-------|---------|
| Deferred tax liabilities:                  |                        |                               |       |         |
| <b>At November 30, 2012</b> .....EThs      | -                      | 9,372                         | -     | 9,372   |
| P&L impact .....                           | -                      | (1,072)                       | -     | (1,072) |
| Business combinations .....                | -                      | 25,318                        | -     | 25,318  |
| <b>As of November 30, 2013</b> .....EThs   | -                      | 33,618                        | -     | 33,618  |
| P&L impact .....                           | -                      | (1,436)                       | -     | (1,436) |
| P&L impact: change of statutory rate ..... | -                      | (5,157)                       | -     | (5,157) |
| Business combinations .....                | -                      | 1,500                         | -     | 1,500   |
| <b>As of November 30, 2014</b> .....EThs   | -                      | 28,525                        | -     | 28,525  |

In 2014, the increase for business combination corresponds to the tax effect of the registration of maintenance contracts acquired in the business combinations of Hemen companies, in 2013 with the maintenance contracts acquired in the business combination of Grupo Enor, S.A. (Note 33).

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. The enforcement of Law 27/2014 on Corporate Income Tax requires the re-estimate of the figures registered by the Group with an impact of a reduction in deferred tax assets of EThs 3,907 and a reduction of deferred tax liabilities of EThs 5,157.

#### NOTE 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 on the balance sheet for the defined benefits plans is the current value of the obligation at the balance sheet 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 calculated annually, once the salary adjustment process has concluded in October, using the projected unit credit method. The expense registered under the heading "Employee benefit commitments" amounts to EThs 1,807.

The Group has adopted in 2014 retrospectively the modified IAS 19. As a result, comparative information for the year ended November 30, 2013 in the consolidated financial statements differs from the ones presented in the previous periods. The amendment of IAS 19 "Employee Benefits" effect is the elimination of the corridor approach and the recognition of actuarial losses and gains when they arise. For comparison, in the consolidated statement of changes in equity, balance of the beginning of the prior year (started on December 1, 2012) includes the unrecognized actuarial gains as of November 30, 2012 for a total amount of EThs 12,884. Likewise the net equity as of November 30, 2013 increases by EThs 11,823 corresponding to the initial recognition of the actuarial gains as mentioned of EThs 12,884 and the effect of the recognition of the actuarial gains and retained generated in the fiscal year 2013 for EThs 1,061 and a reduction in profit of the year for an amount of EThs 6,205.

|   | 2014    | 2013    |
|---|---------|---------|
| <b>Obligations on Consolidated Statement of Financial Position:</b> |         |         |
| Current employees .....   | (2,034) | (1,796) |
| Retired employees.....  | -       | -       |
| EThs  | (2,034) | (1,796) |

The amounts recognized on the Statement of Financial Position were measured as follows:

|   | 2014     | 2013     |
|---|----------|----------|
| Present value of financial obligations .....                        | 39,640   | 37,639   |
| Fair value of plan assets .....                                     | (41,674) | (39,435) |
|   | (2,034)  | (1,796)  |
| Unrecognized actuarial gains.....                                   | -        | -        |
| Liability on Consolidated Statement of Financial Position .....EThs | (2,034)  | (1,796)  |

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> |
|--------------------------------------|------------------------------|--------------------|
| <b>As of November 30, 2012</b> ..... | <b>51,689</b>                | <b>(52,391)</b>    |
| Service cost .....                   | 2,457                        | -                  |
| Interest cost .....                  | 1,282                        | -                  |
| Return on plan assets.....           | -                            | (1,345)            |
| Payments to beneficiaries.....       | (2,759)                      | 2,759              |
| Contributions .....                  | -                            | 3,693              |
| Actuarial losses/gains.....          | (11,289)                     | 6,145              |
| Settlements.....                     | (3,741)                      | 1,702              |
| <b>As of November 30, 2013</b> ..... | <b>37,639</b>                | <b>(39,435)</b>    |
| Service cost .....                   | 1,903                        | -                  |
| Interest cost .....                  | 1,221                        | -                  |
| Return on plan assets.....           | -                            | (1,317)            |
| Payments to beneficiaries.....       | (2,502)                      | 2,502              |
| Contributions .....                  | -                            | 824                |
| Actuarial losses/gains.....          | 5,211                        | (6,458)            |
| Settlements.....                     | (3,833)                      | 2,210              |
| <b>As of November 30, 2014</b> ..... | <b>39,640</b>                | <b>(41,674)</b>    |

The principal actuarial assumptions used were as follows:

|   | <u>2014</u>           | <u>2013</u>    |
|---|-----------------------|----------------|
| The discount rate varies, depending on<br>the length of the obligation, between ..... | <b>2.14%-0.90%</b>    | 3.60%-0.90%    |
| Mortality tables .....  | <b>PERMF 2000P</b>    | PERMF 2000P    |
| Wage increase.....  | <b>3.0%</b>           | 3.0%           |
| Estimated average early retirement age .....  | <b>65 to 67 years</b> | 65 to 67 years |

The amounts recognized in profit and loss were as follows:

|   | <u>2014</u>    | <u>2013</u> |
|---|----------------|-------------|
| Current service cost .....  | <b>1,903</b>   | 2,457       |
| Interest cost .....   | <b>1,221</b>   | 1,282       |
| Expected return on plan assets.....                               | <b>(1,317)</b> | (1,345)     |
| Settlements.....  | <b>(1,623)</b> | (2,038)     |
| Actuarial (gains)/losses .....                                    | -              | -           |
| <b>Total included in employee benefit expense (Note 23)</b> ..... | <b>184</b>     | 356         |

The fair value of plan assets (matched insurance contracts) was measured in accordance with IAS 19, section 104, which allows the equalization of the value of these contracts with that of the obligations. These obligations were externalized and are subject to a financing plan with the insurance companies ended in 2012.

The amounts of the present value of obligations for defined benefits and the fair value of plan assets for the current period and the preceding four annual periods are as follows:

|  | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Present value of financed obligations..... | 39,640      | 37,639      | 51,689      | 45,504      | 66,132      |
| Fair value of plan assets .....            | (41,674)    | (39,435)    | (52,391)    | (43,855)    | (58,946)    |

The Group's best estimate of the contributions to be paid in the year ending November 30, 2015 is ETBs 2,501.

The actuarial gains and losses shown in the income statement and expenses recognized in the equity for an amount of EThs 1,247 (EThs 5,144 in 2013) basically correspond to the effects of experience on the collective basis of calculation, EThs 907; attributable to wage deviations that were lower than expected and produced casualties that reduce the obligation EThs 2,095; and EThs 58 actuarial losses for the falling rates and profitability of the funds.

Additionally, there is a defined contribution plan the annual cost of which is included under the heading "Employee benefit expense" for EThs 457 (EThs 476 in 2013).

## NOTE 20. BORROWINGS

In 2011, the Group parent has entered into a frame agreement in order to finance acquisitions of companies with Banca March S.A. for the next three years and to a maximum amount of one hundred million euros; to be split in individual loans for each transaction with amortization periods between three and five years. Interest rates and additional terms were fixed and do not differ from market conditions.

At November 30, 2014, 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. Said amount includes the value of the instalments payable in the year 2014 and the interest accrued in the year end. The amount of which was EThs 1,202 (EThs 1,473 in 2013).

The noncurrent portion of this debt, which is EThs 10,050, is shown at amortized cost in accordance with the effective interest rate method. It matures as follows:

| Fiscal year 2014                            | <u>Current</u> | <u>2016</u> | <u>2017</u> | <u>Noncurrent</u> |                   |
|---|----------------|-------------|-------------|-------------------|-------------------|
| Borrowings from financial institutions..... | 5,222          | 3,997       | 903         | 4,900             |                   |
| Other (Note 10) .....                       | 189            | -           | -           | -                 |                   |
| EThs  | 5,411          | 3,997       | 903         | 4,900             |                   |
| <br>  |                |             |             |                   |                   |
| Fiscal year 2013                            | <u>Current</u> | <u>2015</u> | <u>2016</u> | <u>2017</u>       | <u>Noncurrent</u> |
| Borrowings from financial institutions..... | 8,765          | 5,177       | 3,966       | 907               | 10,050            |
| Other (Note 10) .....                       | 266            | -           | -           | -                 | -                 |
| EThs  | 9,031          | 5,177       | 3,966       | 907               | 10,050            |

## NOTE 21. PROVISION FOR OTHER LIABILITIES AND EXPENSES

|   | <u>2014</u> | <u>2013</u> |
|---|-------------|-------------|
| <b>Noncurrent</b>                           |             |             |
| Other commitments with employees .....      | 5,603       | 4,797       |
| <b>Current</b>                              |             |             |
| Litigations: customer transactions.....     | 1,460       | 1,561       |
| Guarantees for services and contracts ..... | 14,339      | 14,731      |
| Chamber of Commerce and other taxes .....   | 1,579       | 1,637       |
| EThs  | 17,378      | 17,929      |

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 commitments<br>with employees | Litigations,<br>customer transactions | Guarantees    | Other        |
|--|-------------------------------------|---------------------------------------|---------------|--------------|
| As of November 30, 2012 .....                        | 3,332                               | 1,494                                 | 14,719        | 1,299        |
| Provisions/(reversals)<br>in Income Statement: ..... | 1,034                               | 67                                    | 618           | 203          |
| Amounts used .....                                   | -                                   | -                                     | (606)         | -            |
| Other .....  | 431                                 | -                                     | -             | 135          |
| As of November 30, 2013 .....                        | 4,797                               | 1,561                                 | 14,731        | 1,637        |
| Provisions/(reversals)<br>in Income Statement: ..... | 806                                 | -                                     | 148           | -            |
| Amounts used .....                                   | -                                   | (101)                                 | (540)         | (58)         |
| Other .....  | -                                   | -                                     | -             | -            |
| <b>As of November 30, 2014.....EThs</b>              | <b>5,603</b>                        | <b>1,460</b>                          | <b>14,339</b> | <b>1,579</b> |

## NOTE 22. REVENUE

|                                    | 2014           | 2013    |
|------------------------------------|----------------|---------|
| Services rendered .....            | <b>545,785</b> | 578,784 |
| Revenue from works contracts ..... | <b>39,415</b>  | 53,835  |
| Exports .....                      | <b>152,675</b> | 125,485 |
| Other sales .....                  | <b>1,079</b>   | 1,127   |
| Total revenue.....EThs             | <b>738,954</b> | 759,231 |

## NOTE 23. EMPLOYEE BENEFITS

|                                    | 2014           | 2013    |
|------------------------------------|----------------|---------|
| Wages and salaries .....           | <b>176,408</b> | 185,634 |
| Social security and other .....    | <b>70,468</b>  | 72,096  |
| Employee benefit commitments ..... | <b>184</b>     | 356     |
| EThs                               | <b>247,060</b> | 258,086 |

Social security and other includes severance payments to employees of EThs 10,919 in 2014 (EThs 11,309 in 2013).

The Group has adopted in 2014 retrospectively the modified IAS 19. Such adoption translates in an increase in the cost of employee benefit commitments in 2013 for an amount of EThs 6,205.

Starting from fiscal year 2011, it is included also the UTC long-term incentive plan, for certain Zardoya Otis executives who are also considered to be UTC Group executive which includes UTC stock options (Note 34). The expense incurred for this item in 2014 is EThs 547 (2013: EThs 675).

## NOTE 24. RAW MATERIALS AND CONSUMABLES USED

|  | 2014            | 2013     |
|--|-----------------|----------|
| Materials and subcomponents for installations and services ..... | <b>252,774</b>  | 252,923  |
| Elimination of intra-group transactions.....                     | <b>(59,623)</b> | (59,121) |
| Purchase discounts .....   | <b>(5)</b>      | (5)      |
| Change in inventories .....                                      | <b>2,398</b>    | 3,616    |
| EThs   | <b>195,544</b>  | 197,413  |

## NOTE 25. OTHER NET EXPENSES

Depending on their nature, other net expenses are broken down into:

|  | 2014          | 2013          |
|--|---------------|---------------|
| Leases .....                             | 18,900        | 19,783        |
| Repairs and maintenance .....            | 2,615         | 2,423         |
| Insurance premiums .....                 | 413           | 313           |
| Advertising and publicity .....          | 1,830         | 1,955         |
| Transport .....                          | 7,449         | 7,305         |
| Supplies and other services .....        | 15,947        | 15,265        |
| Independent professionals .....          | 4,209         | 4,164         |
| Subcontracting .....                     | 606           | 688           |
| Other .....                              | 4,465         | 4,383         |
| Impairment of receivables (Note 8) ..... | 1,411         | 4,296         |
| EThs                                     | <u>57,845</u> | <u>60,575</u> |

## NOTE 26. NET FINANCE COST

|   | 2014         | 2013           |
|---|--------------|----------------|
| <b>Interest expense:</b>                  |              |                |
| - Loans with financial institutions ..... | (933)        | (2,089)        |
|   | <u>(933)</u> | <u>(2,089)</u> |
| <b>Interest revenue:</b>                  |              |                |
| - Bank deposits.....                      | 737          | 817            |
| - Other .....                             | -            | -              |
|   | <u>(196)</u> | <u>817</u>     |
| Net foreign exchange gains/(losses) ..... | (71)         | 57             |
| EThs                                      | <u>(267)</u> | <u>(1,215)</u> |

## NOTE 27. INCOME TAX

|  | 2014           | 2013           |
|--|----------------|----------------|
| Profit before tax.....   | 220,173        | 218,947        |
| Permanent differences: .....   | 2,026          | 5,299          |
| Profit from foreign companies .....  | (21,229)       | (26,068)       |
| Other differences.....   | -              | -              |
| Prior year temporary differences<br>in respect of which the relevant deferred tax asset<br>was not recognized .....            | 8,570          | 5,443          |
| Temporary differences arising in the year in respect of which<br>the relevant deferred tax asset has not been recognized ..... | -              | -              |
| Adjusted profit before tax .....   | 209,540        | 216,031        |
| Temporary differences arising in the year in respect of which<br>the relevant deferred tax asset is recognized.....            | (2,397)        | (8,046)        |
| <b>Taxable income</b> .....  | <b>207,143</b> | <b>207,983</b> |
| Gross tax payable .....  | 62,143         | 62,395         |
| Tax credits .....  | (3,116)        | (4,908)        |
| Other differences.....   | -              | 1,247          |
| Corporate net tax expense from foreign companies .....   | 7,108          | 8,273          |
| Change in statutory rate.....  | (1,250)        | -              |
| EThs   | <u>64,885</u>  | <u>67,007</u>  |

The deferred tax asset accumulated at November 30, 2014 amounted to EThs 21,417 (EThs 25,532 in 2013). 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 28,525 (EThs 33,618 in 2013) relating to differences generated by goodwill.

The deductible from temporary differences relate mainly to welfare commitments for an amount of EThs 12,076 (EThs 15,629 in 2013), it is expected to compensate them with the following distribution:

Fiscal year 2015: EThs 874  
 Fiscal year 2016: EThs 385  
 Fiscal year 2017: EThs 373  
 Fiscal year 2018: EThs 708  
 Fiscal year 2019: EThs 629  
 Fiscal year 2020: EThs 525  
 Fiscal year 2021: EThs 508  
 Fiscal year 2022: EThs 552  
 Fiscal year 2023: EThs 474  
 Fiscal year 2024: EThs 433  
 Rest of Fiscal years: EThs 6,615

At the year end, the sum of EThs 59,351 (EThs 62,001 in 2013) had been paid on account of the final corporate income tax liability. Corporate income tax expense includes income of EThs 2,478 from deferred taxes (income of EThs 781 from deferred taxes in 2013).

The effective tax rate for Otis Elevadores, Lda. (Portugal) is 30.94% and for Otis Maroc 30% (31% and 30% respectively, in 2013) and their tax expense for 2014 amounted to EThs 6,810 and EThs 297, respectively (EThs 7,339 and 578, respectively, in 2013).

For Zardoya Otis, S.A. the years after 2011 are still open to inspection. For most of the Spanish subsidiaries, as well as for Otis Maroc, S.A., the last four years are still open to inspection. For the companies that form the Otis Elevadores (Portugal) Group and Enor Portugal, the last ten years are open to inspection, pursuant tu current Portuguese legislation.

In consequence, among other things, additional liabilities could arise as the result of an inspection, due to possible different interpretations of current tax legislation. However, the directors consider that, if any such liabilities were to arise, the would not have a significant effect on these annual financial statements.

**NOTE 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 ordinary purchased by the Company. No event that could dilute the earnings per share has occurred.

|   | <u>2014</u>        | <u>2013</u> |
|---|--------------------|-------------|
| Profit attributable to equity holders of the Company .....                | <b>154,031</b>     | 150,800     |
| Weighted average number of ordinary shares in issue during the year ..... | <b>425,211,744</b> | 406,038,552 |
| Weighted average number of treasury shares .....                          | <b>(13,861)</b>    | (40,484)    |
| Basic earnings per share .....  | <b>0.36</b>        | 0.37        |

## NOTE 29. DIVIDENDS PER SHARE

During the years 2013 and 2014, the following interim dividends and part of the share premium were distributed by Zardoya Otis, S.A.:

|   | <u>Thousands of euros</u> |
|---|---------------------------|
| <u>1<sup>st</sup> Dividend</u> 0.100 Euros gross per share, charged to the year 2013. |                           |
| Declared on March 21, 2013 and paid out on April 10, 2013. Shares: 402,154,866        |                           |
| (Treasury stock 46,231) Total = 40,215,486.60 Euros .....                             | 40,211                    |
| <u>Partial distribution of Share Premium:</u> 0.080 Euros gross per share.            |                           |
| Declared on May 27, 2013 and paid out on July 10, 2013. Shares: 402,154,866           |                           |
| (Treasury stock 46,231) Total = 32,172,389.28 Euros .....                             | 32,169                    |
| <u>2<sup>nd</sup> Dividend</u> 0.090 Euros gross per share, charged to the year 2013  |                           |
| Declared on September 17, 2013 and paid out on October 10, 2013. Shares: 418,241,060  |                           |
| (Treasury stock 29,176) Total = 37,641,695.40 Euros .....                             | 37,639                    |
| Dividend at the end of year .....ETHs   | <u>110,019</u>            |
| <u>3<sup>rd</sup> Dividend</u> 0.090 Euros gross per share, charged to the year 2013. |                           |
| Declared on December 10, 2013 and paid out on January 10, 2014. Shares: 418,241,060   |                           |
| (Treasury stock 29,176) Total = 37,641,695.40 Euros .....                             | 37,639                    |
| <b>Total 2013</b> .....ETHs   | <b><u>147,658</u></b>     |

|   |                       |
|---|-----------------------|
| <u>1<sup>st</sup> Dividend</u> 0.090 Euros gross per share, charged to the year 2014. |                       |
| Declared on March 21, 2014, and paid out on April 10, 2014. Shares: 418,241,060       |                       |
| (Treasury stock 10,676) Total = 40,215,486.60 Euros .....                             | 37,641                |
| <u>Partial distribution of Share Premium:</u> 0.080 Euros gross per share.            |                       |
| Declared on May 27, 2014 and paid out on July 10, 2014. Shares: 418,241,060           |                       |
| (Treasury stock 10,676) Total = 33,458,430.72 Euros .....                             | 33,458                |
| <u>2<sup>nd</sup> Dividend</u> 0.090 Euros gross per share, charged to the year 2014  |                       |
| Declared on September 17, 2014 and paid out on October 10, 2014. Shares: 434,970,702  |                       |
| (Treasury stock 11,103) Total = 39,147,363.18 Euros .....                             | 39,146                |
| Dividend at the end of year .....ETHs   | <u>110,245</u>        |
| <u>3<sup>rd</sup> Dividend</u> 0.090 Euros gross per share, charged to the year 2014. |                       |
| Declared on December 10, 2014 and paid out on January 10, 2015. Share: 434,970,702    |                       |
| (Treasury stock 11,103) Total = 36,972,509.67 Euros .....                             | 36,972                |
| <b>Total 2014</b> .....ETHs   | <b><u>147,217</u></b> |

In relation to the interim dividends distributed by Zardoya Otis, S.A. in the year 2014, the existence of sufficient liquidity for their distribution was verified, in accordance with the Capital Company Act, art. 277.



### NOTE 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:

|   | 2014           | 2013           |
|---|----------------|----------------|
| Profit before tax.....  | 218,915        | 218,947        |
| - Depreciation of property, plant and equipment (Note 5).....   | 6,611          | 6,602          |
| - Amortization of intangible assets (Note 6).....   | 15,583         | 20,364         |
| - (Profit)/loss on disposals of property, plant and equipment .....   | (83)           | (140)          |
| - Increase/(reduction)<br>in retirement benefit obligations.....  | (238)          | 4,050          |
| - Interest expense (Note 26).....   | (933)          | (2,089)        |
| - Interest revenue (Note 26).....   | 737            | 817            |
| - Losses /(gains) on foreign currency<br>conversion in operating activities (Note 26).....                                    | (71)           | 57             |
| Changes in working capital (excluding the effects<br>of the acquisition and foreign exchange differences upon consolidation): |                |                |
| - Inventories .....   | 2,398          | 5,064          |
| - Trade and other receivables .....   | 19,357         | (26,474)       |
| - Financial assets at fair value through profit and loss.....   | -              | -              |
| - Trade and other payables.....   | (62,702)       | (44,322)       |
| <b>Cash generated by operations.....ETHs</b>  | <b>199,474</b> | <b>182,876</b> |

### NOTE 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 20,917 (2013: ETHs 20,381).

### NOTE 32. COMMITMENTS

#### Fixed assets purchase commitments

The investments committed at the end of the reporting period but not yet incurred are as follows:

|   | 2014 | 2013  |
|---|------|-------|
| Property, plant and equipment .....ETHs | 743  | 1,950 |
| Intangible assets.....ETHs              | -    | -     |

At November 30, 2014, there were firm purchase commitments for the acquisition of fixed assets for an amount of ETHs 743 (ETHs 1,950 in 2013), of which ETHs 264 (ETHs 428 in 2013) were anticipated to suppliers.

#### 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:

|                       | 2014  | 2013  |
|-----------------------|-------|-------|
| Premises leased ..... | 5,208 | 4,381 |
| Other .....           | 4,888 | 4,888 |

## NOTE 33. BUSINESS COMBINATIONS

### a.- Business combinations and mergers (Fiscal year 2013)

#### GRUPO ASCENSORES ENOR, S.A. (Enor)

On February 7th 2013, the 3,338,463 Enor shares, representatives of 100% of its capital, were exchanged by the 16,913,367 Zardoya Otis, S.A. shares issued to that effect, as registered in the commercial registry of Madrid on February 14, 2013. The book value attributed to these shares at market price was 175,729,883.13 euros. The new shares were admitted to trading on March 14th 2013, and to that date a total of 2,198,738 new shares have been pledged in favor of the company.

The shares issued to execute the Capital Increase will be fully paid up by the shareholders owning the shares that represent 100% of the share capital of ENOR by means of a non-monetary contribution of 3,338,463 registered shares of ENOR, with a nominal value of 3 euros each, representing the entirety of ENOR's share capital.

The total cost of the business combination determined provisionally totalled 175,729,883.13 euros. There are no costs attributable to the business combination other than audit costs, assets valuation by independent expert and legal expenses on the transfer, which are not significant and registered as period cost when incurred.

In this sense, in April 2014 the pledge on 3% of the shares corresponding to the shareholders of Grupo Ascensores Enor, S.A. was cancelled once it was verified the compliance with the guarantee clause related to the Annually-computed Effective Value of the Service Portfolio at September 30, 2013, which, as stated in the initial contribution agreement, was not to be lower than 99% of the Annually-computed Confirmed Value of the Service Portfolio at September 30, 2012.

The amounts recognized on the business combination at fair value do not differ from the carrying amounts immediately preceding the combination determined under IFRS, except for the valuation of the intangible assets that arise as a result of the combination itself, which have been measured as provided for in the acquisition agreement. The contingent liabilities have been guaranteed by the sellers as mentioned above.

Grupo Ascensores Enor S.A. owns, directly or indirectly, 100% of the capital of Electromocánica del Noroeste, S.A.; Ascensores Enor S.A. and Enor Elevacao e Equipamentos Industriais, Lda all of them operating in the field of elevators, escalators and automatic doors in Spain and Portugal.

The business acquired contributes recurring sales of EThs 31,218 to the Group. Details of the assets and liabilities acquired are as follows:

|                                     |        |
|-------------------------------------|--------|
| Cash and cash equivalents .....     | 12,781 |
| Property, plant and equipment ..... | 17,599 |
| Intangible assets .....             | 84,443 |
| Receivables .....                   | 9,618  |
| Inventories .....                   | 1,448  |
| Deferred tax assets .....           | 313    |
| Other current assets .....          | 146    |
| Other non current assets .....      | 875    |
| Payables .....                      | 8,994  |
| Deferred tax liabilities .....      | 25,318 |
| Provisions .....                    | 488    |
| Other current liabilities .....     | 566    |

There is a difference that gives rise to goodwill of EThs 83 873.

Main assets incorporated to the Group financial statements through the business combinations correspond to fixed assets, intangible assets and deferred tax liability arising from the recognition of intangible assets. Both the net assets identified as the goodwill arising in the business combination have been integrated into a new cash generating unit (CGU) called Group Ascensores Enor.

**b.- Business combinations and mergers (Fiscal year 2014):**

**ELECTROMECAÁNICA HEMEN ELEVADORES, S.L. Y ASCENSORES HEMEN, S.L.**

In September 2014, Zardoya Otis, S.A. has acquired 90% of the share capital of Electromecánica Hemen Elevadores, S.L. and 100% de Ascensores Hemen, S.L., both companies dedicated to the maintenance and repair of elevators in the provinces of Álava, Guipúzcoa, Burgos and Navarra.

The total cost of the business combination was initially calculated at EThs 9,888, most of which related to acquisition of the maintenance portfolio. There are no costs attributable to the business combination other than audit costs and legal expenses on the transfer, which are not significant. The cost of the business combination was determined provisionally, since some items must be measured definitively one year after the acquisition date. However, there were no significant variations on the aforementioned figure.

The amounts recognized on the business combination at fair value do not differ from the carrying amounts immediately preceding the combination determined under IFRS, except for the valuation of the intangible assets that arise as a result of the combination itself, which have been measured as provided for in the acquisition agreement. The contingent liabilities have been guaranteed by the sellers and withheld on the price payable.

The business acquired contributes recurring sales of EThs 2,345 to the Group. Details of the assets and liabilities acquired are as follows:

|                                    |       |
|------------------------------------|-------|
| Cash and cash equivalents .....    | 265   |
| Property, plant and equipment..... | 87    |
| Intangible assets .....            | 5,001 |
| Receivables .....                  | 70    |
| Deferred tax .....                 | 1,500 |
| Payables .....                     | 284   |
| Non-controlling interest .....     | 364   |

There is a difference that gives rise to goodwill of EThs 6,613

As of November 30, 2014 Electromecánica Hemen Elevadores, S.L. and Ascensores Hemen, S.L., bring to the consolidated figures EThs 413 of total sales and a profit before tax for the period of EThs 130.

**NOTE 34. RELATED-PARTY TRANSACTIONS**

United Technologies Holdings S.A. (incorporated in France) holds 49.63% of the shares of the parent company of the group Zardoya Otis S.A.. United Technologies Corporation (incorporated in the United States) is the parent company of United Technologies Holdings, S.A.

The following transactions were performed with related parties:

**(a) Transactions with Otis Elevator Co**

|   | <u>2014</u> | <u>2013</u> |
|---|-------------|-------------|
| Royalties .....                                       | 17,726      | 19,219      |
| Charge-back of costs relating to the R&D Center ..... | 1,340       | 654         |
| Payables .....  | 437         | 475         |

**(b) Transactions with Otis Group company,  
sales and purchases of goods and services**

|                   | <u>2014</u> | <u>2013</u> |
|-------------------|-------------|-------------|
| Sales.....        | 154,909     | 129,036     |
| Purchases .....   | 34,183      | 29,346      |
| Receivables ..... | 26,944      | 31,639      |
| Payables .....    | 8,854       | 7,536       |

The Group periodically requires for its revision by the Audit Committee the opinion of an external concerning the transfer price poling established for the transactions with other Otis entities.

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 3.5% of sales to end customers.

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 under the employee benefit expense heading, generating a credit account with Group companies (presented as other provisions in the statement of financial position). 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 2014, the expense was EThs 547 (Eths 675 in fiscal year 2013), relating to the fair value of the assets to which it is indexed, which was EThs 2,484.

The overall compensation for all items accrued during the year by the members of the Board of Directors was EThs 1,645 (EThs 1,368 in 2013) and comprised the following items:

|                                 | <u>2014</u>  | <u>2013</u>  |
|---------------------------------|--------------|--------------|
| Fixed compensation .....        | 192          | 174          |
| Variable compensation .....     | 90           | 68           |
| By-law stipulated items .....   | 1,000        | 1,000        |
| Other long-term benefits .....  | 322          | 77           |
| Pension plan contributions..... | 41           | 49           |
| <b>Total.....EThs</b>           | <b>1,645</b> | <b>1,368</b> |

At the 2014 and 2013 year ends, the Company had not granted any advance payments or credits to the members of the Board of Directors.

Additionally, the overall compensation accrued for all items by members of the Group's senior management (non-directors) was EThs 350 (EThs 974 in 2013), as reported in sections C.1.15 and C.1.16 of the Annual Corporate Governance Report 2014.

Likewise, in compliance with article 229 of the Capital Company Act, the members of the Board of Directors state that neither they nor any parties related to them have holdings in the share capital of or hold office or perform duties in companies with an activity that is identical, analogous or complementary to the activities that form the corporate purpose of Zardoya Otis, S.A. and its consolidated group, except in the following cases:

- Mr. José María Loizaga Viguri is a director of Actividades de Contratación y Servicios S.A. (ACS).
- The Board members D. Mario Abajo García, D. Mark George, D. Philippe Delpech, D. Pierre Dejoux and D. Bernardo Calleja Fernandez hold positions in other companies of the Otis Elevator Group worldwide as follows:



| Name or corporate name of director  | Name or corporate name of significant shareholder | Designation  |
|---|---|--|
| Mario Abajo García  | Otis Elevadores Lda. (Portugal)                   | Director   |
| Mark George   | Otis Elevator Company (New Jersey)                | Director   |
|   | Otis Elevator Company (Delaware, USA)             | Director   |
|   | Otis Elevator International, Inc. (Delaware, USA) | Director   |
| Pierre Dejoux   | OTIS Limited                                      | Chairman   |
|   | Buga Otis Asansor Sanayi ve Ticaret A.S. (Turkey) | Director   |
| Bernardo Calleja Fernández  | Ascensores Serra, S.A.                            | Director   |
|   | C. Veremis Otis, S.A. (Greece)                    | Director   |
|   | Otis Elevadores (Portugal)                        | Chairman   |
|   | Montes Tallón, S.L.                               | Director   |
|   | Otis Servizi S.r.l. (Italy)                       | Chairman   |
|   | Grupo Ascensores Enor, S.A.                       | Chairman   |
|   | Mototracción Eléctrica Latierro, S.A              | Personal representative of Director (Zardoya Otis, S.A.) |
|   | Otis Maroc, S.A. (Morocco)                        | Personal representative of Director (Zardoya Otis, S.A.) |
|   | Acresa Cardellach, S.L.                           | Chairman   |
| Philippe Delpech  | Buga Otis Asansor Sanayi ve Ticaret A.S. (Turkey) | Vice Chairman  |
| José María Loizaga Viguri   | Otis Elevadores Lda. (Portugal)                   | Director   |
| María Luisa Zardoya Arana (personal representative of Director Euro-Syns, S.A.) | Otis Elevadores Lda. (Portugal)                   | Director   |

### NOTE 35. INFORMACIÓN SOBRE MEDIO AMBIENTE

At November 30, 2014, the Group was not aware of any contingency, risk or litigation in progress related to the protection and improvement of the environment and, therefore, had not recorded any provision related to environmental actions on the statement of financial position at November 30, 2014.

The Group has approved a Corporate Environmental Policy Manual, fixing the main procedures and actions to be followed in this field in plants, offices, transport, Installation and Service.

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

- Control, reciclaje y disminución de residuos altamente contaminantes (aceites)
- Control y reducción de residuos reciclables (embalajes)
- Control y reducción de emisiones al aire por procesos industriales y de combustión
- Control y reducción de consumo de agua y energía

The Madrid, San Sebastián and Munguía production centres renewed their ISO – 1400 certification until 2016.

The Madrid-Leganés plant was designed to keep energy consumption to a minimum and included the installation of photovoltaic panels on the roof, the carrying amount of which is EThs 4,153, with accumulated depreciation of EThs 926 at the end of the reporting period. When these photovoltaic panels were brought into operation, they gave rise for a tax credit of EThs 166 for "investment in the use of renewable energy". There are no other significant investments for protection of the environment.

In addition, expenses of EThs 31 for waste removal or recycling were recognized in 2014.

### NOTE 36. EVENTS AFTER THE END OF THE REPORTING PERIOD

On December 10, 2014 Zardoya Otis, S.A declared the third dividend corresponding to 2014, third on account of the fiscal year profit, for an amount of 0.085 Euros gross per share, resulting in a total dividend gross of EThs. 36,972 (Note 8). Payment of the dividend was done on January 12, 2015.

On December 17, 2014 the subsidiary Puertas Automaticas Portis, S.L. acquired 1.06% of the non-controlling interest of its own shares for an amount of Eths 394. These own shares were amortized by means of a capital reduction at the same date. The transaction represents a change in the Zardoya Otis S.A. participation that increases from 93.83% to 94.83% ownership of such company.

On 9 January 2015, Zardoya Otis, S.A. was informed of the conclusion of the syndication agreement concluded in the frame of the Enor transaction between the two major shareholders of the company: United Technologies Holdings, S.A.S. and Euro Syns, S.A. on August 3, 2012. The syndication agreement should end on the date in which UTC owns shares representing 50.01% or more of the share capital of the company, which has been notified on 12 January 2015 by UTH to the "Comision Nacional del Mercado de Valores" by means of the corresponding communication of significant participation.

### NOTE 37. OTHER INFORMATION

#### (a) Number of Group employees by category (medium and closing fiscal year)

|  | Men   | Women | 2014  |
|--|-------|-------|-------|
| Managers .....   | 68    | 8     | 76    |
| Administration/workshop/field supervisors .....        | 485   | 27    | 512   |
| Engineers, university graduates and other experts..... | 238   | 47    | 285   |
| Administrative and technical personnel.....            | 482   | 419   | 901   |
| Other workers.....                                     | 3,345 | 18    | 3,363 |
|  | 4,618 | 519   | 5,137 |
|  | Men   | Women | 2013  |
| Managers .....   | 70    | 6     | 76    |
| Administration/workshop/field supervisors .....        | 475   | 22    | 497   |
| Engineers, university graduates and other experts..... | 241   | 46    | 287   |
| Administrative and technical personnel.....            | 491   | 447   | 938   |
| Other workers.....                                     | 3,579 | 22    | 3,601 |
|  | 4,856 | 543   | 5,399 |

#### (b) Fees of account auditors and companies belonging to their group or related companies

The amount accrued by PricewaterhouseCoopers Auditores, S.L., which audits the Zardoya Otis Group, for the year 2014 is EThs 334 (EThs 334 in 2013), including the fees paid for the audit of processes required to comply with the rules for public companies in USA. Likewise, fees accrued during the year by other companies in the PwC network as a result of audit to foreign subsidiaries are EThs 49 (EThs 48 in 2013).

The fees accrued during the year by PricewaterhouseCoopers Auditores, S.L. and other companies that use the PwC brand name as a result of other services rendered to the Group, were EThs 87 (EThs 79 in 2013, including audit services performed within the scope of the acquisition of group Enor).

## BOARD OF DIRECTORS, COMMITTEE & COMMISSION (for the year ended November 30, 2014)

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### Board of Directors

Mr. Mario Abajo García  
*Chairman*

Mr. José María Loizaga Viguri  
*Deputy Chairman*

Mr. Bernardo Calleja Fernández  
*CEO*

Otis Elevator Company  
(Mrs. Muriel Makharine)

Mr. Mark George

Mr. Pierre Dejoux

Mr. Philippe Delpech

Mr. Alberto Javier Zardoya Arana  
EURO-SYNS, S.A.  
(Mrs. María Luisa Zardoya Arana)

### Audit Committee

Mr. Mark George  
*Chairman*

Mr. José María Loizaga Viguri

Mr. Pierre Dejoux

### Nominating Commission

Mr. José María Loizaga Viguri  
*Chairman*

Mr. Philippe Delpech

Otis Elevator Company  
(Mrs. Muriel Makharine)

Mr. Alberto Fernández-Ibarburu Arocena  
*Secretary*

# Agenda

1. Examination and approval of the annual financial statements and management reports of both, the Company and its Consolidated Group for the year running from December 1, 2013 to November 30, 2014.
2. Application of the profit for the year running from December 1, 2013 to November 30, 2014.
3. Approval of the performance of the Board of Directors and, in particular, of the distribution of dividends charged to the profit for the year running from December 1, 2013 to November 30, 2014.
4. Approval of a partial cash distribution of the share premium for a gross amount of 0.08 euros per share.
5. Re-election of the auditors for the Company and its consolidated group for the year running from December 1, 2014 to November 30, 2015.
6. Establishing the number of directors at eleven (11). Appointment or, if applicable, re-election of the following members of the Board of Directors:
  - 6.1. Establishing the number of directors at eleven (11).
  - 6.2. Re-election of Mr. Mario Abajo García as an "other external director" at the proposal of the Board of Directors.
  - 6.3. Re-election of Euro-Syns, S.A. as a proprietary director at the proposal of the Board of Directors and acknowledgement of the appointment of Mr. Pedro Sáinz de Baranda as its personal representative.
  - 6.4. Re-election of Otis Elevator Company as a proprietary director at the proposal of the Board of Directors and acknowledgement of the continuation of Mr. Muriel Makharine as its personal representative.
  - 6.5. Appointment of Mr. José Miguel Andrés Torrecillas as an independent director at the proposal of the Board of Directors.
  - 6.6. Appointment of Mr. Patrick Blethon as a proprietary director at the proposal of the Board of Directors.
  - 6.7. Resulting composition of the Board of Directors.
7. Share capital increase in the ratio of one new share for every twenty-five old shares by the issuance of bonus shares charged to the freely-available voluntary reserve and request to the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges for the listing of said shares. Amendment of article 5 of the Bylaws.
8. Approval, if appropriate, of the following amendments to the Byways, principally to adapt their wording to the new developments in the legislation introduced by Law 31/2014 of December 3, whereby the Capital Companies Law was amended to improve corporate governance.
  - 8.1. Approval of the amendment of the following articles of the Bylaws concerning the operation the Company's General Shareholders' Meeting: article 12 (Type of General Meeting); article 13 (Notice of General Shareholders' Meeting); article 16 (Chairmanship, deliberations and adoption of resolution); and article 17 (Attributes and competencies of the General Shareholders' Meeting).
  - 8.2. Approval of the amendment of the following articles of the Bylaws concerning the operation of the Company's Board of Directors: article 20 (Composition of the Board); article 21 (Term of office of Directors); article 22 (Powers of the Board); and article 24 (Director compensation).
  - 8.3. Approval of the amendment of article 24 (bis) of the Bylaws concerning the operation of the Company's Audit Committee.
  - 8.4. Approval of the inclusion of a new article (ter) (Nominating and Compensation Commission) of the Bylaws, concerning the operation of the Company's Nominating and Compensation Commission.
9. Approval, if appropriate, of the amendment of the following articles of the Regulations of the General Shareholders' Meeting, principally to adapt their wording to the new developments in the legislation introduced by the aforementioned Law 31/2014: article 4 (Calling a meeting), article 5 (Shareholder rights); article 6 (Representation); and article 10 (Deliberation and adoption of resolutions).
10. Information on the amendments made to the Regulations of the Board of Directors since the last General Shareholders' Meeting, in accordance with the Capital Companies Law, article 528, including, in particular, the amendments made to adapt their wording to the new developments in the legislation introduced by Law 31/2014.
11. Consultative ballot on the 2014 Annual Report on Director Compensation in accordance with the provisions of the Capital Companies Law, article 541.
12. Authorization to 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.
13. Information on the percentage applicable to profit sharing, in accordance with the Capital Companies Law article 218.
14. Delegation to the Board of Directors for the interpretation, rectification, execution, formalization and registration of the resolutions adopted.
15. Request and questions.
16. Approval of the Minutes.



## Financial Statements of the last five years

## Consolidated Profit and Loss Accounts

(In millions of euros)

|  | 2014         |              | 2013*        |              | 2012         |              | 2011         |              | 2010         |              | 2009         |              |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|  |              | %            |              | %            |              | %            |              | %            |              | %            |              | %            |
| <b>SALES</b>   | <b>739,0</b> | <b>100.0</b> | <b>759,2</b> | <b>100.0</b> | <b>809,1</b> | <b>100.0</b> | <b>819,1</b> | <b>100.0</b> | <b>862,8</b> | <b>100.0</b> | <b>885,1</b> | <b>100.0</b> |
| Raw materials and consumable used  | (195,5)      | (26.5)       | (197,4)      | (26.0)       | (216,5)      | (26.8)       | (220,7)      | (26.9)       | (231,9)      | (26.9)       | (259,1)      | (29.3)       |
| <b>GROSS PROFIT</b>  | <b>543,4</b> | <b>73.5</b>  | <b>561,8</b> | <b>74.0</b>  | <b>592,6</b> | <b>73.2</b>  | <b>598,4</b> | <b>73.1</b>  | <b>630,9</b> | <b>73.1</b>  | <b>626,0</b> | <b>70.7</b>  |
| Other net expenses   | (56,4)       | (7.6)        | (56,3)       | (7.4)        | (60,0)       | (7.4)        | (56,5)       | (6.9)        | (61,5)       | (7.1)        | (63,5)       | (7.2)        |
| Personnel expenses   | (247,1)      | (33.4)       | (251,9)      | (33.2)       | (252,2)      | (31.2)       | (249,8)      | (30.5)       | (250,0)      | (29.0)       | (250,7)      | (28.3)       |
| Impairment of accounts receivable  | (1,4)        | (0.2)        | (4,3)        | (0.6)        | (7,0)        | (0.9)        | (7,5)        | (0.9)        | (18,6)       | (2.1)        | (16,5)       | (1.8)        |
| Other income   | 4,0          | 0.5          | 3,8          | 0.5          | 4,6          | 0.6          | 4,6          | 0.6          | 4,7          | 0.5          | 4,2          | 0.4          |
| <b>EBITDA</b>  | <b>242,6</b> | <b>32.8</b>  | <b>253,1</b> | <b>33.3</b>  | <b>278,0</b> | <b>34.4</b>  | <b>289,2</b> | <b>35.3</b>  | <b>305,5</b> | <b>35.4</b>  | <b>299,5</b> | <b>33.8</b>  |
| Amortization, depreciation and impairment losses                         | (22,2)       | (3.0)        | (26,9)       | (3.5)        | (16,8)       | (2.1)        | (15,2)       | (1.9)        | (15,9)       | (1.8)        | (14,2)       | (1.6)        |
| <b>OPERATING PROFIT</b>  | <b>220,4</b> | <b>29.8</b>  | <b>226,2</b> | <b>29.8</b>  | <b>261,2</b> | <b>32.3</b>  | <b>274,4</b> | <b>33.5</b>  | <b>289,6</b> | <b>33.6</b>  | <b>285,3</b> | <b>32.2</b>  |
| Financial income   | 0,7          | 0.1          | 0,8          | 0.1          | 0,9          | 0.1          | 2,5          | 0.3          | 2,6          | 0.3          | 4,0          | 0.4          |
| Financial expenses   | (0,9)        | (0.1)        | (2,0)        | (0.3)        | (1,1)        | (0.1)        | (0,4)        | 0.0          | (0,3)        | (0.1)        | (1,3)        | (0.1)        |
| Net foreign exchange differences   | (0,1)        | 0.0          | 0,0          | 0.0          | 0,0          | 0.0          | 0,0          | 0.0          | (0,1)        | 0.0          | 0,1          | 0.0          |
| Other gains and losses   | 0,1          | 0.0          | 0,1          | 0.0          | 0,0          | 0.0          | 0,0          | 0.0          |              |              | (0,0)        | 0.0          |
| <b>PROFIT BEFORE TAX</b>   | <b>220,2</b> | <b>29.8</b>  | <b>225,1</b> | <b>29.6</b>  | <b>261,0</b> | <b>32.3</b>  | <b>276,1</b> | <b>33.7</b>  | <b>291,8</b> | <b>33.8</b>  | <b>288,1</b> | <b>32.6</b>  |
| Income tax expenses  | (64,9)       | (8.8)        | (67,0)       | (8.8)        | (76,9)       | (9.5)        | (79,5)       | (9.7)        | (83,8)       | (9.7)        | (84,3)       | (9.6)        |
| <b>PROFIT FOR THE YEAR</b>   | <b>155,3</b> | <b>21.0</b>  | <b>158,1</b> | <b>20.8</b>  | <b>184,1</b> | <b>22.8</b>  | <b>196,6</b> | <b>24.0</b>  | <b>208,0</b> | <b>24.1</b>  | <b>203,8</b> | <b>23.0</b>  |
| Minority interests   | (1,3)        | (0.2)        | (1,1)        | (0.1)        | (3,0)        | (0.4)        | (2,6)        | (0.3)        | (2,9)        | (0.3)        | (1,7)        | 0.2          |
| <b>PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b> | <b>154,0</b> | <b>20.8</b>  | <b>157,0</b> | <b>20.7</b>  | <b>181,1</b> | <b>22.4</b>  | <b>194,0</b> | <b>23.7</b>  | <b>205,1</b> | <b>23.8</b>  | <b>202,1</b> | <b>22.8</b>  |
| <b>CASH FLOW (1)</b>   | <b>176,2</b> | <b>23.8</b>  | <b>183,9</b> | <b>24.2</b>  | <b>197,9</b> | <b>24.5</b>  | <b>209,2</b> | <b>25.5</b>  | <b>221,0</b> | <b>25.6</b>  | <b>216,2</b> | <b>24.4</b>  |

(1) Net income + Depreciation.

(\*) Restated in application of IAS 19R

# Consolidated Balance Sheets

## CONSOLIDATED BALANCE SHEET (After distribution of the profit obtained in the year)

(In millions of euros)

|  | 2014         |              | 2013*        |              | 2012         |              | 2011         |              | 2010         |              | 2009         |              |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| ASSETS   | %            |              | %            |              | %            |              | %            |              | %            |              | %            |              |
| Property, plant & equipment                      | 64,6         | 9,1          | 66,7         | 9,3          | 52,7         | 9,4          | 51,5         | 9,2          | 54,6         | 9,4          | 57,8         | 9,6          |
| Intangible assets                                | 199,3        | 28,0         | 206,9        | 29,0         | 134,0        | 23,9         | 121,3        | 21,7         | 118,9        | 20,4         | 119,7        | 19,8         |
| Goodwill   | 141,3        | 19,8         | 134,6        | 18,9         | 56,7         | 10,1         | 46,9         | 8,4          | 42,2         | 7,2          | 40,3         | 6,7          |
| Financial investments                            | 0,7          | 0,1          | 0,7          | 0,1          | 0,5          | 0,1          | 2,6          | 0,5          | 0,6          | 0,1          | 0,6          | 0,1          |
| Deferred tax assets                              | 21,4         | 3,0          | 25,6         | 3,6          | 25,5         | 4,5          | 26,1         | 4,7          | 24,6         | 4,2          | 22,7         | 3,8          |
| Other non current assets                         | 6,5          | 0,9          | 6,1          | 0,9          | 6,3          | 1,1          | 5,5          | 1,0          | 3,8          | 0,7          | 2,9          | 0,5          |
| <b>NON CURRENT ASSETS</b>                        | <b>433,8</b> | <b>60,9</b>  | <b>440,6</b> | <b>61,7</b>  | <b>275,7</b> | <b>49,3</b>  | <b>253,9</b> | <b>45,4</b>  | <b>244,7</b> | <b>42,0</b>  | <b>244,0</b> | <b>40,3</b>  |
| Inventories                                      | 22,7         | 3,2          | 25,1         | 3,5          | 28,7         | 5,1          | 22,0         | 3,9          | 17,6         | 3,0          | 18,4         | 3,0          |
| Financial receivables                            | 0,3          | 0,0          | 0,4          | 0,1          | 0,5          | 0,1          | 0,4          | 0,1          | 0,6          | 0,1          | 0,7          | 0,1          |
| Trade and other receivables                      | 183,3        | 25,7         | 202,9        | 28,4         | 218,7        | 39,0         | 215,8        | 38,6         | 228,2        | 39,2         | 237,6        | 39,3         |
| Cash and cash equivalents                        | 72,0         | 10,1         | 44,9         | 6,3          | 37,1         | 6,6          | 66,8         | 12,0         | 91,0         | 15,7         | 104,1        | 17,2         |
| <b>CURRENT ASSETS</b>                            | <b>278,3</b> | <b>39,1</b>  | <b>273,3</b> | <b>38,3</b>  | <b>285,0</b> | <b>50,8</b>  | <b>305,0</b> | <b>54,6</b>  | <b>337,4</b> | <b>58,0</b>  | <b>360,8</b> | <b>59,7</b>  |
| <b>TOTAL ASSETS</b>                              | <b>712,1</b> | <b>100,0</b> | <b>713,9</b> | <b>100,0</b> | <b>560,7</b> | <b>100,0</b> | <b>558,9</b> | <b>100,0</b> | <b>582,1</b> | <b>100,0</b> | <b>604,8</b> | <b>100,0</b> |
| <b>LIABILITIES</b>                               |              |              |              |              |              |              |              |              |              |              |              |              |
| Social capital                                   | 43,5         | 6,1          | 41,8         | 5,9          | 38,5         | 6,9          | 36,7         | 6,6          | 34,9         | 6,0          | 33,3         | 5,5          |
| Share Premium                                    | 108,4        | 15,2         | 141,9        | 19,9         | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          |
| Legal Reserve                                    | 8,7          | 1,2          | 8,5          | 1,2          | 7,7          | 1,4          | 7,0          | 1,3          | 7,0          | 1,2          | 6,7          | 1,1          |
| Reserves in subsidiaries<br>& other reserves     | 251,6        | 35,3         | 215,1        | 30,1         | 192,6        | 34,3         | 194,1        | 34,7         | 153,1        | 26,3         | 143,4        | 23,7         |
| Treasury stock                                   | (0,1)        | 0,0          | (0,3)        | 0,0          | (0,4)        | (0,1)        | (8,3)        | (1,5)        |              |              |              |              |
| <b>NET EQUITY</b>                                | <b>412,1</b> | <b>57,9</b>  | <b>407,0</b> | <b>57,0</b>  | <b>238,4</b> | <b>42,5</b>  | <b>229,5</b> | <b>41,1</b>  | <b>195,0</b> | <b>33,5</b>  | <b>183,4</b> | <b>30,3</b>  |
| Foreign exchanges differences                    | 0,0          | 0,0          | (0,3)        | 0,0          | (0,2)        | 0,0          | (0,3)        | (0,1)        | (0,3)        | 0,0          | (0,3)        | 0,0          |
| <b>MINORITY INTERESTS</b>                        | <b>16,5</b>  | <b>2,3</b>   | <b>15,6</b>  | <b>2,2</b>   | <b>24,1</b>  | <b>4,3</b>   | <b>14,1</b>  | <b>2,5</b>   | <b>10,0</b>  | <b>1,7</b>   | <b>9,5</b>   | <b>1,6</b>   |
| <b>TOTAL NET EQUITY</b>                          | <b>428,6</b> | <b>60,2</b>  | <b>422,3</b> | <b>59,2</b>  | <b>262,3</b> | <b>46,8</b>  | <b>243,3</b> | <b>43,5</b>  | <b>204,8</b> | <b>35,2</b>  | <b>192,6</b> | <b>31,8</b>  |
| Other payables                                   | 3,7          | 0,5          | 7,9          | 1,1          | 1,7          | 0,3          | 5,2          | 0,9          | 15,8         | 2,7          | 42,3         | 7,0          |
| Borrowings                                       | 4,9          | 0,7          | 10,1         | 1,4          | 18,5         | 3,3          | 10,7         | 1,9          |              |              |              |              |
| Welfare commitments                              | 0,0          | 0,0          | 0,0          | 0,0          | 12,2         | 2,2          | 12,8         | 2,3          | 19,7         | 3,4          | 21,4         | 3,5          |
| Provisions for other<br>liabilities and expenses | 5,6          | 0,8          | 4,8          | 0,7          | 3,3          | 0,6          | 3,0          | 0,5          | 2,5          | 0,4          | 2,3          | 0,4          |
| Deferred tax liabilities                         | 28,5         | 4,0          | 33,6         | 4,7          | 9,4          | 1,7          | 3,6          | 0,6          | 2,1          | 0,4          |              |              |
| <b>NON CURRENT LIABILITIES</b>                   | <b>42,7</b>  | <b>6,0</b>   | <b>56,4</b>  | <b>7,9</b>   | <b>45,1</b>  | <b>8,0</b>   | <b>35,3</b>  | <b>6,3</b>   | <b>40,1</b>  | <b>6,9</b>   | <b>66,0</b>  | <b>10,9</b>  |
| Trade and other payables                         | 209,9        | 29,5         | 201,4        | 28,2         | 210,9        | 37,6         | 232,9        | 41,7         | 281,7        | 48,4         | 279,8        | 46,3         |
| Current tax liabilities                          | 8,1          | 1,1          | 6,9          | 1,0          | 12,3         | 2,2          | 25,8         | 4,6          | 32,0         | 5,5          | 31,8         | 5,3          |
| Borrowings                                       | 5,4          | 0,8          | 9,0          | 1,3          | 12,6         | 2,2          | 4,0          | 0,7          | 2,2          | 0,4          | 14,9         | 2,5          |
| Provisions for other<br>liabilities and expenses | 17,4         | 2,4          | 17,9         | 2,5          | 17,5         | 3,1          | 17,6         | 3,1          | 21,2         | 3,6          | 19,7         | 3,3          |
| <b>CURRENT LIABILITIES</b>                       | <b>240,8</b> | <b>33,8</b>  | <b>235,2</b> | <b>32,9</b>  | <b>253,3</b> | <b>45,2</b>  | <b>280,3</b> | <b>50,2</b>  | <b>337,2</b> | <b>57,9</b>  | <b>346,2</b> | <b>57,2</b>  |
| <b>TOTAL LIABILITIES</b>                         | <b>283,5</b> | <b>39,8</b>  | <b>291,6</b> | <b>40,8</b>  | <b>298,4</b> | <b>53,2</b>  | <b>315,6</b> | <b>56,5</b>  | <b>377,3</b> | <b>64,8</b>  | <b>412,2</b> | <b>68,2</b>  |
| <b>TOTAL EQUITY<br/>AND LIABILITIES</b>          | <b>712,1</b> | <b>100,0</b> | <b>713,9</b> | <b>100,0</b> | <b>560,7</b> | <b>100,0</b> | <b>558,9</b> | <b>100,0</b> | <b>582,1</b> | <b>100,0</b> | <b>604,8</b> | <b>100,0</b> |

(\*) Restated in application of IAS 19R

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**EXHIBIT I**

**ANNUAL CORPORATE GOVERNANCE REPORT  
FOR LISTED COMPANIES**

**DETAILS IDENTIFYING ISSUER**

**DATE OF FISCAL YEAR END**

Nov. 30, 2014

**TAX IDENTIFICATION CODE**

A28011153

**CORPORATE NAME**

ZARDOYA OTIS S.A

**REGISTERED ADDRESS**

CL GOLFO DE SALÓNICA 73





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:

| Nombre o denominación social relacionados | Tipo de relación | Breve descripción   |
|---|------------------|---|
| Euro-Syns, S.A.                           | Familiar         | Este consejero es una sociedad controlada por miembros de la familia Zardoya. |

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:

| Nombre o denominación social relacionados | Tipo de relación                       | Breve descripción   |
|---|--|---|
| United Technologies Holdings, S.A.S.      | Comercial<br>Contractual<br>Societaria | A 30 de noviembre de 2014, United Technologies Corporation (UTC) es titular del 100% de las acciones de Otis Elevator Company y del 49.6269% de las acciones de Zardoya Otis S.A. a través de United Technologies Holdings, S.A.S. Zardoya Otis, S.A. tiene relaciones comerciales y contractuales con Otis Elevator Company y con United Technologies Corporation (UTC) (ver también el apartado A.6 siguiente). |

**Type of relationship:** Commercial

**Brief description:**

As of November 30, 2014, United Technologies Corporation (UTC) holds 100% shares of Otis Elevator Co. and 50.01% of Zardoya Otis, S.A.. through United Technologies Holdings S.A.S. Zardoya Otis S.A. has commercial and contractual relations with Otis Elevator Company and United Technologies Corporation (UTC).

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 X

No

| Parties to shareholders' agreement   |
|--------------------------------------|
| EURO-SYNS S.A.                       |
| UNITED TECHNOLOGIES HOLDINGS, S.A.S. |

**Percentage of share capital affected:** 2.10%

**Brief description of agreement:**

As notified by Zardoya Otis, S.A. on January 30, 2013 as a relevant fact (number 181717), on August 3, 2012, Euro Syns, S.A. and United Technologies Holding, S.A.S. signed a syndication agreement whereby Euro Syns, S.A. agreed to syndicate 8,458,074 shares in Zardoya Otis, S.A., representing

approximately 2.103% of its share capital (after the capital increase approved by the Extraordinary General Shareholders' Meeting held on January 30, 2013).

Said syndication agreement was signed in the interests of the transaction to acquire Grupo Ascensores ENOR, S.A., in order for UTH to be the holder of more than 50% of the voting rights in Zardoya Otis, S.A. at all times, thus allowing the UTC Group to continue to consolidate Zardoya Otis, S.A. after the capital increase approved by the Company's Extraordinary General Shareholders' meeting held on January 30, 2013.

As further clarification, we add that, although the syndication agreement remained in force at the end of the 2014 financial year, it has concluded on the date of issue of this report.

As provided in Clause 3 of the syndication agreement, said agreement was to end on the date on which UTH became the owner of shares representing 50.01% or more of the share capital of Zardoya Otis, S.A. UTH became the holder of shares representing 50.01% of the share capital of Zardoya Otis, S.A. on January 9, 2015. The Company and the National Stock Market Commission were duly informed of this situation by UTH in the pertinent notification of significant shareholding and notification of relevant fact (number 216904), respectively.

State whether the company is aware of the existence of any actions that have been arranged between its shareholders. If S, briefly describe them:

Yes

No X

In the event that there was any change or breach of said agreements or arranged actions during the F.Y., state this expressly.

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 Stock Market Act. If so, identify them:

Yes X

No

| Name or corporate name                |
|---------------------------------------|
| UNITED TECHNOLOGIES CORPORATION (UTC) |

| Comments |
|----------|
|----------|

At November 30, 2014, it is the indirect owner (through the French company United Technologies Holdings S.A.) of 50.01 % of the shares of Zardoya Otis, S.A.

**A.8 Complete the following charts on the company's treasury stock:**

**At year-end date:**

| Number of direct shares | Number of indirect shares (*) | % of total capital |
|-------------------------|-------------------------------|--------------------|
| 11,103                  | 0                             | 0.00%              |

**(\*) Through:**

Give details of any significant variations, pursuant to the provisions of Royal Decree 1362/2007, that took place in the F.Y.:

**A.9 Give details of the conditions and/or periods of the authorization(s) provided by the General Meeting of Shareholders to the Board of Directors to issue, repurchase or transfer treasury stock:**

The Ordinary General Shareholders' Meeting of Zardoya Otis, S.A. held on May 26, 2013 unanimously approved the proposal to authorize the Board of Directors to, without consulting the General Shareholders' Meeting beforehand, acquire, directly or indirectly, shares in Zardoya Otis, S.A. up to the maximum percentage of 10% of the share capital and for the maximum period of five years as from the date on which the aforementioned Ordinary General Shareholders' Meeting was held. 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.

In addition, the Extraordinary General Shareholders' Meeting of Zardoya Otis, S.A. held on January 30, 2013 unanimously approved 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:

The maximum number of shares to be accepted as pledges shall not exceed 10% of the Company's share capital.

The shares accepted as pledges shall be free of all charges and encumbrances, fully paid up and not attached to compliance with any obligation the beneficiary of which is not the Company.

Term of the authorization: the authorization shall be in force for the maximum period allowed by Law at any given moment, as from the date of this Extraordinary General Shareholders' Meeting.

When carrying out these transactions, the rules on the subject contained in the Company's Internal Code of Conduct shall likewise be met.

This authorization does not amend but –rather- complements the authorization granted as per the first paragraph above.

**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 to 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.

**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.

## B GENERAL 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 regarding the quorum required to constitute a General Meeting.

Yes X

No

|                             | Quorum % different from that established as a general rule in art. 193 Capital Companies Law | Quorum % different from that established in art. 194 Capital Companies Law for the special cases of art. 194 Capital Comp. Law |
|-----------------------------|--|--|
| Quorum required on 1st call | 60.00%   | 50.00%   |
| Quorum required on 2nd call | 66.66%   | 50.00%   |

### Describe the differences

The qualified quorums mentioned in the above chart are required.

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 X

Describe the differences from the system provided for in the Capital Companies Law.

B.3 State the rules applicable to amending the corporate By-Laws. In particular, state the majorities required to amend the By-Laws and, if applicable, the rules that are in place to protect shareholder rights when the By-Laws are amended.

To amend the Company's By-Laws, the system set forth in article 285 onwards of the Capital Companies Law will be applied.

Notwithstanding the provisions of the preceding paragraph, according to article 14 of the Company's By-laws, 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 By-Laws, issue debentures, eliminate the limitation on the preferential right of acquisition of new shares, convert, merge or spin off the Company or globally transfer its assets and liabilities, move its registered office abroad, or 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 50% of said capital to be present or represented.

Additionally, in accordance with article 15 of the Company's By-laws, 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, in the event of amendments to the Company's By-laws, separate votes will be taken on each article or group of articles that is substantially independent.

Resolutions concerning amendment of the Company's By-laws will be adopted by a majority of the capital present or represented at the General Shareholders' Meeting.

B.4 State the attendance figures for the General Meetings held in the financial year to which this report refers and in the preceding financial year:

| Date of General Meeting | Attendance figures   |               |                  |       | Total  |
|-------------------------|----------------------|---------------|------------------|-------|--------|
|                         | % physically present | % represented | % distance votes |       |        |
|                         |                      |               | Electronic vote  | Other |        |
| 30/01/2013              | 64.69%               | 7.86%         | 0.00%            | 0.00% | 72.55% |
| 27/05/2013              | 64.62%               | 6.77%         | 0.00%            | 0.00% | 71.39% |
| 26/05/2014              | 61.74%               | 8.60%         | 0.00%            | 0.00% | 70.34% |

B.5 State whether the By-Laws contain a restriction establishing the minimum number of shares required to attend the General Meeting:

Yes

No X

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, ...) should be submitted to the approval of the General Shareholders' Meeting even though mercantile legislation does not expressly require this:

Yes X

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 website of Zardoya Otis, S.A. is ([www.otis.com/site/es-es/Pages/InformacionparaAccionistaselInversores.aspx](http://www.otis.com/site/es-es/Pages/InformacionparaAccionistaselInversores.aspx)) which likewise contains a section on "Corporate Governance". Among other documents, the Annual Corporate Governance Report for 2013, published in March 2014, is included.

The 2014 Annual Corporate Governance Report will be duly published on the corporate website in March 2015.

## **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 By-Laws:

|                                    |    |
|------------------------------------|----|
| <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:

| <b>Name or corporate name of Director</b> | <b>Representative</b> | <b>Position on the Board</b> | <b>Date first appointment</b> | <b>Date latest appointment</b> | <b>Election procedure</b>              |
|---|-----------------------|------------------------------|-------------------------------|--------------------------------|--|
| MR MARIO ABAJO GARCIA                     |                       | CHAIRMAN                     | 05/31/1985                    | 06/23/2011                     | RESOLUT. GENERAL SHAREHOLDERS' MEETING |
| MR JOSE MARIA LOIZAGA VIGURI              |                       | DEPUTY CHAIRMAN              | 02/23/1973                    | 05/27/2013                     | RESOLUT. GENERAL SHAREHOLDERS' MEETING |
| MR BERNARDO CALLEJA FERNANDEZ             |                       | DIRECTOR & CEO               | 02/28/2012                    | 05/24/2012                     | RESOLUT. GENERAL SHAREHOLDERS' MEETING |
| MR PIERRE DEJOUX                          |                       | DIRECTOR                     | 01/26/2012                    | 05/24/2012                     | RESOLUT. GENERAL SHAREHOLDERS' MEETING |
| MR MARK GEORGE                            |                       | DIRECTOR                     | 02/26/2014                    | 05/26/2014                     | RESOLUT. GENERAL SHAREHOLDERS' MEETING |
| MR ALBERTO ZARDOYA ARANA                  |                       | DIRECTOR                     | 02/26/2013                    | 05/27/2013                     | RESOLUT. GENERAL SHAREHOLDERS' MEETING |



| Name or corporate name of Director | Representative               | Position on the Board | Date first appointment | Date latest appointment | Election procedure                     |
|------------------------------------|------------------------------|-----------------------|------------------------|-------------------------|--|
| MR PHILIPPE DELPECH                |                              | DIRECTOR              | 05/26/2014             | 05/26/2014              | RESOLUT. GENERAL SHAREHOLDERS' MEETING |
| EURO-SYNS S.A.                     | MS MARIA LUISA ZARDOYA ARANA | DIRECTOR              | 05/31/1996             | 06/23/2011              | RESOLUT. GENERAL SHAREHOLDERS' MEETING |
| OTIS ELEVATOR COMPANY              | MRS.MURIEL MAKHARINE         | DIRECTOR              | 06/30/1984             | 06/23/2011              | RESOLUT. GENERAL SHAREHOLDERS' MEETING |

|                                  |          |
|----------------------------------|----------|
| <b>Total number of directors</b> | <b>9</b> |
|----------------------------------|----------|

State any Directors who left the Board during the reporting period:

| Nombre o denominación social del consejero | Condición consejero en el momento del cese                                  | Fecha de baja |
|--|---|---------------|
| DON ANGELO MESSINA                         | Consejero Dominical   | 26-02-2014    |
| DON JOHAN BILL                             | Representante persona física de Otis Elevator Company (Consejero Dominical) | 17-02-2014    |
| DON LINDSAY HARVEY                         | Consejero Dominical   | 8-04-2014     |

C.1.3 Complete the following charts on the members of the Board and their classification:

### **EXECUTIVE DIRECTORS**

| Name or corporate name of Director | Commission that reported on his/her appointment | Position in the company's organization chart |
|------------------------------------|---|--|
| MR BERNARDO CALLEJA FERNANDEZ      | NOMINATING COMMISSION                           | CEO  |

|  |               |
|--|---------------|
| <b>Total number of executive directors</b> | <b>1</b>      |
| <b>Total % of the Board</b>                | <b>11.11%</b> |

### **EXTERNAL PROPRIETARY DIRECTORS**

| Name or corporate name of Director | Commission that reported on his/her appointment | Name or corporate name of significant shareholder represented or that proposed his/her appointment |
|------------------------------------|---|--|
| MR PIERRE DEJOUX                   | NOMINATING COMMISSION                           | UNITED TECHNOLOGIES HOLDINGS, S.A.S.   |
| MR MARK GEORGE                     | NOMINATING COMMISSION                           | UNITED TECHNOLOGIES HOLDINGS, S.A.S.   |
| MR ALBERTO ZARDOYA ARANA           | NOMINATING COMMISSION                           | EURO-SYNS S.A.   |
| MR PHILIPPE DELPECH                | NOMINATING COMMISSION                           | UNITED TECHNOLOGIES HOLDINGS, S.A.S.   |
| EURO-SYNS S.A.                     | NOMINATING COMMISSION                           | EURO-SYNS S.A.   |
| OTIS ELEVATOR COMPANY              | NOMINATING COMMISSION                           | UNITED TECHNOLOGIES HOLDINGS, S.A.S.   |

|                                       |        |
|---------------------------------------|--------|
| Total number of proprietary directors | 6      |
| Total % of the Board                  | 66.67% |

### INDEPENDENT EXTERNAL DIRECTORS

**Name or corporate name of Director**

MR JOSE MARIA LOIZAGA VIGURI

**Profile:**

Deputy Chairman. Appointed at the proposal of the Nominating Commission.

|                                       |        |
|---------------------------------------|--------|
| Total number of independent Directors | 1      |
| Total % of the Board                  | 11,11% |

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 has maintained in the last financial year 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.

### OTHER EXTERNAL DIRECTORS

| Name or corporate name of Director | Commission that reported on or proposed his/her appointment |
|------------------------------------|---|
| MR MARIO ABAJO GARCIA              | NOMINATING COMMISSION                                       |

|  |        |
|--|--------|
| Total number of other external directors | 1      |
| Total % of the Board                     | 11,11% |

Give details of the reasons for which they cannot be deemed to represent a shareholding or be independent and of their ties with the company, its management and/or its shareholders.

**Name or corporate name of Director:**

MR MARIO ABAJO GARCIA

**Company, member of management or shareholder to which he/she is related:**

ZARDOYA OTIS, S.A.

**Reasons:**

Mr Abajo meets all the requirements of art. 5 of the Board of Directors Regulations and section III, No. 5 of the Unified Code of Good Governance to be considered an independent member of the Board, except letter a), since he was an Executive Director less than five years ago.

State any variations in the classification of each Director that may have taken place during the period:

C.1.4 Complete the following chart with information on the number of women Directors over the last 4 financial years and the classification of said women Directors:

|                       | Number of women Directors |              |              |              | % of total Board members of each type |              |              |              |
|-----------------------|---------------------------|--------------|--------------|--------------|---------------------------------------|--------------|--------------|--------------|
|                       | F. Year 2013              | F. Year 2012 | F. Year 2011 | F. Year 2010 | F. Year 2013                          | F. Year 2012 | F. Year 2011 | F. Year 2010 |
| <b>Executive</b>      | 0                         | 0            | 0            | 0            | 0.00%                                 | 0.00%        | 0.00%        | 0.00%        |
| <b>Proprietary</b>    | 0                         | 0            | 0            | 0            | 0.00%                                 | 0.00%        | 0.00%        | 0.00%        |
| <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>         | 0                         | 0            | 0            | 0            | 0.00%                                 | 0.00%        | 0.00%        | 0.00%        |

**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:**

**Explanation of the measures**

At the 2014 year end, to which this report refers, Zardoya Otis, S.A. had a small Board of Directors. Of its 9 members, 6 are proprietary directors, one is an executive director, one is classified as "other external directors" (recommendation 11 of the Unified Code of Good Governance) and one is classified as "independent". At present, Mrs María Luisa Zardoya Arana is the personal representative of the director Euro-Syns, S.A. and Mrs Muriel Makharine is the personal representative of the Director Otis Elevator Company.

In its policy for choosing directors, Zardoya Otis, S.A. applies processes intended to avoid any discrimination that might limit the access of women to posts on the Board of Directors.<sup>o</sup>

In this respect, articles 5 and 12 B) 1 of the Board of Directors Regulations require that this body should ensure, within its competencies, that the choice of director candidates should include people who, in addition to meeting the legal requirements and those stipulated in the By-Laws for the position, possess the appropriate knowledge, prestige and experience to perform the functions that they are appointed to perform. And this is irrespective of their sex.

Likewise, article 12 B) 2 e) of the Board of Directors Regulations states that one of the functions of the Nominating Committee is to ensure that, when new vacancies arise or new Directors are appointed, the selection procedures are not implicitly biased in any way that might imply some kind of discrimination and to report to the Board on gender diversity issues.

**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:**

**Explanation of the measures**

See point C.1.5 above.

In the director selection processes that have taken place, the Nominating Commission, following the principles established in the Board of Directors Regulations, has ensured that there is no implicit bias that hinders the access of women directors to the vacant positions and has evaluated the skills, knowledge and experience of all the candidates in accordance with the needs of the governing bodies at any given moment, valuing the commitment that is considered necessary in order to perform their task, irrespective of their sex.

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:

**Explanation of the reasons**

See preceding section.

**C.1.7 Explain how owners of significant holdings are represented on the Board:**

As stated in points A2 and A3 above, the two principle direct owners of significant shareholders were United Technologies Holdings, S.A.S. (UTH) and Euro-Syns, S.A.

At November 30, 2014, United Technologies Holdings, S.A.S. (UTH) and Euro-Syns, S.A. were represented on the Board of Directors as follows:

- 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 23, 2011.

- Otis Elevator Company has been a Director since May 31, 1996 at the proposal of the significant shareholder United Technologies Holdings, S.A.S. (UTH) and was most recently re-elected at the General Shareholders' Meeting held on May 23, 2011.

- Mark George was co-opted to the Board of Directors on February 26, 2014 at the proposal of the significant shareholder United Technologies Holdings, S.A.S. (UTH) and was ratified by the Ordinary General Shareholders' Meeting held on May 26, 2014.

- Philippe Delpech is a Director since May 26, 2014 at the proposal of the significant shareholder United Technologies Holdings, S.A.S. (UTH) .

- Pierre Dejoux was co-opted to the Board of Directors on January 26, 2012 at the proposal of the significant shareholder United Technologies Holdings, S.A.S. (UTH) and was ratified by the Ordinary General Shareholders' Meeting held on May 24, 2012.

- Alberto Zardoya Arana was co-opted to the Board of Directors on February 26, 2013 at the proposal of the significant shareholder Euro-Syns, S.A. and was ratified by the Ordinary General Shareholders' Meeting held on May 27, 2013.

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 5% of share capital.

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 X

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:

**Nombre del consejero**

Don Angelo Messina

**Motivo del cese**

N/A. Don Angelo Messina comunicó al resto de consejeros su decisión de dimitir como miembro del Consejo de Administración de Zardoya Otis, S.A. y a su cargo de miembro del Comité de Auditoría en la reunión del pasado 26 de febrero de 2014.

**Nombre del consejero**

Don Johan Bill (representante persona física de Otis Elevator Company)

**Motivo del cese**

Don Johan Bill comunicó al resto de consejeros, mediante el envío de la correspondiente carta de renuncia, su decisión de dimitir como representante persona física de Otis Elevator Company en el Consejo de Administración de Zardoya Otis, S.A. con efectos desde el día 17 de febrero de 2014. La dimisión se debe a procesos de reorganización interna del Grupo UTC.

**Nombre del consejero**

Don Lindsay Harvey

**Motivo del cese**

N/A. Don Lindsay Harvey comunicó al resto de consejeros su decisión de dimitir como miembro del Consejo de Administración de Zardoya Otis, S.A. y a su cargo de Presidente de la Comisión de Nombramientos y miembro del Comité de Auditoría en la reunión del pasado 8 de abril de 2014.

C.1.10 State the powers, if any, that are delegated to the Chief Executive Officer/s:

**Name or corporate name of the Director:**

MR BERNARDO CALLEJA FERNANDEZ

**Brief description:**

The CEO holds all the powers that can be delegated in accordance with the law or By-Laws, with the exception of the purchase/sale of real estate 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                       |
|------------------------------------|------------------------------------|--------------------------------|
| MR MARIO ABAJO GARCIA              | OTIS ELEVADORES LDA.<br>(PORTUGAL) | DIRECTOR                       |
| MR JOSE MARIA LOIZAGA VIGURI       | OTIS ELEVADORES LDA.<br>(PORTUGAL) | DIRECTOR                       |
| MR BERNARDO CALLEJA FERNANDEZ      | OTIS ELEVADORES LDA.<br>(PORTUGAL) | CHAIRMAN OF BOARD OF DIRECTORS |
| MR BERNARDO CALLEJA FERNANDEZ      | OTIS MAROC S.A. [MOROCCO]          | CHAIRMAN                       |
| MR BERNARDO CALLEJA FERNANDEZ      | GRUPO ASCENSORES ENOR, S.A.        | CHAIRMAN                       |
| MR BERNARDO CALLEJA FERNANDEZ      | ACRESA-CARDELLACH S.L.             | CHAIRMAN                       |
| MR BERNARDO CALLEJA FERNANDEZ      | ASCENSORES SERRA S.A.              | DIRECTOR                       |
| MR BERNARDO CALLEJA FERNANDEZ      | MONTES TALLON S.A.                 | DIRECTOR                       |

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 company                     | Position                             |
|------------------------------------|---|--------------------------------------|
| MR JOSE MARIA LOIZAGA VIGURI       | ACTIVIDADES DE CONSTRUCCION Y SERVICIOS. S.A. (ACS) | DIRECTOR                             |
| MR JOSE MARIA LOIZAGA VIGURI       | ACTIVIDADES DE CONSTRUCCION Y SERVICIOS. S.A. (ACS) | EXECUTIVE COMMISSION DEPUTY CHAIRMAN |
| MR JOSE MARIA LOIZAGA VIGURI       | CARTERA INDUSTRIAL REA. S.A.                        | CHAIRMAN                             |

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 X

No

| Description of Rules |
|----------------------|
|----------------------|

Article 19 of the Board of Directors Regulations expressly establishes the directors' duty to devote the time and effort necessary to perform their function efficiently.



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:

|   |       |
|---|-------|
| Compensation of the Board of Directors (thousands of euros)   | 1,604 |
| Aggregated amount of rights accumulated by the Directors in relation to pensions (thousands of euros) | 41    |
| Aggregated compensation of the Board of Directors (thousands of euros)                                | 1,645 |

C.1.16 Identify the members of senior management who are not also executive directors and state the total compensation accrued in their favour during the F.Y.:

| Name or corporate name  | Position        |
|---|-----------------|
| MR DOMINGOS EDMUNDO DA ASCENÇÃO OLIVEIRA                            | GENERAL MANAGER |
| MR PHILIPPE OLIVEIRA  | GENERAL MANAGER |
|   |                 |
|   |                 |
| <b>Total compensation of senior management (thousands of euros)</b> | <b>350</b>      |

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 shareholdings in the listed company and/or companies belonging to its group:

| Name or corporate name of director   | Name or corporate name of significant shareholder  | Designation   |
|--|--|---|
| Mario Abajo  | Otis Elevadores Lda. (Portugal)                    | Director  |
| Mark George  | Otis Elevator Company (New Jersey)                 | Director  |
|  | Otis Elevator Company [Delaware, USA]              | Director  |
|  | Otis Elevator International, Inc. [Delaware, USA]  | Director  |
| Pierre Dejoux  | OTIS Limited                                       | Chairman  |
|  | Buga Otis Asansor Sanayi ve Ticaret A.S. [Turquía] | Director  |
| Bernardo Calleja Fernandez   | Ascensores Serra S.A.                              | Director  |
|  | C. Veremis Otis S.A. [Grecia]                      | Director  |
|  | Otis Elevadores (Portugal)                         | Chairman  |
|  | Montes Tallon S.L.                                 | Director  |
|  | Otis Servizi S.r.l.(Italia)                        | Chairman  |
|  | Grupo Ascensores Enor, S.A.                        | Chairman  |
|  | Mototracción Electrica Latierro, S.A.              | Personal representative of Director (Zardoya Otis S.A.) |
|  | Otis Maroc, S.A. (Marruecos)                       | Personal representative of Director (Zardoya Otis S.A.) |
| Acresa Cardellach, S.L.  | Chairman   |   |
| Philippe Delpech   | Buga Otis Asansor Sanayi ve Ticaret A.S. [Turquía] | Vice Chairman   |
| José María Loizaga Viguri  | Otis Elevadores Lda. (Portugal)                    | Director  |
| Maria Luisa Zardoya Arana (persona física representante del consejero Euro-Syns, S.A.) | 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:**

MR BERNARDO CALLEJA FERNANDEZ

**Name or corporate name of related significant shareholder:**

UNITED TECHNOLOGIES CORPORATION (UTC)

**Description of relationship:**

He is an executive of the United Technologies Corporation Group

**Name or corporate name of related Director:**

MR PIERRE DEJOUX

**Name or corporate name of related significant shareholder:**

UNITED TECHNOLOGIES CORPORATION (UTC)

**Description of relationship:**

He is an executive of the United Technologies Corporation Group

**Name or corporate name of related Director:**

MR MARK GEORGE

**Name or corporate name of related significant shareholder:**

UNITED TECHNOLOGIES CORPORATION (UTC)

**Description of relationship:**

He is an executive of the United Technologies Corporation Group

**Name or corporate name of related Director:**

MR PHILIPPE DELPECH

**Name or corporate name of related significant shareholder:**

UNITED TECHNOLOGIES CORPORATION (UTC)

**Description of relationship:**

He is an executive of the United Technologies Corporation Group

**Name or corporate name of related Director:**

EURO-SYNS S.A.

**Name or corporate name of related significant shareholder:**

EURO-SYNS S.A.

**Description of relationship:**

Euro-Syns, S.A. is a company controlled by the Zardoya family

**Name or corporate name of related Director:**

OTIS ELEVATOR COMPANY

**Name or corporate name of related significant shareholder:**

UNITED TECHNOLOGIES CORPORATION (UTC)

**Description of relationship**

It is a company controlled by United Technologies Corporation

C.1.18 State, if applicable, any modifications made to the Regulations of the Board of Directors during the F.Y.

Yes

No X

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.

According to article 20 of the By-Laws, 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 By-Laws.

Thus, the Board of Directors (i) shall, within the scope of their respective competencies, ensure that the persons chosen as candidates are persons with recognized competence and experience; (ii) establish a guidance program for new directors that swiftly provides them with sufficient knowledge of the Company and its corporate governance rules; and (iii) likewise have knowledge updating programs when the circumstances thus advise.

**C.1.20 State whether the Board of Directors has evaluated its activity during the F.Y.:**

Yes

No

If applicable, explain the extent to which the self-evaluation has led to important changes in its internal organization and the programs applicable to the activities:

**C.1.21 State the circumstances in which Directors are obliged to resign:**

Firstly, article 15 of the Board of Directors Regulations states that directors will cease to hold office when the term for which they were appointed has elapsed or when the General Shareholders' Meeting thus decides, using the attributions conferred upon it by law or in the By-Laws.

Furthermore, in order to meet recommendations 30 and 32 of the Unified Code of Good Governance, article 15 of the Board of Directors Regulations provides that directors must tender their resignation to the Board and, if the latter deems it convenient, resign under any of the following circumstances:

(a) When they are affected by one of the cases of incompatibility or prohibition provided for by law;

(b) When they may damage the Company's prestige or reputation;

(c) When they are accused or prosecuted or when a ruling for opening an oral trial in ordinary proceedings or a conviction in abridged proceedings is issued against them for a serious offence, in particular, one of the offences mentioned in article 213 of the Capital Companies Act;

(d) When they are seriously rebuked by the Audit Committee or for having failed to perform their duties as directors; or

(e) When an external proprietary director transfers its shareholding in the Company or when the shareholder that proposed the appointment of the director to the Company sells its shareholding in full or reduces it to a level that requires the reduction or elimination of its proprietary directors.

Members of any Committees or Commissions that may exist will cease to be so when they cease to be directors.

**C.1.22 Explain whether the function of chief executive of the company is performed by the person holding the position of Chairman of the Board. If applicable, state the measures taken to limit the risks of accumulation of power by a single person:**

Yes

No

State and, if applicable, explain whether rules have been established whereby one of the independent directors is authorized to request that a meeting of the Board be called or that other items be included on the agenda, to coordinate and hear the concerns of external directors and to direct the evaluation by the Board of Directors:

Yes

No

**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:

C.1.24 Explain whether there exist specific requirements, other than those relating to Directors, to be appointed Chairman:

Yes No X

C.1.25 State whether the Chairman has a casting vote:

Yes No X

C.1.26 State whether the By-Laws or the Regulations of the Board of Directors fix any age limit for Directors:

Yes No X

C.1.27 State whether the By-Laws 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 X

C.1.28 State whether the By-Laws or the Board of Directors Regulations 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 By-Laws states that any Director may provide written authorization for another Director to represent him. In addition, article 11 of the Board of Directors Regulations 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 the 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.

C.1.29 State the number of meetings held by the Board of Directors during the F.Y. 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>                                      | 10 |
| <b>Number of Board meetings without the presence of the Chairman</b> | 0  |

State the number of meetings held by the different commissions of the Board during the F.Y.:

| <b>Commission</b>     | <b>Number of meetings</b> |
|-----------------------|---------------------------|
| AUDIT COMMITTEE       | 7                         |
| NOMINATING COMMISSION | 4                         |





Is the secretary of the Board responsible for specially ensuring compliance with good governance recommendations?

Yes X

No

| Comments |
|----------|
|----------|

In order to meet recommendation 18 of the Unified Code of Good Governance article 8 of the Board of Directors Regulations expressly provides that the Secretary of the Board of Directors must ensure that the resolutions of the Board of Directors:

- (i) se are in line with the letter and the spirit of the Laws and their implementing regulations, including those approved by the regulatory bodies;
- (ii) are in accordance with the By-Laws of the Company and the Regulations of the General Meeting, the Board of Directors and any other body present in the Company; and
- (iii) respect the rules or recommendations on good corporate governance in force at any given moment

**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;**

Zardoya Otis, S.A. has an internal Code of Conduct the ultimate purpose of which to protect the interests of those who invest in securities of Zardoya Otis, S.A. and avoid any situation where market abuse exists, establishing, in this respect, a set of rules applicable to the management and control of privileged and relevant information, the carrying out of transactions with securities of Zardoya Otis, S.A. itself, the carrying out of treasury stock transactions and detecting and handling conflicts of interest, among other issues.

In order to meet recommendation 50.2.c) of the Unified Code of Good Governance, article 12.A) 2 of the Board of Directors Regulations states that the Audit Committee must 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, must maintain with the external Account Auditor those other communications required by the account auditing legislation and technical audit rules and must check that the Company's senior management is acting in accordance with its recommendations. Likewise, the Audit Committee must receive information on any issues which may place the external Account Auditor's independence at risk. To this effect:

- (i) the Company shall notify any change of auditor to the CNMV as a relevant fact, accompanied by a statement of any disagreements that may have arisen with the outgoing auditor and, if such disagreements exist, the contents thereof;
- (ii) it shall ensure that the Company 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 auditors' independence
- (iii) the Company shall 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 any other issues related to the process of conducting the account audit, together with the matters provided for in the account auditing legislation and auditing 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 related directly or indirectly thereto, together with confirmation of the additional services of any nature rendered to said companies 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; and
- (v) the Audit Committee shall issue an annual report, prior to the issue of the audit report, expressing an opinion on the independence of the account auditors. Said report shall also always make a pronouncement on the additional services to which point (iii) above refers.

Finally, in accordance with article 12 A) 2 g) of the Board of Directors Regulations, the Audit Committee must encourage the external group auditor to take on the auditing of all the group's companies.

**C.1.36 State whether the Company has changed the external auditor during the fiscal year. If so, identify the incoming and the outgoing auditor:**

Yes

No X

If there has been any disagreement with the outgoing auditor, describe the content thereof:

**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>                        | 89      | 0     | 89     |
| <b>Amount of work other than audit work / Total amount billed by the audit firm (%)</b> | 31,58%  | 0,00% | 18,76% |

**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 accounts 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 accounts have been audited:**

|   | Company | Group   |
|---|---------|---------|
| <b>Number of consecutive years</b>  | 27      | 27      |
| <b>Number of years audited by the current audit firm / Number of years for which the company has been audited (%)</b> | 67.50%  | 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

| <b>Details of procedure</b> |
|-----------------------------|
|-----------------------------|

Article 17 of B states that the Board of Directors may, with the broadest authorization, obtain any information or advice it may require on any aspect of Zardoya Otis, S.A. whenever it so requires to perform its functions. 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.

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:

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 correctly fulfil the functions entrusted to the directors.
- (ii) If the cost is not reasonable in the light of the importance of the problem and the Company's assets and income.
- (iii) If the technical assistance requested may be given adequately by experts and technical staff within the Company.
- (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 Commission may obtain external advice when they deem this necessary in order to perform their functions.

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 X

No

|                             |
|-----------------------------|
| <b>Details of procedure</b> |
|-----------------------------|

In accordance with article 10 of the Board of Directors Regulations, Zardoya Otis, S.A.'s Board meetings are called 10 days before the date fixed for the meeting.

The notice of the meeting, which will be sent by letter, e-mail, telegram or fax to each one of the directors at the address they have provided for this purpose, must also attach the Agenda and provide the directors with the information necessary to prepare to items to be considered at each meeting. For matters in which the Audit Committee is involved, the latter will meet before the Board meeting, which it will subsequently inform, and will obtain such information and call such persons from the Company, auditors, etc. that it deems necessary in order to fulfil its functions appropriately.

Likewise, article 17 of the Board of Directors Regulations states that any director may 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 fulfil his/her functions. 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.

In order to meet recommendation 16 of the Unified Code of Good Governance article 6 of the Board of Directors Regulations expressly provides that the Chairman of the Board is responsible for ensuring that all the directors receive sufficient information to prepare the items to be discussed at each meeting of the Board of Directors.

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 credit and reputation of the Company may be damaged. If so, describe such rules:

Yes X

No

|                          |
|--------------------------|
| <b>Explain the rules</b> |
|--------------------------|

Articles 15 and 19 of the Board of Directors Regulations follow recommendation 32 of the Unified Code of Good Governance.

1. Article 15 of the Board of Directors Regulations states that directors are obliged to tender their resignation to the Board of Directors and formalize it if the latter sees fit in the following cases:

(i) When they are affected by any of the circumstances for incompatibility or prohibition provided for by law;

(ii) When they may damage the Company's prestige or reputation;

(iii) When they are accused or prosecuted or when a ruling for opening of an oral trial in ordinary proceedings or a conviction in abridged proceedings is issued against them for a serious offence, in particular, any of the offences mentioned in article 213 of the Capital Companies Law;

(iv) When they are seriously rebuked by the Audit Committee or for having breached their duties as Directors; or

(v) When an external proprietary director transfers its shareholding or when the shareholder that proposed the appointment of the director to the Company sells its shareholding in full or reduces it to a level that requires the reduction or elimination of its proprietary directors.

2. Article 19 of the Board of Directors Regulations states that the directors are obliged to notify the Board of Directors as soon as possible and, if applicable, resign, in the event that any of the circumstances that may affect them and may damage the Company's prestige and reputation arise, in particular, if they are prosecuted in criminal proceedings.

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 X

State whether the Board of Directors has analyzed 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:

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 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 takeover bid.

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:

**Number of beneficiaries:** 0

**Type of beneficiary:**

NONE

**Description of Agreement:**

NONE

State whether these contracts must be notified to and/or approved by the governing body/ies of the company or its group:

|                                     | Board of Directors | General Meeting |
|-------------------------------------|--------------------|-----------------|
| <b>Body authorizing the clauses</b> | <b>No</b>          | <b>No</b>       |

|  | Yes | No |
|--|-----|----|
| Is the General Meeting informed of the clauses |     | X  |

## C.2 Commissions of the Board of Directors

C.2.1 Give details of all the commissions of the Board of Directors, their members and the proportion of proprietary and independent directors that sit on them:

### AUDIT COMMITTEE

| Name                  | Position | Type        |
|-----------------------|----------|-------------|
| MR MARK GEORGE        | CHAIRMAN | Independent |
| MR JOSE MARIA LOIZAGA | DIRECTOR | Proprietary |
| MR PIERRE DEJOUX      | DIRECTOR | Proprietary |

|                                      |        |
|--------------------------------------|--------|
| <b>% of executive directors</b>      | 0.00%  |
| <b>% of proprietary directors</b>    | 66.66% |
| <b>% of independent directors</b>    | 33.33% |
| <b>% of other external directors</b> | 0.00%  |



## NOMINATING COMMISSION

| Name                         | Position | Type        |
|------------------------------|----------|-------------|
| MR PHILIPPE DELPECH          | CHAIRMAN | Proprietary |
| OTIS ELEVATOR COMPANY        | DIRECTOR | Proprietary |
| MR JOSE MARIA LOIZAGA VIGURI | DIRECTOR | Independent |

|                               |        |
|-------------------------------|--------|
| % of executive directors      | 0.00%  |
| % of proprietary directors    | 66.66% |
| % of independent directors    | 33.33% |
| % of other external directors | 0.00%  |

C.2.2 Complete the following chart with information on the number of women directors who have sat on the commissions of the Board of Directors in the last four F.Y.s:

|  | Number of women directors |       |           |       |           |       |           |       |
|--|---------------------------|-------|-----------|-------|-----------|-------|-----------|-------|
|  | F.Y. 2013                 |       | F.Y. 2012 |       | F.Y. 2011 |       | F.Y. 2010 |       |
|  | Number                    | %     | Number    | %     | Number    | %     | Number    | %     |
| AUDIT COMMITTEE                        | 0                         | 0.00% | 0         | 0.00% | 0         | 0.00% | 0         | 0.00% |
| NOMINATING COMMISSION                  | 0                         | 0.00% | 0         | 0.00% | 0         | 0.00% | 0         | 0.00% |
| EXECUTIVE OR DELEGATE COMMITTEE        | 0                         | 0.00% | 0         | 0.00% | 0         | 0.00% | 0         | 0.00% |
| NOMINATING AND COMPENSATION COMMISSION | 0                         | 0.00% | 0         | 0.00% | 0         | 0.00% | 0         | 0.00% |

C.2.3 State whether the Audit Committee has the following duties:

|   | Yes | No |
|---|-----|----|
| To monitor the preparation and the integrity of the financial information relating to the company and, if appropriate, to the group, checking compliance with legal requirements, the appropriate demarcation of the scope of consolidation, and the correct application of accounting standards.   | X   |    |
| Periodically review the internal control and risk management systems, in order for the main risks to be properly identified, managed and made known.  | X   |    |
| Ensure the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of the internal audit service; propose the department's budget; receive regular reports on its activities; and verify that senior management takes into account the findings and recommendations of its reports. | X   |    |
| Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate, anonymously, potentially significant irregularities within the company that they detect, in particular financial or accounting irregularities   | X   |    |
| Submit to the Board proposals for the selection, appointment, re-election and replacement of the external auditor, as well as the contractual terms under which it should be hired.   | X   |    |
| Regularly receive from the external auditor information regarding the audit plan and the results of the implementation thereof, and verify that senior management takes its recommendations into account.   | X   |    |
| Ensure the independence of the external auditor.  | X   |    |

C.2.4 Provide a description of the rules of organization and operation and of the responsibilities attributed to each one of the commissions of the Board:

See "H. Other information of interest"

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 F.Y. Likewise, state whether any annual report on the activities of each commission has been prepared on a voluntary basis:

**Audit Committee**

The Audit Committee has the competencies and rules of operation transcribed above. The annual financial statements include a summary of the main points discussed by the Audit Committee in the F.Y. ended November 30, 2013. All this information is available on the Company's website( [www.otis.com/site/es-esl/Pages/InformacionparaAccionistaselInversores.aspx](http://www.otis.com/site/es-esl/Pages/InformacionparaAccionistaselInversores.aspx)), which likewise contains a heading concerning the "Commissions of the Board of Directors" within the "Corporate Governance" section.

Article 24 bis f) of the By-Laws shows that the Audit Committee's competencies are not only these reflected in this article, but may be supplemented by the provisions of the Board of Directors Regulations.

**Nominating Commission**

The Nominating Committee has the competencies and rules of operation transcribed above. The annual financial statements include a summary of the main points discussed by the Audit Committee in the F.Y. ended November 30, 2013. All this information is available on the Company's website ([www.otis.com/site/es-esl/Pages/InformacionparaAccionistaselInversores.aspx](http://www.otis.com/site/es-esl/Pages/InformacionparaAccionistaselInversores.aspx)), which likewise contains a heading concerning the "Commissions of the Board of Directors" within the "Corporate Governance" section.

No annual report is prepared on the activities of the Nominating Commission.

C.2.6 State whether the composition of the delegate or executive commission reflects the participation of the Directors on the Board of Directors in accordance with their classification:

Yes

No

**If not, explain the composition of the delegate or executive commission**

Zardoya Otis, S.A. dos not have a delegate or executive commission

## D RELATED-PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

D.1 Identify the competent body and explain, if applicable, the procedure for approval of related-party and intragroup transactions:

**Body competent to approve related transactions**

The Board of Directors

**Procedure for approval of related transactions**

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.

Explain whether the approval of transactions with related parties has been delegated, stating, if applicable, the body or person to which it has been delegated.

N/A

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  | 17,726                      |
| UNITED TECHNOLOGIES CORPORATION (UTC)             | ZARDOYA OTIS, S.A.  | Contractual                | Other               | 547                         |

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:

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:

Any intragroup transaction performed with companies established in countries or territories classified as tax havens must be reported.

**Corporate name of the group company:** OTIS

ELEVATOR COMPANY

**Amount (thousands of euros):** 29,366 **Brief**

**description of the transaction:** IMPORTS

(FROM)

**Corporate name of the group company:** OTIS

ELEVATOR COMPANY

**Amount (thousands of euros):** 152,463

**Brief description of the transaction:**

EXPORTS (TO)

**Corporate name of the group company:** OTIS

ELEVATOR COMPANY

**Amount (thousands of euros):** 1,340

**Brief description of the transaction::**

INVOICING(TO) OF THE R&D OF ZARDOYA OTIS

## D.5 State the amount of the transactions performed with other related parties

(thousands of euros):

## D.6 Give details of the 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 shall refrain from participating in resolutions or decisions that concern the operation to which the conflict refers.

Article 19 of the Board of Directors Regulations formally establishes the obligation for the directors to abstain in the event that a situation arises in which their personal interests and those of the Company enter into conflict.

Additionally, article 10 of the Internal Code of Conduct on Matters relating to the Stock Markets, approved and updated by Zardoya Otis, S.A., 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 Conduct Regulations on Matters relating to the Stock Markets to provide written confirmation that no conflicts of interest exist or that no new conflicts have arisen.

According to article 10.4 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 authorized intervention, it will be submitted to the Board of Directors, which will take the following rules into account in order to decide:

(a) In the event of conflict between the directors, members of management or significant shareholders and Zardoya Otis, S.A., the interests of the Company will prevail.

(b) In the event of conflict between Zardoya Otis, S.A. and a shareholder or customer or between the two latter, the fair criterion of the Board will be applicable.

## D.7 Is more than one company of the Group listed in Spain?

Yes

No X

Identify the subsidiaries listed in Spain:

## E RISK CONTROL AND MANAGEMENT SYSTEMS

### E.1 Explain the scope of the company's risk management system:.

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 foreseen 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.

### E.2 Identify the company bodies responsible for preparing and executing the Risk Management System:

Article 3 of the Board of Directors Regulations states that the Board of Directors is competent to approve the risk control and management system.

Article 12 (A) 2 (e ) of the Board of Directors Regulations states that the Audit Committee must periodically review the internal control and management systems in order for the main risks to be identified, managed and made known.

Risk management is controlled by company Management in accordance with policies approved by the 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:

- Guarantee that the most significant risks are identified, assessed and managed;
- Ensure an appropriate operating segregation of risk management functions;
- Ensure that the level of risk exposure accepted by the Company in its operations is adapted to the risk profile.

### 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 fixes the different types of risk, among which the principal ones are

- Operating,
- Technological,
- Financial,
- Legal,
- Reputational,

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:

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 that materialized during the F.Y.:

As in previous F.Y.s, the risk that materialized in the F.Y. refers 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 periodic 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:

Zardoya Otis, S.A. 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, as well as the periodic monitoring of the internal reporting and control systems.

According to article 24 bis of the By-Laws and, especially, article 12 (a) 2. (c) of the Board of Directors Regulations, the Audit Committee will have the duties of: (i) ensuring the independence and efficacy of the internal audit function, (ii) proposing the selection, appointment, reappointment and removal of the head of the internal audit service, (iii) proposing the department's budget; (iv) receiving regular reports on its activities, (v) reviewing the internal audit annual work plan its its annual focus on activities, (vi) verifying that senior management takes into account the findings and recommendations of its reports, and (viii) discussing any significant weaknesses in the internal control system (the "Internal Control System") noted in the course of the audit with the account auditors.

In addition, the Audit Committee has the function of receiving information on and supervising the process of preparation of the 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 standards, ensuring its integrity.

Lastly, article 12 (A) 2. (e) of the Board of Directors Regulations states that the Audit Committee must periodically review the internal control and management systems in order for the principal risks to be identified, managed and made known. In particular, the risk control and management policy states:



- 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 foreseen 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. Its Chairman is Mr José María Loizaga Viguri (independent director) and the other two members are Mr Angelo Messina (proprietary director) and Mr Lindsay Harvey (proprietary director).

### F.1.2. 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 functions 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 analyzing non-compliances and proposing corrective actions and penalties.

The Company and the Group have an Internal Code of Conduct on Matters relating to the Stock Markets, approved by the Board of Directors, and a Code of Ethics (the "Code of Ethics"), which has been notified to all the members of the organization through the Intranet.

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 F.Y., 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 of the Company's Board of Directors Regulations, 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, the Audit Committee must:

- Comply and ensure compliance with the stock 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 stock market rules on conduct on the part of the persons subject to them, 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 those subject to the Code of Conduct and insiders due to failure to comply with the rules of the Code of Conduct.
- Propose to the Company's Board of Directors the revisions or improvements to the Internal Code of Conduct that it deems appropriate.

- 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: neither management nor the employee takes part.
- 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 plan 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 carried out 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 Recommendation No. 52 of the Unified Code of Good Governance, article 12 of the Board of Directors Regulations includes, among the duties of the Audit Committee, 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:

- Compliance
- Operational
- Strategic
- Reputational.
- Financial
- Legal

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:

The Audit Committee, with the ICFR system, is responsible for periodically reviewing the internal control and risk management systems, in order for the main risks that affect the Group's financial information to be identified and managed.

### 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 situation and results and the cash flows, which are prepared in accordance with the legal framework applicable to individual and consolidated financial statements.

The Board of Directors approves all the financial information that the Group publishes periodically 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:**

The Systems Department acts directly in accordance with the rules on data security and, furthermore, the Group Financial Department authorizes all access to sensitive systems that could affect the financial reporting.

The rules are based on establishing access security controls and control of changes, operations, operating continuity and segregation of functions. All these rules are published in the Intranet in order to enable each one of the employees to access them.

The Group has a series of actions that guarantee the correct running of the operations in the event of an incident, in order to mitigate a possible materialization of an incident or reduce it to a minimum.

The Internal Audit Department's annual work plan includes the review of the correct running of the Internal Control System covering both technological aspects and processes, aimed to maintain them.

**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 done using technical, professional and economic criteria.

The Internal Audit Department's annual work plan includes a review of compliance with the rules related to the main procedures for purchasing goods and services.

Any subcontracting of valuations to independent experts is carried out through the Financial Department and notified to the Audit Committee, since they relate to valuations included in the Group's financing reporting. At any event, the Group Financial Department ensures that the supplier is independent, experienced and prestigious, 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 communicated 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 compliance with the policies and bases of presentation used by the Group.

## F.5 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 aims to evaluate, 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, review the financial reporting that is sent to the Comisión Nacional del Mercado de Valores on a quarterly basis.

Additionally, the Audit Committee supervises and monitors the annual audit plan. The head of the Internal Audit Department presents the findings of the work plan and the tasks performed by said Department during the F.Y. 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 Internal Audit Department has a work manual that establishes the procedures and functions that each one 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 F.Y., the Account Auditor presents its audit plan 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 F.Y. 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 2013 Corporate Governance Report on the Company.



## G DEGREE TO WHICH THE CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED

State the degree to which the company follows the recommendations of the Unified Code of Good Governance.

In the event that any recommendation is not followed or is only followed partially, provide a detailed explanation of the reasons so that the shareholders, investors and market in general have enough information to evaluate the company's behaviour. General explanations are not acceptable.

1. The By-Laws of listed companies do not limit the maximum number of votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of the acquisition of its shares on the market.

See sections: A.10, B.1, B.2, C.1.23 & C.1.24.

Complies X

Explain

2. When both the parent company and a company controlled by it are listed companies, they both provide detailed public disclosure on:

- a) Their respective areas of activity, and any business dealings between them, as well as between the controlled listed company and other companies belonging to the group;

- b) The mechanisms in place to resolve any conflicts of interest that may arise. See sections: D.4 & D.7

Complies

Complies in part

Explain

Not applicable X

3. Even if not expressly required under applicable commercial Laws, transactions involving a structural change of the company and, in particular, the following, are submitted to the shareholders at the General Shareholders' Meeting for approval:

- a) **The transformation of listed companies into holding companies through "subsidiarization", i.e., reallocating core activities to controlled entities that were previously carried out by the company itself, even if the latter retains full ownership of the former;**

- b) **The acquisition or disposal of key operating assets, when it involves an actual change in the corporate purpose;**

- c) **Transactions whose effect is tantamount to the liquidation of the company.**

See section: B.6

Complies X

Complies in part

Explain

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information to which recommendation 27 refers, are made public at the time of publication of the notice of call to the General Shareholders' Meeting.

Complies X

Explain

5. Matters that are substantially independent are voted on separately at the General Shareholders' Meeting, in order to allow the shareholders to express their voting preferences separately. This rule applies, in particular:

**a) To the appointment or ratification of directors, which shall be voted on individually;**

**b) In the event of amendments of the By-Laws, to each article or group of articles that are substantially independent of one another.**

Complies X

Complies in part

Explain

6. Companies allow split votes so financial intermediaries who are recorded as having shareholder status but act for the account of different clients can divide their votes in accordance with the instructions given by such clients.

Complies X

Explain

7. The Board performs its duties with a unity of purpose and independent judgment, affording equal treatment to all shareholders in furtherance of the corporate interests, which shall be understood to mean the optimization, in a sustained fashion, of the financial value of the Company.

It likewise ensures that in its dealings with stakeholders, the Company abides by the laws and regulations, fulfils its obligations and contracts in good faith, respects the customs and good practices of the industries and territories in which it carries on its business, and upholds any other social responsibility standards to which it has voluntarily adhered.

Complies X

Complies in part

Explain

8. The Board assumes responsibility, as its core mission, for approving the company's strategy and the organization required to put it into practice, and to ensure that Management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the full Board reserves for itself the right to approve:

**a) The company's policies and general lines of strategy, and in particular:**

**i) The strategic or business Plan as well as the management targets and annual budgets;**

**ii) The investment and financing policy;**

**iii) The design of the structure of the corporate group;**

**iv) The corporate governance policy;**

**v) The corporate social responsibility policy;**

**vi) The policy for compensation and assessment of the performance of senior managers;**

**vii) The risk control and management policy, as well as the periodic monitoring of internal information and control systems.**

**viii) The dividend policy and the policy regarding treasury stock and, especially, the limits thereto.**

See sections: C.1.14, C.1.16 & E.2

**b) The following decisions:**

- i) At the proposal of the chief executive of the Company, the appointment and, if applicable, removal of senior managers, as well as their severance packages;**
- ii) The compensation of directors and, in the case of executive directors, the additional compensation to be paid for their executive duties and other terms of their contracts;**
- iii) The financial information that the Company must periodically make public due to its status as listed company;**
- iv) Investments or transactions of all kinds which are strategic in nature due to the large amount or special characteristics thereof, unless approval thereof falls upon the shareholders at the General Shareholders' Meeting;**
- v) The creation or acquisition of interests in special -purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature whose complexity might impair the transparency of the group.**

**c) Transactions performed by the company with directors, with significant shareholders or shareholders with Board representation, or with other persons related thereto (“related-party transactions”).**

However, Board authorization need not be required in connection with related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard-form agreements applied on an across-the-board basis to a large number of clients;
2. They are conducted at prices or rates generally set by the party acting as supplier of the goods or services in question;
3. The amount thereof is no more than 1% of the Company’s annual revenues.

It is recommended that related-party transactions only be approved by the Board upon the prior favourable report of the Audit Committee or such other committee handling the same function; and that the directors affected thereby should neither exercise nor delegate their votes, and should withdraw from the meeting room while the Board deliberates and votes on the transaction.

It is recommended that the powers granted herein to the Board are conferred without the power of delegation, except for those mentioned under b) and c) above, which may, for urgent reasons, be adopted by the Executive Committee subject to subsequent ratification by the full Board.

See sections: D.1 & D.6

Complies

Complies in part X

Explain

See article 3 (Functions) of the Board of Directors Regulations

**9. In order to operate effectively and in a participatory manner, the Board ideally is comprised of no few than five and no more than fifteen members.**

See section: C.1.2

Complies X

Explain

10. External directors, proprietary and independent, occupy an ample majority of the Board and the number of executive directors is the minimum necessary number, bearing in mind the complexity of the corporate group and the percentage interest held by the executive directors in the Company' s share capital.

See sections: A.3 & C.1.3.

Complies X

Complies in part

Explain

11. Among external directors, the relation between the number of proprietary directors and independent directors reflects the proportion existing between the share capital of the company represented by proprietary directors and the rest of its capital.

**This strict proportionality standard can be relaxed so that the weight of proprietary directors is greater than would correspond to the total percentage of the share capital that they represent:**

**1. In large cap companies where few or no equity stakes attain the legal threshold as significant, but there are shareholders holding interests with a high absolute value.**

**2. In companies with a plurality of shareholders represented on the Board but not otherwise related.**

See sections: A.2, A.3 & C.1.3

Complies

Explain X

The Board of Directors Regulations do not require the Board to include a minimum number of independent directors. The composition of the Board of Directors is appropriate to the composition of the shareholders and, at any event, meets the provisions of the Board of Directors Regulations and the By-Laws.

12. The number of independent directors represents at least one-third of the total number of directors.

See section: C.1.3

Complies

Explain X

The Board of Directors Regulations do not require the Board to be formed by a minimum number of independent directors. The composition of the Board of Directors is considered appropriate to the composition of the shareholders and, at any event, meets the provisions of the Board of Directors Regulations and the By-Laws.

13. The status of each director is explained by the Board at the General Shareholders' Meeting at which the shareholders are to make or ratify their appointment and that such status is confirmed or reviewed, as the case may be, annually in the Annual Corporate Governance Report, after verification by the Nominating Commission. Said report also discloses the reasons for the appointment of proprietary directors at the proposal of shareholders controlling less than 5% of the share capital, as well as the reasons for not having accommodated formal petitions, if any, for presence on the Board from shareholders whose equity stake is equal to or greater than that others at whose proposal proprietary directors have been appointed.

See sections: C.1.3 & C.1.8

Complies X

Complies in part

Explain

14. When women directors are few or non-existent, the Nominating Commission takes steps to ensure that, when new vacancies are filled:

- a) Selection procedures do not have an implied bias that hinders the selection of women directors;
- b) The company deliberately looks for women with the target professional profile and includes them among the potential candidates.

See sections: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 Y C.2.4.

Complies                      Complies in part X                      Explain                      Not applicable

At the 2014 year end, to which this report refers, Zardoya Otis, S.A. had a small Board of Directors. Of its 9 members, 6 are proprietary directors, one is an executive director, one is independent and other is classified as "other external directors" in accordance with Recommendation 11 of the Unified Code of Good Governance. At present, Ms María Luisa Zardoya Arana is the representative of the company Euro-Syns, S.A. In this respect, articles 5 and 12 B) 1 of the Board of Directors Regulations require this body to ensure, as part of its duties, that director candidates are chosen from among persons that, apart from meeting legal requirements for the position and those of the By-Laws, have the appropriate knowledge, prestige and experience to carry out the duties they will have to perform, irrespective of their gender.

Likewise, article 12 B) 2 of the Board of Directors Regulations states that one of the duties of the Nominating Commission is to ensure that, when new vacancies are filled or new directors are appointed, the selection procedures do not have an implied bias that could lead to any kind of discrimination and to report to the Board of Directors on gender diversity issues.

15. The Chairman, as the person responsible for the effective operation of the Board, ensures that directors receive adequate information in advance of Board meetings; promotes debate and the active involvement of directors during Board meetings; safeguards their rights to freely take a position and express their opinion; and, working with the chairmen of the appropriate committees, organizes and coordinates regular evaluations of the Board and, where appropriate, the Chief Executive Officer.

See sections: C.1.19 & C.1 41

Complies                      Complies in part X                      Explain

According to article 11 of the Board of Directors Regulations, the Chairman is responsible for organizing the debate at the Board of Directors meetings and encouraging the participation of all the directors in the Board's deliberations.

Likewise, according to the Board of Directors Regulations, he must ensure that the directors receive sufficient information to prepare the items on the agenda at the Board meetings and channel any information requests submitted by directors.

Notwithstanding, given the shareholder composition and the structure of the Board (on which 6 of the 9 directors are proprietary directors, one is an executive director and another belongs to the category of "other external directors"), the Board of Directors has not seen fit to date to make any formal evaluation of its performance.

16. When the Chairman of the Board is also the chief executive of the company, one of the independent directors is authorized to request the calling of a Board meeting or the inclusion of new business on the agenda; to coordinate and hear the concerns of external directors; and to lead the Board's evaluation of the Chairman.

See section: C.1.22

Complies                      Complies in part                      Explain                      Not applicable X



17. The Secretary of the Board takes particular care to ensure that the Board's actions:

- a) Adhere to the letter and the spirit of laws and their implementing regulations, including those approved by the regulatory authorities;
- b) Comply with the company's bylaws and the Regulations for the General Shareholders' Meeting, the Regulations of the Board and other regulations of the company;
- c) Are informed by those good governance recommendations included in this Unified Code as the company has subscribed to.

And, in order to safeguard the independence, impartiality and professionalism of the Secretary, his appointment and removal are reported by the Nominating Commission and approved by the full Board; and that such appointment and removal procedures are set forth in the Regulations of the Board.

See section: C.1.34

Complies X                      Complies in part                      Explain

18. The Board meets with the frequency required to perform its duties efficiently, in accordance with the calendar and agendas set at the beginning of the fiscal year, and that each Director is entitled to propose items of the agenda that were not originally included therein.

See section: C.1.29

Complies X                      Complies in part                      Explain

19. Directors' absences are limited to unavoidable cases and quantified in the Annual Corporate Governance Report. And when there is no choice but to grant a proxy, it is granted with instructions.

See sections: C.1.28, C.1.29 & C.1.30

Complies X                      Complies in part                      Explain

20. When directors or the Secretary express concerns about a proposal or, in the case of the directors, regarding the running of the company, and such concerns have not been resolved at a Board meeting, such concerns are recorded in the minutes at the request of the person expressing them.

Complies X                      Complies in part                      Explain                      Not applicable

21. The full Board evaluates the following on a yearly basis:

- a) The quality and efficiency of the Board's operation;
- b) On the basis of a report submitted to it by the Nominating Commission, how well the Chairman and chief executive of the company have carried out their duties;
- c) The performance of its Committees, on the basis of the reports furnished by them.

See sections: C.1.19 y C.1.20

Complies                      Complies in part                      Explain X

Given the shareholder composition and the structure of the Board (on which 6 of the 9 directors are proprietary directors, one is an executive director, one is independent and the other belongs to the category of "other external directors"), the Board of Directors has not seen fit to date to make any formal evaluation of its performance.

22. All directors are able to exercise the right to request any additional information they require on matters within the Board's competence. Unless the By-laws or the Regulations of the Board provide otherwise, such requests are addressed to the Chairman or the Secretary of the Board.

See section: C.1.41

Complies X

Explain

23. All directors are entitled to call on the company for the advice they need to carry out their duties. The company provides suitable channels for the exercise of this right, which, in special circumstances, may include external advice at the company's expense.

See section: C.1.40

Complies X

Explain

24. Companies organize induction programs for new Directors to rapidly and adequately acquaint them with the Company and its corporate governance rules. Directors are also offered refresher training programs when circumstances so advise.

Complies X

Complies in part

Explain

25. Companies require that directors devote sufficient time and effort to perform their duties efficiently, and, as such:

**a) Directors apprise the Nominating Commission of their other professional duties, in case they might detract from the necessary dedication;**

**b) Companies lay down rules about the number of boards on which their directors may sit.**

See sections: C.1.12, C.1.13 & C.1.17

Complies

Complies in part X

Explain

The Company has not seen fit to limit the number of Boards of Directors of which the directors may sit, in particular because many of the proprietary directors are executives of the parent group, United Technologies Corporation, and, therefore, are members of the Boards of Directors of other group companies.

26. The proposal for the appointment or re-election of directors that the Board submits to the shareholders at the General Shareholders' Meeting, as well as the interim appointment of directors to fill vacancies, are approved by the Board:

**a) On the proposal of the Nominating Commission, in the case of independent directors.**

**b) Subject to a prior report from the Nominating Commission, in the case of other directors. See**

section: C.1.3

Complies X

Complies in part

Explain

27. Companies post the following director information on their websites, and keep such information updated:

- a) **Professional and biographical profile;**
- b) **Other Boards of Directors of listed or unlisted companies on which they sit;**
- c) **Indication of the director's classification, specifying, for proprietary directors, the shareholder they represent or to whom they are related.**
- d) **Date of their first and subsequent appointments as a company director; and**
- e) **Shares held in the company and options thereon held by them.**

Complies X

Complies in part

Explain

28. Proprietary directors tender their resignation when the shareholder they represent sells its entire shareholding interest. The appropriate number of them do likewise when such shareholder reduces its interest to a level that requires the reduction of the number of its proprietary directors.

See sections: A.2 , A.3 & C.1.2

Complies X

Complies in part

Explain

29. The Board of Directors does not propose the removal of any independent director prior to the expiration of the term, set by the bylaws, for which he was appointed, except when good cause is found by the Board upon a prior report of the Nominating Commission. In particular, good cause shall be deemed to exist whenever the director has failed to perform the duties inherent in his position or comes under any of the circumstances that cause him to lose his independent status, in accordance with Order ECC/461/2013.

**The removal of independent directors may also be proposed as a result of tender offers, mergers or other similar corporate transactions that entail a change in the equity structure of the Company, when such changes in the structure of the Board follow from the proportionality standard mentioned in Recommendation 11.**

See sections: C.1.2, C.1.9, C.1.19 & C.1.27

Complies X

Explain

30. Companies establish rules obliging directors to report and, if appropriate, to resign in those instances as a result of which the credit and reputation of the company might be damaged and, in particular, they require that such directors report to the Board any criminal charges brought against them, and the progress of any subsequent proceedings.

**If a director is indicted or tried for any of the crimes described in article 213 of the Capital Companies Law, the Board examines the matter as soon as practicable and, in view of the particular circumstances thereof, decides whether or not it is appropriate for the director to continue to hold office. And the Board provides a substantiated account thereof in the Annual Corporate Governance Report.**

See sections: C.1.42, C.1.43

Complies X

Complies in part

Explain

31. All directors clearly express their opposition when they feel that any proposed resolution submitted to the Board might be contrary to the best interests of the company. And in particular, independent directors and the other directors not affected by the potential conflict of interest do likewise in the case of decisions that could be detrimental to the shareholders lacking Board representation.

**When the Board adopts material or reiterated resolutions about which a director has expressed serious reservations, such director draws the pertinent conclusions and, if he chooses to resign, sets out the reasons in the letter referred to in the next Recommendation.**

**This Recommendation also applies to the Secretary of the Board, even if he is not a director.**

Complies X                      Complies in part                      Explain                      Not applicable

32. Directors who give up their place before their tenure expires, through resignation or otherwise, explain the reasons in a letter sent to all members of the Board. Without prejudice to such withdrawal being communicated as a significant event, the reason for the withdrawal is explained in the Annual Corporate Governance Report.

See section: C.1.9

Complies                      Complies in part                      Explain X                      Not applicable

The Company does not see fit to impose the obligation to explain the reasons for their resignation upon the directors, notwithstanding their right to make the reasons for such resignation public.

33. Compensation paid by means of delivery of shares in the company or companies that are members of the group, share options or instruments indexed to the price of the shares, and variable compensation linked to the company's performance or pension schemes is confined to executive directors.

**This recommendation shall not apply to the delivery of shares when such delivery is subject to the condition that the directors hold the shares until they cease to hold office as directors.**

Complies X                      Complies in part                      Explain                      Not applicable

34. The compensation of external directors is such as is necessary to compensate them for the dedication, qualifications and responsibility required by their position, but is not so high as to compromise their independence.

Complies X                      Explain                      Not applicable

35. The compensation linked to company earnings takes into account any qualifications included in the external auditor's report that reduce such earnings.

Complies X                      Explain                      Not applicable

36. In the case of variable compensation, compensation policies include technical safeguards to ensure that such compensation reflects the professional performance of the beneficiaries thereof and not simply the general performance of the markets or of the industry in which the company does business or circumstances of this kind.

Complies                      Explain X                      Not applicable

The variable compensation considered in the compensation policy of Zardoya Otis, S.A. is related only to the attendance of the meetings of the Board of Directors, the remuneration pursuant to the By-Laws being limited to the total amount of 1,000,000 euros..

37. When there is an Executive Committee (hereinafter, "Executive Committee"), the breakdown of its members by director category is similar to that of the Board, and its secretary is the Secretary of the Board.

See sections: C.2.1 & C.2.6

Complies                      Complies in part                      Explain                      Not applicable X

38. The Board is always kept informed of the matters dealt with and the resolutions adopted by the Executive Committee, and all members of the Board receive a copy of the minutes of the meetings of the Executive Committee.

Complies                      Explain                      Not applicable X

39. In addition to the Audit Committee mandatory under the Stock Market Act, the Board of Directors forms a single Nominating and Compensation Commission as a separate committee of the Board, or a Nominating Commission and a Compensation Commission.

**The rules governing the make-up and operation of the Audit Committee and the Nominating and Compensation Commission or Commissions are set forth in the Regulations of the Board, and include the following:**

**a) The Board appoints the members of such Committees, taking into account the knowledge, skills and experience of the Directors and the responsibilities of each Commission, discusses its proposals and reports, and receives a report, at the first meeting of the full Board following the meetings of such committees, on their activities and the work.**

**b) These Commissions are formed exclusively by external directors and have a minimum of three members. The foregoing is without prejudice to the attendance of executive directors or senior managers, when expressly resolved by the members of the Commission.**

**c) Commission Chairmen are independent directors.**

**d) They may receive external advice, whenever they feel this is necessary for the discharge of their duties.**

**e) Minutes are prepared of their meetings, and a copy sent to all Board members.**

See sections: C.2.1 & C.2.4

Complies                      Complies in part X                      Explain

The Company has created a Nominating Commission but not a Compensation Commission.

At any event, the rules of operation of the Audit Committee and Nominating Commission appear in the Board of Directors Regulations and include those to which points (a) to (e) above refer.

40. Supervising compliance with internal codes of conduct and corporate governance rules is entrusted to the Audit Committee, the Nominating Commission or, if they exist separately, to the Compliance or Corporate Governance Committee.

See sections: C.2.3 & C.2.4

Complies X                      Explain



41. The members of the Audit Committee and, particularly, the Chairman thereof, are appointed taking into account their knowledge and experience in accounting, auditing and risk management matters.

Complies X

Explain

42. Listed companies have an internal audit function which, under the supervision of the Audit Committee, ensures the smooth operation of the information and internal control systems.

See section: C.2.3

Complies X

Explain

43. The head of internal audit presents an annual work plan to the Audit Committee; reports to it directly on any issues arising in the execution of such plan; and submits an activities report to it at the end of each fiscal year.

Complies X

Complies in part

Explain

44. The risk control and management policy specifies at least:

**a) The different types of risk (operational, technological, financial, legal, reputational, etc.) the company is exposed to, including contingent liabilities and other off-balance sheet risks among the financial or economic risks.**

**b) The determination of the risk level the company sees as acceptable;**

**c) Measures in place designed to mitigate the impact of the risks identified, should they materialize;**

**d) The internal reporting and control systems to be used to monitor and manage the above risks, including contingent liabilities and off-balance sheet risks.**

See section: E

Complies X

Complies in part

Explain

45. The Audit Committee's role is to:

**1. With respect to the internal control and reporting systems:**

**a) To ensure that the principal risks identified as a result of the supervision of the efficacy of the company's internal control and internal audit, if applicable, are managed and made known appropriately.**

**b) To ensure the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of the internal audit service; propose the department's budget; receive regular reports on its activities; and verify that senior management takes into account the findings and recommendations of its reports.**

**c) To establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate, anonymously, potentially significant irregularities within the company that they detect, in particular financial or accounting irregularities.**

## 2. With respect to the external auditor:

a) To receive regular information from the external auditor on the audit plan and the results of the implementation thereof, and check that senior management takes its recommendations into account.

b) To ensure the independence of the external auditor, to which end:

i) The company reports a change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements with the outgoing auditor and the reasons for the same.

ii) In the event of resignation of the external auditor, the Committee investigates the circumstances that may have given rise thereto.

See sections: C.1.36, C.2.3, C.2.4 & E.2

Complies X

Complies in part

Explain

46. The Audit Committee may cause any company employee or manager to appear before it, and even order their appearance without the presence of any other manager.

Complies X

Explain

47. The Audit Committee reports to the Board, prior to the adoption thereby of the corresponding decisions, on the following matters specified in Recommendation 8:

a) The financial information that the Company must periodically make public due to its status as a listed company. The Committee should ensure that interim financial statements are prepared under the same accounting standards as the annual financial statements and, to this end, consider whether a limited review by the external auditor is appropriate.

b) The creation or acquisition of interests in special -purpose entities or entities registered in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

c) Related-party transactions, unless such prior reporting duty has been assigned to another supervision and control committee.

See sections: C.2.3 & C.2.4

Complies X

Complies in part

Explain

48. The Board of Directors seeks to present the financial statements to the shareholders at the General Shareholders' Meeting without reservations or qualifications in the auditor's report and, in the exceptional instances where they do exist, both the Chairman of the Audit Committee and the auditors give a clear account to the shareholders of the content and scope of such reservations or qualifications.

See section: C.1.38

Complies X

Complies in part

Explain

49. The majority of the members of the Nominating Commission –or of the Nominating and Compensation Commission, if one and the same– are independent directors.

See section: C.2.1

Complies

Explain X

Not applicable

The Company currently only has one director who meets the conditions to be considered independent.

50. The Nominating Commission has the following duties, in addition to those stated in the earlier Recommendations:

- a) To assess the qualifications, knowledge and experience necessary to sit on the Board, defining, accordingly, the duties and qualifications required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.
- b) To examine or organize, in the manner it deems appropriate, the succession of the Chairman and the chief executive and, if appropriate, make proposals to the Board for such succession to take place in an orderly and well-planned manner.
- c) To report on senior manager appointments and removals that the chief executive proposes to the Board.
- d) To report to the Board on the gender diversity issues discussed in Recommendation 14 of this Code.

See section: C.2.4

Complies X

Complies in part

Explain

Not applicable

51. The Nominating Commission consults with the Company' s Chairman and chief executive, especially on matters relating to executive directors.

**And that any Board member may request that the Nominating Commission consider possible candidates to fill vacancies for the position of director if it finds them suitably qualified.**

Complies X

Complies in part

Explain

Not applicable

52. The Compensation Commission is responsible for the following duties, in addition to those set forth in the earlier recommendations:

**a) To propose to the Board of Directors:**

- i) The compensation policy for directors and senior managers;
- ii) The individual compensation of executive directors and other terms of their contracts.
- iii) The basic terms and conditions of the contracts with senior managers.

**b) To ensure compliance with the compensation policy set by the company.**

See sections: C.2.4

Complies

Complies in part

Explain

Not applicable X

53. The Compensation Commission consults with the Chairman and chief executive of the Company, especially on matters relating to executive directors and senior managers.

Complies

Explain

Not applicable X

## 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.

See on next pages

This annual corporate governance report was approved by the company's Board of Directors at its meeting held on February 26, 2013.

State whether any directors have voted against the approval of this Report or have abstained in relation thereto.

Yes

No X

## **H. OTHER INFORMATION OF INTEREST**

**(Exhibit to section C.2.4. of the 2014 ACGR): “Provide a description of the rules of organization and operation and of the responsibilities attributed to each one of the commissions of the Board.”**

### **AUDIT COMMITTEE AND NOMINATING COMMISSION**

#### **A) AUDIT COMMITTEE**

##### **1. Competencies**

Article 24-bis of the By-Laws states that the competencies of the Audit Committee are as follows:

- a) To inform, through the Chairman, at the General Shareholders’ Meeting on issues raised thereat on subjects in which it is competent.
- b) To propose to the Board of Directors, for submission to the General Shareholders’ Meeting, the appointment of the external auditor to which article 264 of the Capital Companies Law refers.
- c) To supervise the Company’s internal audit services.
- d) To receive information on the Company’s financial information and internal control systems.
- e) To keep in contact with the Auditor to receive information on any issues that may place said Auditor’s independence at risk and any other matters related to the process of conducting the account audit and to exchange the other communications provided for in account auditing legislation and technical auditing rules with the Auditor.
- f) Any other functions attributed to it in the Board of Directors Regulations.

In order to meet recommendations Nos. 45, 48, 49, 50, 51, 52 and 53 of the Unified Code of Good Governance, article 12 A) of the Board of Directors Regulations states that the competencies of the Audit Committee are as follows:

- (a) To report, through its Chairman, to the General Shareholders’ Meeting with respect to matters within its competency raised thereat by the shareholders.
- (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 and its engagement conditions.
- (c) To supervise the efficacy of the Company’s internal control, internal audit and risk control systems and, in particular: (i) to monitor the independence and efficacy in its functions of the internal audit services; (ii) to propose the selection, appointment, reappointment and removal of the head of internal audit service; (iii) to propose the budget of said service; (iv) to receive regular reports on their activities; (v) to review the annual work program and the yearly activities report of the internal audit service; (vi) to be informed of any incidents arising during the implementation of the internal audit services’ yearly work plan, (vii) to verify that senior management acts in accordance with the conclusions and recommendations contained in their reports, and (viii) to discuss any significant weaknesses detected in the internal audit system in the course of the audit with the account auditors.
- (d) To be informed of and to monitor the process of preparing and presenting financial information on 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.



(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 shall identify, at least:

(i) the different types of risk (operational, technological, financial, legal, reputational, 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 identified risk events, should they occur; 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 those 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. To this effect:

(i) the Company shall notify any change of auditor to the CNMV as a relevant fact, 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 shall ensure that the Company 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 auditors' independence;

the Company shall 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 any other issues related to the process of conducting the account audit, together with the matters provided for in the account auditing legislation and auditing 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 related directly or indirectly thereto, together with confirmation of the additional services of any nature rendered to said companies by the auditors or by persons or entities related to the auditors, in accordance with the provisions of the Account Auditing Law.

(iii) the Audit Committee shall investigate the issues giving rise to the resignation of any external Account Auditor; and

the Audit Committee shall issue an annual report, prior to the issue of the audit report, expressing an opinion on the independence of the account auditors. Said report shall also always make a pronouncement on the additional services to which point (iii) above refers.

(g) To encourage the group auditor to take on the auditing of all the group's 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 shall 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 good corporate governance rules and recommendations in force at any given moment.

(j) To inform the Board of Directors, before the decision-making, on the following issues:

(i) the financial information that the Company must periodically disclose. The Committee shall 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; and

(iii) related-party transactions.

(k) Any others that may be attributed to them by the By-Laws, the Board of Directors Regulations, the Board of Directors itself or the Law.

## **2. Rules of organization and operation**

In accordance with article 24 bis of the By-Laws, the rules of organization and operation of the Audit Committee are as follows:

First. The Audit Committee shall meet at least once quarterly and whenever the Chairman considers convenient or at least two members of the Committee so request.

Second. The Committee is a collegiate body and its decisions shall be adopted by a majority of its members. Resolutions adopted by the Audit Committee shall be notified to the Board of Directors by sending it the full contents of the minutes of the meetings of this Committee.

Third. The Audit Committee may require the presence at any of its meetings of any officer or employee of the Company (and may order them to appear without the presence of any other manager, in which case, their attendance shall be requested through the General Manager), executive director, the external account auditor or the legal advisor to the Board of Directors.

Fourth. The Committee shall review the financial information that is sent on a quarterly basis to the Comisión Nacional del Mercado de Valores (CNMV).

Fifth. The Board of Directors is competent to develop, expand and complete the rules on the composition, operation and competencies of the Audit Committee in all aspects not specified in these By-Laws by drawing up internal regulations of the Audit Committee, which must respect the provisions of these By-Laws and the law.

In order to meet recommendations numbers 44 and 51 of the Unified Code of Good Governance, article 12 of the Board of Directors Regulations states that the rules of operation of the Audit Committee are the following:

(a) The Audit Committee shall meet at least once 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 shall likewise be adopted by a majority of the members.

(c) The Chief Executive Officer shall 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 shall 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 manager, in which case, their attendance shall 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 shall be taken and a copy shall 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 shall, 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 shall review the financial information that is sent on a quarterly basis to the Comisión Nacional del Mercado de Valores (CNMV).

(h) The Board of Directors shall discuss the proposals and/or reports presented by the Audit Committee.

In the absence of any specific rule, the provisions of the Board of Directors Regulations on the operation thereof shall be applicable to the Audit Committee to the extent that they are not incompatible with the nature of the latter, in particular, the rules on calling the meetings, delegating another Director as a representative, 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.

## **B) NOMINATING COMMISSION**

### **1. Competencies**

According to article 12 B) 2 of the Board of Directors Regulations, the Nominating Commission shall have the following competencies:

(a) To assess the skills, knowledge and experience necessary on the Board and, consequently, to define the functions and abilities necessary in the candidates who are to cover any vacancies and assess the time and effort required for them to carry out their duties well.

(b) To report on proposals for designating the internal positions to be held by the members of the Board of Directors and propose the members that should compose each of the Commissions to the Board of Directors.

(c) To examine or organize, in the manner seen fit, the succession of the Chairman and the chief executive and, if applicable, to make proposals to the Board so that said succession takes place in an orderly and well-planned manner.

(d) To report on the appointments and removals of members of senior management that the Company's chief executive proposes to the Board.

(e) To ensure that, when new vacancies arise or new Directors are appointed, the selection procedures are not implicitly biased in any way that might imply some kind of discrimination and to report to the Board on gender diversity issues.

(f) Any others that may be attributed to them by the By-Laws, these Regulations, the Board of Directors or the Law.

The Nominating Commission shall consult the Chairman and the Company's chief executive, especially in relation to issues concerning the executive directors.

Any Director may request the Nominating Commission to consider potential candidates to cover vacancies on the Board, so that it may decide on their suitability.

## **2. Rules of organization and operation**

In accordance with article 12 B) 3 of the Board of Directors Regulations, the Nominating Commission shall observe the following rules of organization and operation::

(a) The Nominating Commission shall 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 Commission shall likewise meet whenever the Chairman considers it necessary or when at least two members of the Commission so request.

(b) Meetings of the Nominating Commission will reach a quorum when a majority of the members are present or represented. Its decisions shall likewise be adopted by a majority of the members.

(c) The Chief Executive Officer shall provide the Nominating 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.

(d) The Commission shall 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 Commission meetings shall be taken and a copy shall be sent to all the members of the Board and to the Board of Directors, sending the full contents of the minutes of the Commission's meetings. Furthermore, the Chairman of the Nominating Commission shall, 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 Commission meeting in question.

In the absence of any specific rule, the provisions of the Board of Directors Regulations shall be applicable to the Nominating Commission to the extent that they are not incompatible with the nature thereof, in particular, the rules on calling the meetings, delegating another Director as a representative, 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.

**(Exhibit to section E.6. of the 2014 ACGR):** *“Explain the response and supervision plans for the company’s main risks:”*

## **TAX POLICY**

The Board of Directors of ZARDOYA OTIS, S.A. (the “**Company**”) must approve the Company’s tax strategy pursuant to article 529 ter of the Spanish Companies Law and article 3 of the Company’s Regulation of the Board of Directors. The Board of Directors is also in charge of approving the tax risk management policy, and those investments or transactions which are of particular relevance for tax purposes due to their high value or characteristics.

In consideration of these functions, the Board of Directors approves this document which sets out the tax strategy of the Company. The tax policy is part of the Company’s corporate governance policy.

### **1. PURPOSES**

The Company’s tax policy is based on the timely compliance of the applicable tax regulations, following their reasonable interpretation, according to their spirit and purpose, and taking into consideration the legitimate interests at stake.

The ultimate purpose of the tax policy, at the same time as adequately defending the company’s interests, is to reduce tax risks, eliminate double taxation and reduce costs, both in the short and long term.

The tax policy must be taken into consideration in decision-making.

### **2. GUIDING PRINCIPLES**

The Company shall take into account the following principles when implementing the tax policy:

#### **2.1 Regulatory compliance and reasonable interpretation of the rules**

The Company shall comply with the tax regulations that apply in the countries in which it operates on a timely basis; these rules shall always be applied according to their reasonable interpretation, in order to minimise the risks, generate greater long-term value and comply with the company’s interests.

#### **2.2 Prevention and mitigation of significant tax risks**

The Company shall minimise all tax risks as far as reasonably possible given the complex and changing nature of the tax matters.

#### **2.3 Duty of trust and good faith towards the tax authorities**

The Company shall seek to encourage good faith, cordiality, collaboration, trust, professionalism, loyalty and reciprocity in its relationships with the tax authorities, without prejudice to the legitimate defence of its points of view and the reasonable interpretations implemented.

### **3. BEST TAX PRACTICES**

The Company shall carry out its activity in line with the following best practices:

- (i) Avoid investment structures that, in aiming to obtain illegal tax benefits, are artificial, opaque or non-transparent.
- (ii) Do not use structures without valid economic reasons or relevant legal consequences which exclusively intend to obtain illegal tax benefits.
- (iii) Avoid the use of tax havens to carry out business when the aim of the business is to obtain illegal tax benefits.

- (iv) Do not carry out transactions with the sole purpose of eroding taxable bases or shifting profits to countries with low taxes or none at all.
- (v) Apply transfer pricing policies according to the material and human resources of the involved parties, the risks assumed, the functions and assets.
- (vi) Use the legal instruments for tax ruling requests provided in the law to determine the applicable taxation.
- (vii) Encourage the adoption of the recommendations of the codes of best tax practices developed by the countries in which the Company operates, provided that they correspond to modern tax systems, are protected by good faith relationships between the tax authority and the Company, and are consistent with the principles established by the European Union and the OECD.
- (viii) Collaborate with the competent tax authorities to detect and prevent fraudulent tax practices in the markets in which the Company operates.
- (ix) Duly provide the information and documentation that is important from a tax perspective and requested by the competent tax authorities.
- (x) Minimise the costs of compliance with formal tax obligations.
- (xi) Promote and encourage a fluid communication between the tax department and other departments of the Company, in order to take into account the tax aspects which are relevant for decision-making, process supervision and compliance assessment.

#### **4. MANAGEMENT AND CONTROL**

The Company shall define risk management and control procedures for the tax aspects of its activity in an effort to try to ensure, in the framework of good business management, compliance with the tax regulations and the principles and best practices of the Company. For this purpose, an adequate number of material and human resources shall be assigned to such activity.

The Audit Committee shall periodically provide the Board of Directors with reports on the level of compliance with the tax policies and best tax practices, and shall inform the Board of Directors when it adopts its corresponding decisions on defining the tax policy and controlling tax risks.

#### **5. DIFFUSION AND UPDATE**

The Directors and senior management of the Company shall promote the knowledge, diffusion and application of the principles and best practices of the Company's tax policy.

The Company shall encourage that the principles and policies provided herein be adopted by its entire group of companies, without prejudice to any limits that may be placed on their applicability in foreign companies which are subject to their own regulations.





**ZARDOYA OTIS, S.A.**

Report of the auditors on “Information relating to the  
Financial Information of Internal control system (FIICS)”  
of Zardoya Otis, S.A. for 2014



***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***

**REPORT OF THE AUDITORS ON “INFORMATION RELATING  
TO THE FINANCIAL INFORMATION OF INTERNAL CONTROL SYSTEM (FIICS)”  
OF ZARDOYA OTIS, S.A FOR 2014**

To the Directors:

As requested by the Board of Directors of Zardoya Otis, S.A. (hereinafter, the Entity) and further to our proposal dated 4 February 2015, we have applied certain procedures to the “Information relating to the FIICS” included in section “F” of the Annual Corporate Governance Report (hereinafter, the ACGR) of Zardoya Otis, S.A. for the financial year ended 30 November 2014, which summarises the Entity's internal control procedures for annual financial information.

The Board of Directors is responsible for adopting suitable measures to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and improvements to the system, and the preparation and definition of the content of the accompanying Information relating to the FIICS.

It should be noted that, irrespective of the quality of design and functionality of the Entity's internal control system in relation to its annual financial information, the system can only provide reasonable assurance, but not absolute assurance, in connection with the objectives pursued, due to the limitations inherent in all internal control systems.

In the course of our audit work on the annual accounts, and pursuant to Technical Auditing Standards, our evaluation of the Entity's internal control was performed for the sole purpose of allowing us to establish the scope, nature and timing of the audit procedures applied to the Entity's annual accounts. Consequently, our appraisal of internal control, performed for the purposes of the audit of the accounts, did not have a sufficient scope to allow us to issue a specific opinion on the effectiveness of internal controls for regulated annual financial information.

In order to issue this report, we have applied exclusively the specific procedures described below and indicated in the Guidelines of the Report of the Auditors on Information relating to the Financial Information of Internal Control System of listed companies, issued by the National Securities Market Commission (hereinafter, CNMV) on its website, which establishes the work to be performed, the minimum scope of the work and the content of this report. As the work resulting from these procedures has, in any event, a limited scope that is substantially less than that of an audit or a review of the internal control system, we do not express an opinion on its effectiveness, or on its design and operational efficiency, in connection with the Entity's financial information for the period 2014, described in the accompanying Information relating to the FIICS. Consequently, had we applied other procedures in addition to the ones stated in the Guidelines, or had we performed an audit or a review of the internal control system in relation to regulated financial information, other facts or aspects might have been detected and reported.



Additionally, as this special work is not an audit of the accounts and is not subject to the revised Audit Act introduced under Royal Decree-Law 1/2011 (1 July), we do not express an audit opinion in the terms of these regulations.

The procedures applied are listed below:

1. Reading and understanding of the information prepared by the Entity in relation to the FIICS attached – disclosure information included in the Director’s Report -, and evaluation of whether or not the information includes all the details required, following the minimum content described in section “F”, on the description of the FIICS of the Annual Corporate Governance Report model as stipulated in the Circular N° 5/2013 of the CNMV dated June 12, 2013.
2. Questions posed to personnel responsible for preparing the information indicated in point 1 above, in order to: (i) obtain an understanding of the preparation process; (ii) obtain information to determine whether the terminology employed fits the definitions contained in the reference framework; and (iii) obtain information on whether not the control procedures described are in place and operational in the Entity.
3. Review of the explanation documentation supporting the information indicated in point 1 above, which will consist mainly of the documentation made available to the persons responsible for preparing the FIICS descriptive information. This documentation includes reports prepared by the internal auditors, senior management and other internal or external specialists performing audit committee support functions.
4. Comparison of the information indicated in point 1 above with the insight into the Entity's FIICS obtained through the procedures performed during the audit of the annual accounts.
5. Reading of minutes of meetings of the Board of Directors, Audit Committee and other Entity committees in order to assess the consistency of the matters addressed in them in connection with the FIICS and the information indicated in point 1 above.
6. Obtainment of the letter of representation relating to the work performed, duly signed by the persons responsible for preparing and issuing the information indicated in point 1 above.

As a result of the procedures applied to the Information relating to the FIICS, no inconsistencies or incidents have been identified that could affect that information.

This report has been prepared solely in connection with the requirements established by Article 540 of the revised text of the Corporations Act, and as stipulated in the Circular N° 5/2013 of the CNMV dated June 12, 2013 for the purposes of the description of the FIICS in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Original Spanish version signed by Stefan Mundorf

18 March 2015

## EXHIBIT 1

### ANNUAL DIRECTOR COMPENSATION REPORT FOR LISTED CORPORATIONS

#### DETAILS IDENTIFYING ISSUER

**DATE OF FISCAL YEAR END**

11/30/2014

**TAX IDENTIFICATION CODE**

A-28011153

**CORPORATE NAME**

ZARDOYA OTIS, S.A.

**REGISTERED OFFICE**

GOLFO DE SALONICA, 73, MADRID

# MODEL FOR 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 (compensation mix).

#### 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. will be remunerated.

Said article 24 of the By-Laws fixes global remuneration (the "By-Law stipulated compensation") consisting of a share of 1.5% of the consolidated profit after tax with the 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 By-Laws have been covered and a dividend of at least 10% of the paid-up share capital has been recognized in the shareholders' favour.

This By-Law stipulated compensation will be distributed among its members in the manner freely determined by the Board of Directors, depending on (i) whether they sit on any Board committees or other bodies; (ii) whether they hold specific positions on the Board; (iii) their attendance of Board meetings; and/or (iv) their commitment to the service of the Company.

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.

The director compensation policy has not changed in comparison with the preceding year, using solely the criteria established in the aforementioned articles 24 of the By-Laws and 18 of the Board of Directors Regulations.

The items of compensation applicable to the Company's different types of director may be summarized as per the following chart:

Executive director: No: 1; FC: YES; VC: YES; B-LC: N.A.; UTC LT IP: YES  
External proprietary director: No: 6; FC: N.A.; VC: N.A.; B-LC: YES; UTC LT IP: N.A.  
External independent director: No: 1; FC: N.A.; VC: N.A.; B-LC: YES UTC LT IP: N.A.  
Other external director: No: 1; FC: N.A.; VC: N.A.; B-LC: YES; UTC LT IP: N.A.

No.=Number; FC=Fixed compensation; VC=Variable compensation; B-LC=By-Law stipulated compensation; UTC LT IP=UTC long-term incentive program

Regarding the relative importance of the variable compensation items (as described in Section A.3 below) in comparison with the fixed items, we must highlight the fact that, in 2014, the former represented 80.3% (78.8% in 2013) of the total.

The Board of Directors does not currently foresee any changes in the decision-making process when configuring the mix of the director compensation in forthcoming years.

The criteria applied by the Company to establish its compensation policy are consistent with those generally employed by other listed companies, as may be seen from the annual compensation reports of the Boards of listed companies published by Spencer Stuart and the National Stock Market Commission, respectively.

In this respect, in line with the general trend towards keeping Board of Director compensation stable, we must highlight that, for several consecutive years, the Board itself has decided to limit the total amount of the By-Law stipulated compensation to 1,000 thousand euros, which is distributed among the directors in the usual way this is done in other listed companies, i.e. in accordance with the responsibilities held by the directors and the time they devote to them.

Especially, the compensation system established with reference to the profit obtained by the Group and the dividends received by shareholders (see Section A.1) is intended to favour the Company's long-term profitability and sustainability, avoiding the acceptance of excessive risks.

**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.**

|  |
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| <b>Explain the process for determining the compensation policy</b> |
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Article 3 of the Company's Board of Directors Regulations establishes, within the functions of the Board of Directors, the approval of director compensation.

At November 30, 2014, the Company did not have a Compensation Commission. However, in compliance with the provisions of the new article 529 quidecies of the Capital Companies Law, introduced by the recent Law 31/2014 of December 3, whereby the Capital Companies Law was amended to improve corporate government, the Company plans to expand the duties that have been being performed by the Nominating Commission to date, in order to include those provided for in the aforementioned article 529 quidecies of the Capital Companies Law in relation to the compensation of the members of the Company's Board of Directors.

In particular, said duties will include proposing the compensation policy for the directors or general managers or those who carry out senior management duties reporting directly to the Board, executive commissions or the Chief Executive Officer, as well as the individual compensation and other contractual conditions of executive directors, ensuring they are met.

Additionally, during the year to which this report refers, the Company did not use the services of external advisors to determine the compensation policy for its members and, therefore, it was the Board of Directors itself, with the participation of all its members, that was responsible for designing, approving and implementing its compensation policy.

**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.**

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| <b>Explain the fixed components of the compensation</b> |
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As stated in Sections A.1 and A.2 above, only Mr Bernardo Calleja Fernández, the Company's Chief Executive Officer in 2014, received fixed compensation for carrying out executive duties. The fixed compensation, which, as stated in Section D.1 below, was 192.5 thousand euros in the 2014 F.Y., does not include any guarantee or golden parachute clauses in the event of dismissal, notice periods, non-competition, exclusivity, continuity or loyalty agreements, or any post-contractual non-competition agreement, other than those established in the applicable Spanish labour legislation.

Additionally, In September 2010, a "Recharge Agreement" was signed with United Technologies Corporation (UTC), under which considers the possibility that certain Zardoya Otis executives who are also considered to be UTC Group executives because they hold 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 compensation plans based on UTC shares. The incentive plan allows Zardoya Otis to capture and retain highly-qualified members of management who provide important services to the Company and contribute to its success. The agreement is applicable to incentives awarded as from December 1, 2010.



In the year to which this report refers, the effect of this plan for the directors represented a sum of 321.8 thousand euros (77 thousand euros in 2013).

Lastly, the contribution to the defined-contribution pension plan that the Company holds for the Chief Executive Officer, Mr Bernardo Calleja Fernández, must be included in the fixed components of director compensation. In 2014, this was 41 thousand euros.

There is no extra compensation for holding the position of Chairman or belonging to Board committees or other bodies and no per diem expenses are distributed for attending Board meetings or meetings of the Nominating Commission or Audit Committee. Notwithstanding, these circumstances will be taken into account when distributing the By-Law stipulated compensation, as stated in Section A.2 above.

#### 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.

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| <b>Explain the variable components of the compensation systems</b> |
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As stated above, article 24 of the By-Laws fixes a compensation subject to certain quantitative limits, which is subsequently distributed by the Board of Directors among its members on the basis of certain criteria.

In addition, we must highlight the fact that the Board of Directors adopted the following decisions at its meeting of July 29, 2014:

- (A) To limit the total amount of the compensation stipulated in the By-Laws to 1,000 thousand euros;

- (B) To delegate the distribution of the remuneration stipulated in the By-Laws among the Company's directors to the Chairman of the Board, applying the following criteria: on (i) whether they sit on any Board committees or other bodies; (ii) whether they hold specific positions on the Board; (iii) their attendance of Board meetings; and (iv) their commitment to the service of the Company; and
- (C) Payment, at the end of the first six months of 2014, of 500 thousand € on account of the By-Law stipulated remuneration

The variable compensation for the Chief Executive Officer is based on performance and the attainment of joint objectives of the Company, Otis and UTC and is calculated considering the operating profit and cash flow generated each year. The variable compensation is payable the following year once the annual financial statements have been approved by the Board of Directors.

Lastly, it is necessary to consider that:

- (A) Regarding the types 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 applicable items of compensation in accordance with the Company's types of director.
- (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 By-Laws and 18 of the Board of Directors Regulations.
- (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.

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| <b>Explain the long-term saving systems</b> |
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See Section A.3 above.

**A.6 State any indemnities agreed or paid in the event that a director ceases to hold office as such.**

|                                |
|--------------------------------|
| <b>Explain the indemnities</b> |
|--------------------------------|

Director compensation does not include any guarantee or golden parachute clauses, notice periods, or non-competition, exclusivity, continuity or loyalty agreements, or post-contractual non-competition covenants or agreements in the event that a director ceases to hold office as such.

**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.**

|   |
|---|
| <b>Explain the contract conditions of the executive directors</b> |
|---|

The compensation awarded to the executive director does not include any guarantee or golden parachute clauses in the event of dismissal, notice periods, no-compete, exclusivity, continuity or loyalty clauses or agreements, or post-contractual no-compete clauses or agreements, other than those established in the applicable Spanish labour legislation.

**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 above regarding the specific characteristics of this supplementary compensation received by the Chief Executive Officer.

**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**

As mentioned in Section A.4 above, the Board of Directors agreed the payment on account, at the end of the first six months of 2014, of 500 thousand € of the By-Law stipulated remuneration.

The Company has not awarded any compensation to the directors in the form of credits or guarantees on their behalf.

**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.

**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 By-Law 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.**

#### Explain the actions adopted to reduce risks

The current composition of the Board of Directors (67% of its members are proprietary directors) 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.

In addition, the Group is studying the implementation of specific measures to:

- (A) ensure the limitation of the risk in relation to those categories of personnel whose professional activities have a significant impact on the entity's risk profile;
- (B) allow the return of the variable results-based components to be claimed when such components have been settled on the basis of data that have later been manifestly shown to be inaccurate; and
- (C) avoid conflicts of interest (derived from the Group's internal control system).

## B COMPENSATION POLICY PLANNED FOR FUTURE YEARS

**B.1 Explain the general plan for the compensation policy for future years that describes said policy in respect of: fixed components, per diem allowances and variable compensation, relationship between the compensation and the results, forecasting systems, contract conditions of executive directors and plans for the most significant changes in the compensation system in comparison with preceding years.**

#### General compensation policy plan

The Company's Board of Directors has not, to date, considered reviewing the compensation policy established in article 24 of the By-Laws and article 18 of the Board of Directors Regulations for forthcoming years.

In the opinion of the members of the Board, the compensation policy that exists is the most appropriate, taking current economic circumstances into account, combined with the principle of moderation that has always guided the compensation policy applied by the Company. In this respect, the Board of Directors' decision to limit the total amount of the By-Law stipulated compensation to 1,000 thousand euros for the third consecutive year is particularly relevant.

Notwithstanding the foregoing, as a result of the changes made to the Capital Companies Law by Law 31/2014, the Board of Directors may propose any changes it sees fit under best corporate governance practices for the approval of the General Shareholders' Meeting held in 2015.

At any event, in accordance with the Transitional Provision of Law 31/2014, if the 2015 General Shareholders' Meeting approves this report in a consultative ballot, the Company's compensation policy set forth herein will be deemed to have been approved for the years 2016, 2017 and 2018.

**B.2 Explain the decision-making process to configure the compensation policy planned for future years and the role played, if applicable, by the Compensation Commission.**

#### Explain the decision-making process to configure the compensation policy

As already indicated in Section B.1 above, the Board of Directors does not currently intend to review the compensation policy. In the event that it were necessary to initiate a decision-making process to fix the compensation policy, the procedure described in paragraph A.2 above would be followed

In this respect, we mention the fact that the Company plans to expand the duties that have been carried out to date by the Nominating Commission, in order to include the duties set forth in article 52 quidecies of the Capital Companies Law in relation to the compensation of the members of the Company's Board of Directors, including proposing to the Board of Directors the compensation policy for directors, managing directors or those who carry out senior management duties reporting directly to the Board, executive commissions or the Chief Executive Officer, as well as the individual compensation and other contractual conditions of executive directors, ensuring they are met.

The foregoing does not affect any changes in the Company's compensation policy that may, if applicable, have to be adopted in the future to adapt it to any changes there may be in the current composition of the Company's Board of Directors.

**B.3 Explain the incentives created by the company in the compensation system to reduce exposure to excessive risks and adjust said system to the company's long-term objectives, values and interests.**

**Explain the incentives created to reduce risk**

Regarding incentives created by the Company in the compensation system to reduce risk exposure, please see Section A.13 above.

**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 in 2014, including the amounts of the compensation relating to said year.

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, at any event, 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 By-Laws, the main features and procedure for application of which are described in Section A.1 above; and (iii) any other items relating to variable compensation of the members of the Board of Directors, the main features and procedure for application of which are described in Section A.4 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 2012, 2013 and 2014 may be summarized as follows:

Compensation: 2014 / 2013 / 2012  
Fixed compensation: 192 / 174 / 194  
Variable compensation: 90 / 68 / 166  
By-Law stipulated compensation: 1,000 / 1,000 / 1,000  
Cash compensation: 1,282 / 1,242 / 1,360  
Other compensation: 363 / 126 / 145  
TOTAL: 1,645 / 1,368 / 1,505

## D DETAILS OF INDIVIDUAL COMPENSATION ACCRUED BY EACH DIRECTOR

| Name                       | Classification | Accrual period fiscal year 2013   |
|----------------------------|----------------|-----------------------------------|
| MARIO ABAJO GARCIA         | Other external | From 12/01/2013 until 11/30/2014. |
| OTIS ELEVATOR COMPANY      | Proprietary    | From 12/01/2013 until 11/30/2014. |
| ANGELO MESSINA             | Proprietary    | From 12/01/2013 until 02/26/2014. |
| LINDSAY HARVEY             | Proprietary    | From 12/01/2013 until 04/08/2014. |
| PIERRE DEJOUX              | Proprietary    | From 12/01/2013 until 11/30/2014. |
| EURO-SYNS S.A.             | Proprietary    | From 12/01/2013 until 11/30/2014. |
| ALBERTO ZARDOYA ARANA      | Proprietary    | From 12/01/2013 until 11/30/2014. |
| JOSE MARIA LOIZAGA VIGURI  | Independent    | From 12/01/2013 until 11/30/2014. |
| BERNARDO CALLEJA FERNANDEZ | Executive      | From 12/01/2013 until 11/30/2014. |
| MARK GEORGE                | Proprietary    | From 02/26/2014 until 11/30/2014. |
| PHILIPPE DELPECH           | Proprietary    | From 05/26/2014 hasta 11/30/2014. |

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:

Cash compensation (in thousands of €)

| Name                      | Salaries | Fixed compensation | Per Diem | Short term Variable compensation | Long term variable compensation | Compensation for membership of committees of the board | Indemnities | Other items | Total year 2014 | Total year 2013 |
|---------------------------|----------|--------------------|----------|----------------------------------|---------------------------------|--|-------------|-------------|-----------------|-----------------|
| EURO-SYNS S.A.            | 0        | 0                  | 0        | 50                               | 0                               | 0  | 0           | 0           | 50              | 50              |
| MARIO ABAJO GARCIA        | 0        | 0                  | 0        | 200                              | 0                               | 0  | 0           | 0           | 200             | 200             |
| JOSE MARIA LOIZAGA VIGURI | 0        | 0                  | 0        | 200                              | 0                               | 0  | 0           | 0           | 200             | 200             |



| Name                       | Salaries | Fixed compensation | Per Diem | Short term Variable compensation | Long term variable compensation | Compensation for memberships of the board | Indemnities | Other items | Total year 2014 | Total year 2013 |
|----------------------------|----------|--------------------|----------|----------------------------------|---------------------------------|---|-------------|-------------|-----------------|-----------------|
| OTIS ELEVATOR COMPANY      | 0        | 0                  | 0        | 500                              | 0                               | 0   | 0           | 0           | 500             | 500             |
| ALBERTO ZARDOYA ARANA      | 0        | 0                  | 0        | 50                               | 0                               | 0   | 0           | 0           | 50              | 50              |
| BERNARDO CALLEJA FERNANDEZ | 192      | 0                  | 0        | 90                               | 322                             | 0   | 0           | 41          | 645             | 368             |

**ii) Share-based compensation systems**

**iii) Long-term saving systems**

| Name                       | Company's contribution for the F. Y.<br>(thousands of €) |            | Amount of accumulated funds (thousands<br>of €) |            |
|----------------------------|--|------------|---|------------|
|                            | F. Y. 2014   | F. Y. 2013 | F. Y. 2014                                      | F. Y. 2013 |
| BERNARDO CALLEJA FERNANDEZ | 41   | 49         | 322   | 274        |

**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 committees of the board | Indemnities | Other compensation | Total F.Y- 2013 | Total F.Y. 2012 |
|----------------------------|----------|--------------------|----------|----------------------------------|---------------------------------|--|-------------|--------------------|-----------------|-----------------|
| 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 ARAÑA      | 0        | 0                  | 0        | 0                                | 0                               | 0  | 0           | 0                  | 0               | 0               |
| OTIS ELEVATOR COMPANY      | 0        | 0                  | 0        | 0                                | 0                               | 0  | 0           | 0                  | 0               | 0               |

**ii) Share-based compensation systems**

**iii) Long-term saving systems**

**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 F.Y. 2014 Company | Total cash compensation                 | Amount of shares awarded | Gross profit on options exercised | Total F.Y. 2014 Group | Total F.Y. 2014 | Total F.Y. 2013 | Contribution to saving systems in the F.Y. |
| BERNARDO CALLEJA FERNANDEZ | 645                                 | 0                        | 0                                 | 645                     | 0                                       | 0                        | 0                                 | 0                     | 645             | 368             | 41   |
| 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      | 500                                 | 0                        | 0                                 | 500                     | 0                                       | 0                        | 0                                 | 0                     | 500             | 500             | 0  |
| <b>TOTAL</b>               | <b>1,645</b>                        | <b>0</b>                 | <b>0</b>                          | <b>1,645</b>            | <b>0</b>                                | <b>0</b>                 | <b>0</b>                          | <b>0</b>              | <b>1,645</b>    | <b>1,368</b>    | <b>41</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.**

As indicated in Section A.13 above. The composition of the Board of Directors (67% of its members are proprietary directors) 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, 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.

In addition, as mentioned in Section A.4 above, at its meeting of July 29, 2014, the Board of Directors unanimously resolved to limit the total amount of the By-Law stipulated compensation to 1,000 thousand 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.**

|                     | <b>Number</b> | <b>% of total</b> |
|---------------------|---------------|-------------------|
| <b>Votes issued</b> | 294,178,590   | 70.34%            |

|                        | <b>Number</b> | <b>% of total</b> |
|------------------------|---------------|-------------------|
| <b>Votes against</b>   | 22,868,508    | 7.77%             |
| <b>Votes in favour</b> | 271,216,895   | 92.19%            |
| <b>Abstentions</b>     | 93,187        | 0.03%             |

## **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.

As further clarification of the charts in Section D.1(i) above, we add that the directors Mr Lindsay Harvey and Mr Angelo Messina ceased to hold office before the end of the fiscal year to which this report refers.

This annual compensation report was approved by the Company's Board of Directors at its meeting of February 24, 2015.

State whether any directors have voted against the approval of this report or abstained in relation thereto.

Yes

No X

Consolidated text of the By-Laws of Zardoya Otis, S.A.

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Regulations of the General Shareholders' Meeting  
of Zardoya Otis, S.A.

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Regulations of the Board of Directors

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# CONSOLIDATED TEXT OF THE BY-LAWS OF ZARDOYA OTIS, S.A.

## SECTION I NAME, DURATION, REGISTERED OFFICE AND CORPORATE PURPOSE

### Article 1. NAME

The name of the Company is ZARDOYA OTIS, S.A.

It is a business Company and shall be governed by these By-Laws and, alternatively, by the Capital Companies Law (*Ley de Sociedades de Capital*) and other relevant legal provisions.

### Article 2. DURATION

The duration of the Company has no definite time limit. It commenced its operations on the date on which the public deed of incorporation was signed.

### Article 3. REGISTERED OFFICE

The Company has its registered office in Madrid, Calle Golfo de Salónica 73, where its effective center of administration and management is located.

The Company shall be entitled to establish branches, agencies or delegations, both in Spain and abroad, by virtue of a resolution adopted by the Board of Directors, which shall also be competent to decide to transfer the registered office within the same town and to eliminate or transfer branches, agencies or delegations.

### Article 3. (bis) CORPORATE WEBSITE

The Company will have a corporate website to provide shareholders with the mandatory information and to disclose any relevant information required by the stock market legislation, as well as to make available to shareholders and investors any other information deemed appropriate or convenient. The corporate website will comply under all circumstances with the requirements provided by the law.

The decisions on the amendment, relocation or elimination of the Company's corporate website correspond to the Board of Directors. Such decisions must be recorded in the Company's file with the relevant Commercial Registry and published in the Official Gazette of the Companies Register, as well as on the Company's amended, eliminated or relocated corporate website during the thirty days following the inclusion of the resolution.

### Article 4. CORPORATE PURPOSE

The corporate purpose of the Company shall be:

- a) The manufacture, design and development, installation, repair, maintenance and sale of engines, elevators, service elevators, platforms, escalators and moving platforms, vertical evacuation sleeves, cable railways, automatic doors and garage doors, for any use and with any characteristics whatsoever, the import and export of machinery and equipment related to the foregoing, parts and components, previously assembled or otherwise, and any equipment the purpose of which is to move people or objects. The construction and assembly of metallic structures, building works and any other ancillary works to the construction.

- b) The administration, promotion and management of industrial, agricultural, commercial or service companies and the participation in companies that already exist or are newly created, either through the management bodies or by holding shares or interests.
- c) The activities that comprise the corporate purpose may be carried on by the Company indirectly, either totally or partially, by means of holding interests in companies with an identical or analogous purpose.

## **SECTION II CAPITAL STOCK, SHARES**

### **Article 5. CAPITAL**

The capital stock is 43,497,070.20 euros and is represented by a series of 434,970,702 ordinary shares with a par value of 0.10 euros each.

The shares are fully subscribed and paid up.

### **Article 6. SHARES WITHOUT VOTING RIGHTS**

The Company shall be entitled to issue shares without voting rights under the conditions and meeting the limits and requirements established by law.

The holders of non-voting shares shall be entitled to receive a minimum annual dividend of 5% of the capital paid up for each share without voting rights, to which the same dividend as that corresponding to each ordinary share shall be added.

The foregoing is pursuant to the provisions of articles 98 et seq. of the Capital Companies Law.

### **Article 7. INCREASE IN CAPITAL**

The capital stock may be either increased or reduced in accordance with the General Shareholders' Meeting legally called for this purpose, pursuant to the provisions of articles 295 et seq. of the Capital Companies Law.

### **Article 8. FORM OF THE SHARES AND THE SUBSCRIPTION, ACQUISITION AND TRANSFER THEREOF**

The shares shall be represented by account entries.

While the shares are listed on the Stock Exchange, the accounting records therefore shall be kept by the Register of Securities and of the Clearing and Settlement of all trades ("*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.*" or "Iberclear") and the participating entities entitled to do so in the terms provided for in the applicable securities market regulations.

The shares may be freely transferred by any of the means admitted by law.

### **Article 9. RIGHTS GRANTED BY THE SHARES**

Each share confers the status of shareholder upon its legitimate holder. Those belonging to the same class confer the same rights and duties in accordance with the provisions of the

Capital Companies Law.

In case of pledge over the Company's shares, the exercise of the voting rights shall correspond to the pledgee, and the exercise of the economic rights shall correspond to the shareholder. The usufruct, pledge and seizure of shares shall be governed by the provisions of the Law.

### **SECTION III THE COMPANY'S BODIES OF MANAGEMENT**

#### **Article 10. MANAGEMENT AND REPRESENTATION OF THE COMPANY**

The management and representation of the Company rest with the General Shareholders' Meeting and the Board of Directors, in accordance with the provisions of these By-Laws.

#### **PART ONE General Shareholders' Meetings**

#### **Article 11. THE GENERAL SHAREHOLDERS' MEETING**

The General Shareholders' Meeting is the assembly of shareholders, duly called and constituted. Its resolutions shall be binding on all shareholders, including those who dissent or are absent, without prejudice to the right to objection and actions granted to the shareholders under the Act.

#### **Article 12. TYPES OF GENERAL SHAREHOLDERS' MEETING**

General Shareholders' Meetings may be either ordinary or special and must be called by the Board of Directors.

An ordinary Shareholders' Meeting shall necessarily be held once a year, within six months from each fiscal year end.

A special Shareholders' Meeting shall be held when so resolved by the Board of Directors or at the request of shareholders representing at least 3% of the capital stock, the items to be discussed at the Meeting being stated in the request.

#### **Article 13. CALLS FOR MEETINGS**

Both ordinary and special Shareholders' Meetings shall be called by the Board of Directors through the means of communication established by law, which include, at least, the following: (i) Official Gazette of the Companies Register or one of the daily newspapers with highest circulation in Spain; (ii) the website of the CNMV; and (iii) the website of the Company.

A minimum period of one month must elapse between the announcement of the meeting (ordinary or special) and the holding of meeting, except for special Shareholder's Meetings when the law establishes a shorter term, and provided that the legal requirements are complied. Notwithstanding this, if shareholders representing at least 3% of the capital stock have requested the Board of Directors to announce a special Shareholder's Meeting, the Board of Directors shall call this special meeting within two months from the date it was requested to do so by means of a notarized document.

The notice of the meeting (whether ordinary or special) shall detail all the information that is required by law as applicable, including the date, place and time of the meeting at first call, as well as the detailed proposals of the resolutions to be adopted by the meeting and included in the agenda. Likewise, it may state the date on which, if applicable, the meeting shall be held at second call, with a minimum period of 24 hours between the first and second calls.

Shareholders representing at least 3% of the Capital Stock may request the publication of an addendum to the announcement of the General Shareholders' Meeting, including one or more additional items on the agenda, provided that each such item is accompanied by a justification or a reasoned proposal for a resolution. However, this right cannot be used in connection with special Shareholders Meetings. The mentioned shareholders may likewise submit supported proposals relating to matters already included or that shall be included in the agenda of the meeting called. These rights shall be exercised in accordance with the requirements and time limits set out in the Law.

From the publication date of the notice of the meeting, until the holding of the next Shareholders Meeting, the Company will make available on its website all the relevant information for shareholders.

Notwithstanding the above provisions, a General Shareholders' Meeting may be held without the need for prior notice if all the paid-up capital stock is present and those present agree to hold it.

#### **Article 14. QUORUM**

A General Shareholders' Meeting (whether ordinary or special) shall be validly assembled at first call when the shareholders present or represented hold at least 60% of the subscribed capital with voting rights.

At second call, the Meeting shall be validly assembled when the shareholders present or represented hold at least 50% of the subscribed capital with voting rights.

In order for the general or special Shareholders' Meeting to resolve validly upon the capital stock increase or reduction and any other amendment to the Company's by-laws, the issuance of debentures, the suspension or limitation of pre-emptive rights of new shares, or the transformation, merger, spin-off of the Company or the global conveyance of assets and liabilities, or the relocation of the registered office abroad or, in general, any other amendment in relation to which the law requires an increased majority, it will be necessary, on first call, that the meeting be attended by shareholders present or represented owning at least two thirds of the subscribed capital with voting rights. At second call, 50% of the paid up capital shall suffice.

#### **Article 15. ATTENDANCE AT THE MEETINGS**

All shareholders may attend General Shareholders' Meetings in person or may be represented thereat by another person, who need not be a shareholder. Representation must be conferred in writing specifically for each Meeting, in compliance with the applicable legal requirements

The appointment of a representative by a shareholder and the notice of appointment provided to the Company may be submitted by the following means of communication:

- a) By written postal correspondence or by any other written means that, in the opinion of the Board of Directors in an agreement previously adopted for this purpose, allows for

the faithful verification of the identity of the shareholder conferring its representation and that of the representative or representatives appointed.

- b) By any electronic means of communication that may be deemed suitable by the Board of Directors insofar the chosen mean duly guarantees the validity of the representation granted, the Shareholder's recognition and the identification of the representative or representatives appointed.

In any case, the Board of Directors is expressly entitled to expand the scope of the foregoing provisions, establishing the instructions, rules, means and procedures to document the granting of proxies by the remote means of communication it considers appropriate in accordance with the state of technology at any time. Any implementing rules adopted by the Board of Directors pursuant to the provisions hereof must be published on the Company's corporate website.

Proof of ownership of the shares by means of a certificate from Iberclear or from the participating entities entitled to do so, issued five days before the date of the Meeting, shall be an essential requirement for attending the Meeting.

The directors must attend the General Shareholders' Meetings. Managers, legal representatives, technical personnel and any other persons who, in the opinion of the Chairman of the Meeting, should be present thereat due to their interest in the correct running of corporate matters may also attend. The Chairman of the Meeting may authorize, in principle, the attendance of any other person he sees fit. The Meeting may, notwithstanding, revoke this authorization.

#### **Article 16. CHAIRMANSHIP OF THE MEETING, DELIBERATIONS AND ADOPTION OF RESOLUTIONS**

The Chairman of the Board shall chair the Shareholders' Meeting or, in his absence, the oldest Deputy Chairman will replace him/her or otherwise, the other Deputy Chairman or the oldest among the other two Deputy Chairmen.

In the absence of the Chairman and Deputy Chairmen, the shareholder appointed for this purpose by the Shareholders' Meeting shall act as Chairman.

The Secretary to the Board shall act as the Secretary to the Shareholders' Meeting. In his/her absence, the person designated for this purpose by the Shareholders' Meeting shall act as Secretary.

Before commencing the Agenda, a list of those present shall be drawn up in the manner and with the requirements set forth in the Act.

The Chairman shall lead the debate, granting the floor, in strict sequence, to all shareholders who have so requested in writing and then to those who do so orally.

Each of the items on the Agenda, as well as those items that, even if they are included in the same item of the Agenda are materially different, shall be put to a separate ballot so that the shareholders can express their preferences in each case. This rule shall apply in particular to:

- a) The appointment, ratification, re-election or removal of each director.
- b) Amendments to the by-laws, with votes taken on all articles or groups of articles that have their own autonomy.



Resolutions shall be adopted by a simple majority of voting rights of the shareholders present or represented at the Meeting. A resolution shall be understood to have been adopted when more shareholders, either present or represented, vote in favor than against it.

Notwithstanding this, the favorable vote of two-thirds of the shareholders present or represented at the General Shareholders' Meeting is required to adopt the resolutions contained in article 194 of the Capital Companies Law when, at second call, shareholders in attendance represent twenty five per cent or more but less than fifty per cent of the paid up and subscribed share capital with associated voting rights. If the shareholders present or represented exceed fifty per cent, absolute majority shall suffice.

#### **Article 16 (bis). DISTANCE VOTING**

Any shareholder entitled to attend and vote may cast the vote on proposals relating to items on the Agenda of a General Shareholders' Meeting by any of the following remote means of communication:

- a) By written postal correspondence or by any other written means that, in the opinion of the Board of Directors in a resolution previously adopted for such purpose, allows for the faithful verification of the identity of the shareholder exercising his/her voting rights; or
- b) By any electronic means of communication that may be deemed suitable by the Board of Directors insofar the chosen mean duly ensures the authenticity and the identity of the shareholder exercising his/her vote as well as the security of electronic communications.

A vote cast by any of the aforementioned means must be received by the Company at least twenty-four hours prior to the date the General Shareholders' Meeting is to be held on first call. Otherwise, the vote will not be deemed to having been cast.

The Board of Directors is expressly entitled to expand the scope of the foregoing provisions, establishing the instructions, rules, means and procedures to document the casting of votes by the remote means of communication it considers appropriate in accordance with the state of technology at any time. Any implementing rules adopted by the Board of Directors pursuant to the provisions hereof must be published on the Company's corporate website.

#### **Article 17. ATTRIBUTES AND COMPETENCIES OF THE GENERAL SHAREHOLDER'S MEETINGS**

Ordinary General Shareholders' Meetings shall be competent:

- a) To examine and approve, if applicable, the annual accounts, directors' report and proposed application of the profit or loss for the previous fiscal year, submitted by the Board of Directors.
- b) To approve the management of the Company.
- c) To appoint account auditors.
- d) To approve the directors' remuneration policy, as established by law.

In any case, decisions involving a fundamental corporate change should be submitted to the General Shareholders' Meeting for approval and, in particular the following:

- a) The transfer of key activities to subsidiaries that were previously carried out by the Company itself, even when the latter retains full control of the former.
- b) Any acquisition, disposal or transfer of key assets to other companies.
- c) Operations that effectively add up to the Company's liquidation.

For the purposes of this article, the key nature of the activities and assets shall be presumed when the size of the transaction exceeds twenty five per cent of the total assets of the balance sheet.

Any other matter reserved to the competency of the Shareholders' Meeting, either by law or under the provisions of the By-Laws, may be decided at an ordinary or special Shareholders' Meeting.

#### **Article 18. MINUTES**

The deliberations and resolutions of both ordinary and special Shareholders' Meetings shall be recorded in minutes drawn up in a special minute book and shall be signed by the Chairman or Secretary or the persons who have acted as their substitutes. The minutes may be approved by the Shareholders' Meeting itself immediately after it has been held or, failing this, within a term of fifteen days, by the Chairman and two auditors, one appointed by the majority shareholders and the other by the minority.

The Board of Directors may, on its own initiative, if it thus decides, or obligatorily, when shareholders representing at least 1% of the capital stock have so requested in writing using reliable means at least five days prior to the date planned for holding the Meeting at the first call, require the presence of a notary to make a record of the meeting, the fees of the Notary chosen being payable by the Company. The notary's record shall be considered as the minutes of the Meeting.

The resolutions adopted and the results of the voting in the Shareholders' Meeting will be published on the Company's website, within five days from the end of the Shareholders' Meeting.

### **SECOND PART BOARD OF DIRECTORS**

#### **Article 19. BOARD OF DIRECTORS**

The Board of Directors is the body responsible for directing, managing and representing the Company, the foregoing without prejudice to the powers pertaining to the General Shareholders' Meeting.

#### **Article 20. STRUCTURE OF THE BOARD**

The Board of Directors shall consist of no less than three and no more than fifteen members. The number of members shall be determined by the General Shareholders' Meeting.

The Directors shall be elected by ballot pursuant to the rules established for this purpose in

the Act.

It is not necessary to be a shareholder in order to be a member of the Board.

#### **Article 21. TERMS OF THE OFFICE OF DIRECTORS**

Directors shall hold office for an initial term of four years. Directors may be re-elected for successive periods up to a maximum of four years on each occasion by the General Shareholders' Meeting as many times as the latter sees fit.

Even though a director's term of office may have expired, he shall continue to discharge his/her duties until the first General Shareholders' Meeting is held.

#### **Article 22. CALLS FOR BOARD MEETING, QUORUM, ADOPTION OF RESOLUTIONS**

The Board shall meet whenever required by the interests of the Company and must meet during the first three months of each fiscal year in order to draw up the annual accounts, the directors' report and the proposal for the application of the profit or loss for the prior year and whenever it must call a General Shareholders' Meeting. In any case, the Board of Directors shall meet at least quarterly.

It shall be called by the Chairman, or the person acting in his/her stead, on his/her own initiative or, in the cases to which the preceding paragraph refers or when one third of the members of the Board has requested the calling of a meeting of the Board of Directors. In this case, if the Chairman did not call the meeting within a term of one month without a reasonable cause, the directors constituting at least one third of the Board of Directors, shall be entitled to call it (on his/her behalf), and decide the agenda.

A Board Meeting shall be validly assembled if attended, either in person or duly represented, by one half plus one of the members in office. Any director may confer, in writing, the power to represent him at the Meeting on any other director. However, non-executive directors shall only confer it to another non-executive director.

For resolutions to be adopted, the vote in favor of an absolute majority of the directors attending the meeting shall be required, except in the cases of the permanent delegation of any of the powers of the Board of Directors to the Executive Commission or to the Managing Director, or the appointment of the directors who are to discharge such offices, when the vote in favor of two thirds of the members of the Board shall be required.

The deliberations and resolutions of the Board shall be recorded in a minute book and each of the minutes shall be signed by the Chairman and Secretary or those persons who substitute them.

The Board of Directors shall meet at the Company's address, except if it is called to take place in another location.

As an exception, if none of the directors opposes, resolutions may be passed in writing or by videoconference or conference call.

#### **Article 23. POWERS OF THE BOARD**

The Board of Directors shall have the following powers:

- a) To appoint from among its members a Chairman and one or more Deputy Chairmen. It shall also appoint a Secretary, who need not be a director.

- b) To call both the ordinary and special General Shareholders' Meetings as and when this may be in order, pursuant to these By-Laws, drawing up the Agenda and proposing such motions as may be appropriate, in accordance with the type of Shareholders' Meeting called.
- c) To represent the Company in all administrative or judicial, civil, mercantile and criminal matters and acts, before the State administration or any public agencies of all kinds, as well as before any jurisdiction (ordinary, administrative, special, labor, etc.) and any Court degree, taking actions of all kinds that pertain to the Company in defense of its rights, in or out of court, conferring and executing the appropriate powers of attorney upon court solicitors and appointing attorneys at Law to represent and defend the Company before said courts and agencies.
- d) To direct and administer the Company business, permanently conducting the management thereof. For this purpose, the Board shall lay down the rules of government and the system for administering and running the Company, organizing and regulating the technical and administrative services.
- e) To enter into all kinds of contracts concerning any kind of property or rights, under the covenants and conditions that it may see fit, and to establish and cancel mortgages and other liens or rights *in rem* on the Company's property, as well as to waive, against payment or without it, all kinds of privileges or rights. It may likewise decide on the participation of the Company in other undertakings or companies.
- f) To sign and to act on behalf of the Company in all kinds of banking transactions, opening and closing current accounts, drawing cash therefrom, acting as drawer, acceptor, guarantor, endorser, endorsee or holder of bills of exchange; to open lines of credit, with or without guarantee, and to cancel them; to transfer funds, revenue, credits or securities, using any procedure for the draft or remittance of moneys; to approve settlements of final accounts, to create and withdraw deposits or bonds, to set off accounts, to formalize exchanges, etc., all of which may be carried out at the Bank of Spain or any private banking entities, or at any Agencies whatsoever of the State administration.
- g) To appoint and dismiss any of the Company's personnel, assigning to them such salaries and bonuses as may be appropriate.
- h) To appoint from among its members an Executive Committee or one or more Managing Directors, and to delegate to them, pursuant to the Law, such powers as the Board may deem advisable. It may also establish any committees and confer powers on any persons whatsoever.
- i) To draw up and publish annually, as relevant facts, a report on the remuneration of directors, including that received or to be received in their capacity as director and, where applicable, for performing their executive functions, as well as the annual corporate governance report.
- j) To establish its own operating procedure in all matters not specifically provided for by law or by these By-Laws.

The powers of the Board of Directors include, but are not limited to, those listed above, the Board being understood to hold all powers not expressly reserved to the Shareholders' Meetings.

## **Article 24. REMUNERATION OF DIRECTORS**

Holding the office of director shall be remunerated.

An overall remuneration shall be fixed for all the members of the Board in such condition, consisting of a share of 1.5% of the consolidated profit after tax with a maximum limit of 1% of the consolidated profit before tax, which may only be taken from the net profit after the legal and statutory reserve requirements have been met and a dividend of at least 10% of the paid-up capital stock has been allocated to the shareholders. The subscription of civil liability insurance in favor of the Company's Board members will be included within the aforementioned maximum limit.

The aforementioned remuneration shall be distributed among its members in the manner freely determined by the Board of Directors, depending on the functions and responsibilities attributed to each director, the participation in committees of the Board of Directors, and any other objective circumstances that the Board of Directors considers significant.

The remuneration of directors for carrying out executive functions established in agreements approved in accordance with the Capital Companies Law shall be in line with the directors' remuneration policy. This policy must include the amount of the fixed annual remuneration and its variation within the period covered by such policy, the different criteria used to determine the variable items and the main terms and conditions of their contracts, including specifically, their duration, compensation for early termination and non-competence agreements, post-contractual non-competition covenants and permanence or loyalty agreements.

The Board of Directors shall establish the remuneration of those directors who carry out executive functions and the terms and conditions of their agreements with the Company in accordance with the Capital Companies Law and the directors' remuneration policy approved by the General Shareholders' Meeting.

The directors' remuneration policy shall be submitted for the approval of the General Shareholders' Meeting at least every three years as a separate item on the agenda.

The proposal on the directors' remuneration policy shall be reasoned and shall attach a specific report issued by the Appointment and Remunerations Commission. Both documents shall be available for the shareholders on the corporate website from the date on which the General Shareholders' Meeting is called. Shareholders may also request that both documents be delivered and sent to them free of charge. The announcement of the calling of the General Shareholders' Meeting shall mention this right.

The directors' remuneration policy shall be in force during the three fiscal years following the approval of the policy by the General Shareholders' Meeting. Any modification or substitution of this policy within this period of time requires the prior approval of the General Shareholders' Meeting by following the same procedure as for its approval.

## **Article 24.bis AUDIT COMMITTEE**

### **Composition**

The Board of Directors will have a permanent Audit Committee composed of five members. All the members of the Audit Committee shall be non-executive board members appointed by the Board of Directors, at least two of whom shall be independent directors, and one shall be appointed on the basis of his/her knowledge of and experience in accounting or auditing

matters, or both. The members shall be appointed for a term of four years and one of them shall be appointed Chairman, who shall be an independent director. The Audit Committee shall also have a Secretary, who need not be a board member, proposed by the Appointment and Remunerations Commission.

#### **Faculties**

The Audit Committee shall have the powers conferred by law and by the Regulations of the Board of Directors.

#### **Rules of Operation**

The Audit Committee shall act in accordance with the functioning and operational rules established by law and by the Regulations of the Board of Directors.

### **Article 24 (ter). APPOINTMENT AND REMUNERATIONS COMMISSION**

#### **Composition**

The Board of Directors shall have a permanent Appointments and Remunerations Commission composed of five members. The Appointments and Remunerations Commission shall be exclusively composed of non-executive directors appointed by the Board of Directors and, at least two of them shall be independent directors. The Chairman of the Appointments and Remunerations Commission shall be appointed from among the independent directors forming the commission. The Board of Directors shall appoint a Chairman among its members, who shall be an independent director, and the Secretary, who need not be a director, shall be appointed by the Board of Directors and proposed by the Appointments and Remunerations Commission.

#### **Faculties**

The Appointments and Remunerations Commission shall have the powers conferred by law and by the Regulations of the Board of Directors.

#### **Rules of Operation**

The Appointments and Remunerations Commission shall act in accordance with the functioning and operational rules established by law and by the Regulations of the Board of Directors.

## **SECTION IV**

### **FISCAL YEAR, ACCOUNTING DOCUMENTATION AND APPLICATION OF PROFIT**

#### **Article 25. FISCAL YEAR**

The fiscal year shall begin on December 1 of each year and end on November 30 of the following year.

#### **Article 26. ACCOUNTING DOCUMENTATION**

Within three months at the latest from the end of each fiscal year, the Board shall draw up the annual accounts, the directors' report and the proposal for the application of the profit or loss, together with, if applicable, the consolidated accounts and directors' report, pursuant to the principles and criteria required by law.

These documents, which shall be signed by all the directors, expressly stating, if applicable,



the reason justifying the omission of the signature of any of them, shall be submitted for review by the account auditor or auditors appointed in the manner, for the periods and with the duties provided for in the Act to verify the annual accounts. When appointing the person or persons who shall perform the audit, the Shareholders' Meeting shall determine the number thereof and the length of time over which they are to discharge their duties, which may not be less than three years or more than nine, as from the date on which the first fiscal year to be audited commences.

#### **Article 27. FILING AND PUBLICATION OF ANNUAL ACCOUNTS**

When the Annual Accounts, the Directors' Report and the Application of the Profit or Loss have been approved by the General Shareholders' Meeting, they shall be submitted for filing, together with the certification of the resolutions of the Shareholders' Meeting as well as any other appropriate documentation, at the Companies Registry pertaining to the registered office, in the manner, within the term and pursuant to the provisions laid down in the Law and the Companies.

#### **Article 28. APPLICATION OF THE PROFITS**

The net profit of the Company shall be applied as follows:

- a) The amount required for payment of Corporate Tax and of those taxes levied on the Company's profits prior to their distribution to shareholders.
- b) The amount necessary to set up the reserves required by law or such voluntary reserves as the Shareholders' Meeting may see fit.
- c) The remainder is freely available to the shareholders, who will decide as to the use to be made of it.

### **SECTION V DISSOLUTION AND LIQUIDATION**

#### **Article 29. DISSOLUTION**

The Company shall be dissolved in the cases provided for in the Act.

#### **Article 30. SYSTEM FOR LIQUIDATION**

Once the General Shareholders' Meeting has resolved to dissolve the Company, the Shareholders' Meeting unless the Company provides otherwise, those who were directors at the time of dissolution of the Company, shall become liquidators.

Without prejudice to the provisions of the preceding paragraph, shareholders representing at least one twentieth of the capital stock or, if applicable, the committee or committees of creditor-liquidators may request the Commercial Court Judge (*Juez de lo Mercantil*) pertaining to the registered office to appoint a receiver with the requirements and powers established by the Act.

The Shareholders' Meeting shall retain the same powers as those it holds during the Company's normal operations throughout the liquidation period and shall, in particular, be authorized to approve the accounts and final liquidation balance sheet.

#### **Article 31. RULES FOR LIQUIDATION**

The rules established in the Act shall be complied with in the liquidation of the Company.

## **REGULATIONS OF THE GENERAL SHAREHOLDERS' MEETING OF ZARDOYA OTIS, S.A.**

### **ARTICLE 1. PURPOSE AND DISTRIBUTION OF THE REGULATIONS**

These Regulations are intended to regulate the General Shareholders' Meeting of ZARDOYA OTIS, S.A. (the "**Company**"), the sovereign corporate body, through which the shareholders' right to take part in the making of the Company's essential decisions is organized, establishing the principles for preparing the Meeting, information relating thereto, the calling thereof, the manner in which it is conducted and the rules that govern its activity by law and in the by-laws, and the applicable discipline set forth in current mercantile legislation and in the Company by-laws is completed.

The Board of Directors shall adopt any measures that may be necessary to ensure the distribution of the provisions of these Regulations among the shareholders and the investor public and, for this purpose, shall publish them on the Company's web page.

### **ARTICLE 2. EFFECTIVE DATE OF THE REGULATIONS**

These Regulations shall be applicable as from the first General Shareholders' Meeting held after they have been approved.

### **ARTICLE 3. TYPES OF GENERAL SHAREHOLDERS' MEETING**

#### **Ordinary General Shareholders' Meeting**

The Ordinary General Shareholders' Meeting shall be held within the first six months of each financial year in order to:

- a) Opine on the corporate management.
- b) Approve, if applicable, the accounts for the previous year.
- c) Resolve on the application of the profit/(loss).
- d) Appoint the Company's auditor.

Likewise, the Ordinary Shareholders' Meeting may adopt resolutions on any other matters that are submitted for its consideration.

#### **Extraordinary General Shareholders' Meeting**

Any General Shareholders' Meeting that differs from the above shall be considered Extraordinary.

### **ARTICLE 4. CALLING THE GENERAL SHAREHOLDERS' MEETING**

General Shareholders' Meetings (whether Ordinary or Extraordinary) will be called by the Board of Directors through the means of communication established by law, which include, among others: (i) the Official Gazette of the Commercial Registry or one of the most widely circulated daily newspapers in Spain, (ii) the Securities and Exchange Commission's (CNMV) website for which purposes a copy shall be sent to the CNMV and the Stock Exchange Governing Company, and (iii) the Company's website, so that

the shareholders have sufficient time to request and obtain supplementary information in relation to the items on the agenda.

The Meeting (whether Ordinary or Extraordinary) will need to be called at least one month in advance, except for Extraordinary General Shareholders' Meetings when the law allows for a shorter period and provided that in this latter case all applicable legal requirements are met.

The notice of the Meeting (whether Ordinary or Extraordinary) will include all the requirements established by law, including the Company's name, the date, place and time of the Meeting on the first call, the agenda containing the matters to be discussed and the date on which the shareholders must have their shares registered in order to attend and vote in the General Shareholders' Meeting. It will also state how and where a full copy of the resolutions and the proposals of resolutions can be accessed, the website of the Company in which the information will be available, and the position of the person(s) calling the Meeting. The notice will contain clear and precise information of the procedures that shareholders must comply in order to be able to participate and to cast their vote in the General Shareholders' Meeting, including all the requirements established by law. The notice of the Meeting may also indicate the date and time at which the Meeting will be held on second call, provided that there will be a minimum period of twenty-four hours between the first and second call of the Meeting.

The Board shall call an Extraordinary General Shareholders' Meeting when a number of shareholders that hold at least three per cent of the capital stock so request, stating the matters to be discussed in their request. In this case, the Meeting shall be called to be held within the two months following the date on which the request, through a notary, was made to the Board of Directors to call it. In this case, the Board of Directors shall draw up the agenda, and shall include as items of such agenda the matters included in the shareholders' request.

Notwithstanding the provisions of the preceding paragraphs, a General Shareholders' Meeting may be held to adopt resolutions on any matters without any prior notice if all the paid-up capital stock is present or represented and agrees to hold the Meeting.

## **ARTICLE 5. SHAREHOLDER RIGHTS**

The Company will ensure at all times that all shareholders who are in the same position are treated equally with regard to information, participation and the exercise of voting rights in the General Shareholders' Meeting.

### **Shareholder participation rights**

Shareholders holding, at least, three per cent of the capital stock may request the publication of an addendum to the agenda of the Ordinary General Shareholders' Meeting, in order to include one or more items on the notice of the General Shareholders' Meeting provided that such added items are accompanied by a justification or a reasoned proposal for a resolution. However, this right cannot be exercised in connection with Extraordinary General Shareholders' Meetings.

This right shall be exercised by means of written notice which shall be received at the Company's registered office within the five days following the date on which notice of the Meeting is published. The addenda to the notice of the General Shareholders' Meeting shall be published at least fifteen days before the date on which the Meeting is

to be held. The failure to publish this addendum within the period established by law will be a cause for challenging the General Shareholders' Meeting.

Shareholders representing at least three per cent of the share capital may submit, during the aforementioned period, additional proposals relating to matters already included or that will be included on the agenda of the Meeting called. The Company will ensure that these proposals of resolutions and any documentation attached, if applicable, is distributed among the remaining shareholders, in accordance with the law.

### **Shareholder information rights**

Provision of information to shareholders: As from the publication date of the notice of the Meeting, until the holding of the following General Shareholders' Meeting, the Company will make available on its website all legally required information, including, at least, the following:

- a) The notice of the Meeting.
- b) The total number of shares and voting rights on the date of the notice of the Meeting, broken down by types of shares, if applicable.
- c) The documents to be submitted to the General Shareholders' Meeting, and, in particular, any directors' reports, auditing reports and independent experts' reports. When an Ordinary General Shareholders' Meeting is called, the following documents will be included, in any event: the Company's annual accounts, the consolidated accounts and the proposal for application of the profit/(loss) for the year, the Company's management report and the consolidated management report, and the audit reports on the consolidated annual accounts and the annual accounts of the Company.
- d) Full text of the proposals of resolutions regarding all points of the Agenda or, regarding those points which are strictly informative, a report of competent bodies or of any other Committees set up within the Board of Directors, discussing each of the items on the agenda. If and when they are received, any proposals of resolutions made by the shareholders will also be included.
- e) In case of appointment, ratification or re-election of members of the Board of Directors, the identity, résumé and category to which they belong, as well as the proposal and reports required in accordance with the law. If it is a legal person, the information must include the relevant information regarding the natural person appointed to perform the duties inherent to such position.
- f) The forms to be used for proxy and distance voting, unless when they are submitted by the Company directly to each shareholder. The Company shall indicate on its website how to obtain the paper forms if they cannot be published on the website for technical reasons. In such a case, paper forms must be submitted to any shareholders who request them.
- g) Any other information that may be required by law, or which the Board of Directors decides to publish in the Company's website.

On the day of the Meeting, the shareholders shall be provided with the necessary documentation at the place of the Meeting.

Shareholders' requests for information: Up to the fifth day before the date on which the Meeting is to be held, shareholders may request the Board of Directors, in relation to the items included on the agenda, any information or clarification they deem necessary, or may pose any questions in writing that they deem appropriate.

Likewise, shareholders may request from the Board of Directors in writing until the fifth day prior to the date set for the Meeting, or verbally during the Meeting, any clarifications that they deem necessary concerning the information available to the public that the Company has provided to the CNMV since the date of the last General Shareholders' Meeting and in relation to the auditor's report.

The valid information requests, clarifications and questions in writing as well as the relevant written answers provided by the directors, shall be uploaded to the Company's corporate website.

The Board of Directors shall be obliged to provide the above information in writing up to the day of the General Shareholders' Meeting.

During the General Shareholders' Meeting itself, shareholders may orally request any information or clarification that they deem appropriate in relation to the items included on the agenda. If the information requested cannot be provided at the General Shareholders' Meeting itself, the Board of Directors shall send such information in writing within the seven days after the General Shareholders' Meeting took place.

The Board of Directors shall send the information requested pursuant to the preceding paragraphs unless such information is unnecessary for the protection of the shareholder's rights, there are reasonable grounds to consider that the information might be used for non-corporate purposes, or its publicity might damage the Company or its related companies.

Before specific questions are made, when the requested information is available for all the shareholders on the Company's website, in a Q&A format, clear, direct and explicitly, the Board of Directors might limit its answers making reference to the information provided in such format.

However, information shall not be denied when the request is supported by shareholders who represent at least a quarter of the capital stock.

### **Shareholders' right of attendance**

Shareholders who prove that they are such by means of a certificate issued, five days prior the date of the Meeting, by the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (Iberclear), or by the participating entities authorised for this purpose, may attend the Meeting.

Shareholders must request from Iberclear, or the participating entity authorised for this purpose, a certificate of ownership or an equivalent document, together with the card required to attend the General Shareholders' Meeting, which must be in registered form.

The Company shall begin to register the attendance cards at least two hours before the time fixed for the Meeting.

Company directors must attend the General Shareholders' Meetings.

#### **ARTICLE 6. REPRESENTATION**

All shareholders who are entitled to attend may be represented at the General Shareholders' Meeting by another person, who need not be a shareholder. Representation must be conferred in writing for each specific Meeting and will be subject to the terms, conditions and limitations established by law.

The appointment of the representative by a shareholder and the notice of appointment provided to the Company will only be deemed valid if the grant is made:

- a) By written postal correspondence sent to the address indicated by the Company for this purpose, containing the legitimacy certificate or equivalent document, together with the attendance, representation and voting card issued by Iberclear (or the authorized participant entity) duly signed and filed by the shareholder, or by any other written means that, in the opinion of the Board of Directors in an agreement previously adopted for this purpose, allows for the faithful verification of the identity of the shareholder conferring its representation and that of the representative or representatives appointed.
- b) By any electronic means of communication that may be deemed suitable by the Board of Directors insofar the chosen means duly guarantees the validity of the representation granted, the shareholder recognition and the identification of the representative or representatives appointed. The representation granted by any such means will be accepted if the electronic document by means of which the representation is conferred contains a recognized digital signature or advanced digital signature of the shareholder being represented, as defined by applicable law. The user certificate must be obtained by the shareholder free of charge for the Company and must be in force in the moment the shareholder confers his/her representation. Any shareholder with a digital signature complying with the aforesaid requirements that identifies himself/herself by these means, may confer his/her representation in compliance with the instructions and procedures specified on the Company's corporate website, which will make available the appropriate forms to that end.

In order to be valid, a representation granted by any of the foregoing means of remote communication must be received by the Company before 12:01 AM the day before the date on which the Shareholders' Meeting is going to be held on first call. Any shareholder conferring representation is obliged to communicate to the appointed representative the representation conferred.

Should the shareholder be a legal person, it must also simultaneously submit notarial certification of the power of attorney by means of which the capacity of the person conferring representation through remote postal or electronic means is granted.

Should any shareholder confer representation by postal correspondence or remote electronic correspondence in favor of the Company, to the Board members or the Secretary, but such representation does not include voting instructions or questions arise as to the intended representative or the scope of the representation it shall be



deemed that: (i) the representation is conferred in favor of the President of the Board of Directors and, if the President is subject to a conflict of interest and, unless expressly otherwise stated, in favor of the Vice-president of the Board of Directors; (ii) it refers to all the items included on the agenda of the call to the General shareholders' Meeting; (iii) contains the instruction to vote favorably on all proposals made by the Board of Directors; (iv) and also extends to matters that, although not provided for on the agenda of the call of the meeting, may be addressed at the General Shareholders' Meeting, in respect of which, the representative shall cast the vote as he/she considers most favorable to the interests of the shareholder conferring the representation.

On the date and at the place of the General Shareholders' Meeting, the appointed representatives must identify themselves by providing their national identification card (D.N.I.) or Passport, in force, in order to allow the Company to verify the representation conferred in their favor, together with, if necessary, a copy of the delegation and the notarial certification of the power of attorney. The representative may only cast the vote of the represented person by physical attendance to the General Shareholders' Meeting,

The representation conferred by these means may be revoked: (i) by Shareholder's express revocation made by the same means as the used to confer the representation, within the period of time to confer it; (ii) by the personal attendance of the shareholder at General Shareholders' Meeting; (iii) by the transfer of the shares whose ownership grants the right to representation and voting as acknowledged by the Company at least five days prior to the expected date of the General Shareholders' Meeting. Representations conferred after the distance vote is cast will not be deemed as conferred.

A representative may have representations conferred by more than one shareholder, with no limits on the number of representations.

Similarly, entities that appear to be shareholders as a result of the accounting record of shares but act on behalf of several people might divide their vote and cast their vote differently as per the voting instructions received. Such intermediary entities might delegate the vote to indirect holders or third parties designated by them. No limitations should apply regarding the number of delegations granted.

## **ARTICLE 7. QUORUM**

General Shareholders' Meetings (Ordinary or Extraordinary) will meet the quorum in order to be validly held on the first call when the shareholders, present or represented, hold at least 60% of the subscribed capital stock with voting rights.

On the second call, the Meeting will be validly held when the shareholders, present or represented, hold at least 50% of the capital stock with voting rights.

In order for a General Shareholders' Meeting (Ordinary or Extraordinary) to validly resolve on a capital increase or reduction and any other amendment to the Company's by-laws; the suspension or limitation of pre-emptive rights of new shares; the issuance of bonds; the conversion, merger, spin-off of the Company; the global assignment of assets and liabilities; and the relocation of the registered office abroad; two thirds of the subscribed capital with voting rights must be present or represented on the first call. On the second call, it will be sufficient for half said capital to be attending the Meeting.

## **ARTICLE 8. THE PRESIDING COMMITTEE OF THE GENERAL SHAREHOLDERS' MEETING**

The presiding committee of a General Shareholders' Meeting will be formed by the members of the Board of Directors.

It will be chaired by the Chairman of the Board of Directors or, in his absence, the longest serving Deputy Chairman or, in his absence, the other Deputy Chairman or the longest serving Deputy Chairman of the other two Deputy Chairmen.

The Chairman will be assisted by a Secretary, who will be the Secretary to the Board of Directors. In the absence thereof, the person designated by the shareholders at the beginning of the Meeting will act as Secretary.

The Chairman will conduct and establish the order of the deliberations and speeches; decide the manner in which votes will be taken on the resolutions; resolve any doubts, clarifications or claims that are raised in relation to the agenda, the list of those attending, ownership of the shares, delegation or representation and the requirements for the Meeting to be held validly and pass resolutions, or on any limit on voting rights established in the by-laws.

## **ARTICLE 9. LIST OF THOSE ATTENDING AND OPENING OF THE GENERAL SHAREHOLDERS' MEETING**

Before starting the discussion of the items on the agenda, a list of those present shall be drawn up, stating the capacity in which each one of them is present or whom they represent, and the number of shares, owned by the shareholder or by a third party, with which they attend.

At the end of the list, as a summary, the number of shareholders present or represented shall be stated, together with the amount of capital that they hold, specifying the capital belonging to shareholders with voting rights.

The list of those attending the Meeting may also be drawn up in a file or placed on a computer medium. In these cases, the medium used will be stated in the minutes and the appropriate identification, signed by the Secretary with the Chairman's approval, will be placed on the sealed cover of the file or computer medium. Once the list of the shareholders attending the Meeting has been closed, those absent or, if applicable, their representatives, may attend the Meeting but will not be included in the list of attendants, without the approval of the Chairman of the Meeting.

Once the Meeting has commenced, the Secretary will read the information on the notice of the meeting and will inform on the attendance on the basis of the list of those attending the Meeting. In light of the list of those attending the Meeting, the Chairman shall, if appropriate, declare the Meeting duly constituted.

## **ARTICLE 10. DELIBERATION AND ADOPTION OF RESOLUTIONS**

### **Deliberation**

At an Ordinary General Shareholders' Meeting, the Chairman will inform on the most relevant aspects of the year and the Board's proposals. His explanations may be completed by the persons he authorizes. The Chairman of the Audit Committee or, if

applicable, of any of the other Committees or, in his absence, any other member of the Audit Committee or of other Committees, shall be available to answer any questions that the shareholders may raise thereat on matters which are within the powers of the Meeting.

When the appropriate explanations have concluded, the Chairman will allow the shareholders who have so requested to speak, conducting and coordinating the debate and seeking to follow the established agenda, except as provided for in articles 223 and 238 of the Capital Companies Law.

The Chairman shall conclude the debate when, in his opinion, the matter has been sufficiently debated and will then submit, to a vote the motions for a resolution, which will be read by the Secretary.

Each of the items that forms part of the agenda and any matters that notwithstanding being part of the same item of the agenda are materially different, shall be put to a separate vote, so that the shareholders can express their preferences in each case. This rule shall apply in particular to:

- a) The appointment, ratification, re-election or removal of each of the directors, which must be voted separately.
- b) Amendments to the by-laws, with votes taken on all articles or groups of articles that are independent from each other.
- c) Any other issues set forth in the by-laws.

At the Chairman's decision, the motions may be read in an abridged manner, provided that the shareholders who represent a majority of the subscribed capital with voting rights present or represented at the Meeting do not object.

Using his right to order the manner in which the Meeting is conducted, the Chairman may, without prejudice to other actions:

- a) Extend, when he sees fit, the time initially assigned to each shareholder, which, unless expressly stated otherwise, may not exceed five minutes.
- b) Ask the speakers to clarify questions that have not been understood or have not been sufficiently explained during their speech.
- c) Ask the shareholders who speak to restrict their speeches to matters pertaining to the Meeting and to refrain from making inappropriate statements or using their right in an abusive or obstructive manner.
- d) Inform the speakers when the time allotted to them is near to the end, so that they can adapt their speech and, when the time allowed for the speech has ended or if they persist with any of the conducts described in point (c) above, he may prevent them from continuing.
- e) If he considers that their speech may alter the appropriate order and normal evolution of the Meeting, instruct them to leave the premises and, if applicable, adopt the measures required for this order to be met.

## **Voting**

Each share shall give the right to one vote in the terms established in the by-laws.

If the shareholder is represented by another person in accordance with the requirements set out by law, the representative will issue the vote according to the instructions received from the shareholder and must keep these instructions for one year as from the holding of the Meeting.

When a representative represents several shareholders, he/she may issue votes in a different direction, pursuant to the instructions received from each of the represented shareholders.

In addition, entities that appear to be shareholders on the basis of the accounting record of shares, but acting on behalf of several people might divide their vote and exercise the vote in a different direction as per the voting instructions received. Such intermediary entities might delegate the vote to the indirect holders or to third parties designated by them. No limitations should apply regarding the number of delegations.

The Company will establish for each resolution put to vote at the Meeting, at least: the number of shares for which votes have been validly cast, the proportion of the share capital represented by those votes, the total number of votes validly cast as well as the number of votes cast in favour of and against each resolution and, where applicable, the number of abstentions.

The votes shall be noted by the Secretary individually for each of the items on the agenda. The Secretary shall deliver the list with the result of the vote on each motion to the Chairman.

## **Distance voting**

Any shareholder entitled to attend and to vote may cast the vote on proposals relating to items on the Agenda of a General Shareholders' Meeting by any of the following remote means of communication:

- a) By written postal correspondence sent to the address indicated by the Company for this purpose, containing the legitimacy certificate or equivalent document, together with the attendance, representation and voting card issued by Iberclear (or the authorized participant entity) duly signed and filed by the shareholder, or by any other written means that, in the opinion of the Board of Directors in a resolution previously adopted for such purpose, allows for the faithful verification of the shareholder exercising his voting rights.
- b) By any electronic means of communication that may be deemed suitable by the Board of Directors insofar the chosen means duly ensures the authenticity and the identity of the shareholder exercising his/hers vote as well as the security of electronic communications. The vote casted by such means will be accepted if the electronic document by means of which the right to vote is exercised includes the recognized digital signature or advanced digital signature of the shareholder, as defined by applicable law. The user certificate must be obtained by the shareholder free of charge for the Company and must be in force in the moment the shareholder casts the vote. Any shareholder with a digital signature complying with the aforesaid requirements that identifies himself/herself by these

means, may cast his/hers vote regarding the items of the General Shareholders' Meeting in compliance with the instructions and procedures specified on the Company's corporate website, which will make available the appropriate forms to that end.

Should the shareholder be a legal person, it must also simultaneously submit notarial certification of the power of attorney by means of which the capacity of the person casting the distance vote is granted and communicate to the Company any change or revocation of the faculties granted to the representative and, therefore, the Company denies any responsibility until such communication is delivered.

Shareholders casting their distance votes by the means contained in this article will be deemed as present for the purposes of constitution of the General Shareholders' Meeting. As a consequence, representations conferred previously will be deemed revoked and the ones conferred after will be deemed as not made.

A distance vote may only be revoked: (i) by the Shareholder's express revocation made by the same means as the used to cast it, within the period of time to cast it; (ii) by the personal attendance of the shareholder at General Shareholders' Meeting or a representative of him; (iii) by the transfer of the shares whose ownership grants the right to vote as acknowledged by the Company at least five days prior to the expected date of the General Shareholders' Meeting.

A vote cast by any of the aforementioned means must be received by the Company at least twenty-four hours prior to the date the General Shareholders' Meeting is to be held on first call. Otherwise, the vote will not be deemed to having been cast.

The Board of Directors is expressly entitled to expand upon the scope of the foregoing provisions, establishing the instructions, rules, means and procedures according to the state of art to document the casting of votes by the remote means of communication it considers appropriate, in accordance with Law regulating this system and with what is established in the Company's by-laws and in this General Shareholders Meeting Regulations. Any implementation rules adopted by the Board of Directors pursuant to the provisions hereof shall be published on the Company's corporate website.

The Board of Directors, in order to avoid possible duplicities, will adopt necessary measures to ensure that who has cast the vote and conferred representation is dully legitimated according to the company by-laws and these General Shareholders' Regulations.

### **Conflict of interests**

A shareholder shall not exercise the voting rights associated to his/her shares when the resolution to be agreed refers to one of the following actions:

- a) To discharge him/her from his/her obligations or to grant him rights;
- b) To provide him/her with any kind of financial assistance, including guarantees;  
and
- c) To discharge him/her from his/her obligations arising from his/her loyalty duty pursuant to the provisions contained in the law.

The shareholder's shares involved in any situation of conflict of interest shall be deducted from the share capital for the calculation of the required majority necessary in each situation.

In any other cases of conflicts of interest different from the situations mentioned above, the relevant shareholder will not be prevented from exercising his/her voting rights. Nevertheless, when such vote has been decisive for the approval of the resolution, the Company and the affected shareholder will have to evidence that the resolution is in accordance with the Company's corporate interest (in the event the resolution is challenged). The challenging shareholder must evidence the existence of a conflict of interest. The appointment, removal, revocation and the liability claims from directors are exempted from this rule, as well as any other resolutions where the conflict of interest exclusively refers to the position of the shareholder in the Company. In such cases, the challenging shareholders shall evidence the damage caused to the corporate interest.

### **Adoption of resolutions**

Resolutions shall be adopted by the majority of votes provided for in the by-laws and shall be binding on all shareholders, including those who voted against them and those who did not attend the Meeting.

### **Questions and answers**

Before the Meeting ends, those present at the Meeting may raise any other issues they see fit.

### **End of the General Shareholders' Meeting**

Subsequently, the Chairman will bring the Meeting to an end.

## **ARTICLE 11. MINUTES OF THE GENERAL SHAREHOLDERS' MEETING AND PUBLICATION OF ITS RESOLUTIONS**

The matters debated and the resolutions adopted at General Shareholders' Meetings shall be recorded in the minutes. The minutes thus drawn up shall either be approved at the end of the Meeting by those present, or during the following fifteen days by the person who acted as Chairman of the Meeting and two scrutiners appointed by the Meeting itself, one by the majority and the other by the minority.

Minutes approved in either of the manners described above shall be enforceable as from the date of their approval.

The minutes shall be recorded in the Company's Minutes Book, which may be formed by loose sheets previously legalized by the Commercial Registry, on which at least the circumstances and requirements set forth by both the Capital Companies Law and the Regulations of the Commercial Registry shall be included.

Without prejudice to having any resolutions that must be recorded in the Commercial Registry recorded and any legal provisions that may be applicable in relation to making corporate resolutions public, the Company shall send the text of the resolutions passed to the CNMV on the working day immediately following the day on which the Meeting was held.



Likewise, the resolutions passed and the results of the voting in the Shareholders' Meeting will be published on the Company's website, within five days following the end of the General Shareholders' Meeting.

**ARTICLE 12. MAKING THE REGULATIONS OF THE GENERAL SHAREHOLDERS' MEETING PUBLIC**

After approval hereof, these Regulations on the General Shareholders' Meeting shall be available through the Company's web page for the information of shareholders and investors.

The Regulations of the General Shareholders' Meeting will be notified to the CNMV. Once the communication has been made, the Regulations will be registered with the Commercial Registry as established by law. After registration, the Regulations of the General Shareholders' Meeting will be published by the CNMV.

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

## **Regulations of the Board of Directors**

### **Chapter I**

#### **PROLOGUE**

##### **ARTICLE 1. PURPOSE**

These Regulations determine the principles for action of the Board of Directors of Zardoya Otis, S.A. (the “**Company**”) and the basic rules for the organization and operation thereof and the rules of conduct of its members.

##### **ARTICLE 2. DISTRIBUTION**

The directors of the Company are under the obligation to know, understand and comply and obtain compliance with these Regulations.

The Board of Directors shall adopt the appropriate measures in order for the Regulations to be distributed to the shareholders and the investor public in general.

##### **ARTICLE 2 bis. EFFECTIVE DATE**

These Regulations shall be applicable as from the first Meeting of the Board of Directors held after they have been approved.

### **Chapter II**

#### **MISSION OF THE BOARD**

##### **ARTICLE 3. FUNCTIONS**

Apart from matters reserved to the competency of the General Shareholders' Meeting, the Board of Directors is the Company's highest decision-making body and is assigned the powers conferred granted by law and the Company's by-laws.

In particular, the Board of Directors shall submit to the General Shareholders' Meeting the following decisions:

- (a) The transfer of key activities to subsidiaries that were previously carried out by the Company itself, even when the latter retains full control of the former.
- (b) Operations which effect is equivalent to the Company's liquidation.
- (c) The directors' remuneration policy as established in the Law and the by-laws.

The key nature of the activities shall be presumed when the size of the transaction exceeds twenty five per cent of the total assets of the balance sheet.

The Board of Directors shall assume the following faculties:

- a) Approving the strategic or business plan, the management goals and the annual budget, the investment and financing policy, the corporate social responsibility policy and the dividend policy.
- b) Determining the risk control and management policy, including the tax risks, and the supervision of internal information and control systems.
- c) Determining the corporate governance policy of the Company and of the group of which the Company is the parent entity; its organization and functioning and, in particular, the approval and amendment of its own regulations.
- d) Approving the financial information that the Company must disclose in its capacity as listed company.
- e) Designing corporate structure of the group of which the Company is the parent entity.
- f) Approving the investments or operations considered strategic because of their amount or special characteristics, or that entail a relevant tax risk, unless their approval corresponds to the General Shareholders' Meeting.
- g) Authorizing the creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature which complexity may impair the transparency of the Company or its group.
- h) Approving, following a report issued by the Audit Committee, the transactions that the Company or the companies belonging to its group may carry out with their directors, as set out in the Capital Companies Law, or with any of their shareholders that, individually or together with others, have a significant stake, including shareholders represented in the Board of Directors of the Company or of other companies belonging to the same group or all related parties. The affected directors or those who represent or are related to the affected shareholders shall refrain from participating in the deliberation and voting of the relevant resolution. Only the transactions set out in the Law shall not need such approval.
- i) Designing the Company's tax strategy.

In the event of duly justified urgent circumstances, the CEO or delegated persons, may adopt the relevant decisions regarding the matters described in paragraphs (a) to (i). These decisions shall be ratified at the first meeting of the Board of Directors held after the adoption of the relevant resolution.

Likewise, the Board of Directors shall not delegate any other faculties that cannot be delegated according to the law.

The Board of Directors shall perform its duties with unity of purpose and independent judgment, guided by the Company's best interest and, as such, strive to maximize its value over time in the interest of shareholders.

It shall likewise perform its duties affording all shareholders who are in the same position the same treatment, shall ensure that the Company abides by the laws and regulations in its dealings with stakeholders, fulfills its obligations and contracts in good faith, respects the customs and good practices of the sectors and territories where it does business and upholds any additional social responsibility principles it has subscribed to voluntarily.

### **Chapter III**

#### **COMPOSITION OF THE BOARD**

##### **ARTICLE 4. NUMBER OF DIRECTORS**

The Board of Directors shall be formed by the number of directors determined by the General Shareholders' Meeting within the limits fixed in the Company's By-laws.

##### **ARTICLE 5. CHARACTERISTICS AND TYPES OF DIRECTORS**

###### **5.1 Appointment proposal**

The Board of Directors, using its powers to make proposals to the General Shareholders' Meeting and appoint by co-optation to cover vacancies, shall propose to the General Shareholders' Meeting, the appropriate number of directors that, according to the circumstances which affect the Company, and taking into account the maximum and minimum limit established in the By-laws, are the most suitable in accordance with the recommendations of good governance to assure the representative nature and efficient operation of the body. In particular, the Board of Directors using its powers to make proposals to the General Shareholders' Meeting and appoint by co-optation to cover vacancies, shall seek to ensure that in the Board's composition, external or non-executive directors shall represent a broad majority of the Board, over executive directors.

Likewise, the Board of Directors shall ensure that the selection process of its members promotes gender, experience and knowledge diversity and is not implicitly biased leading to any kind of discrimination, in particular, hindering the appointment of female directors.

The Appointments and Remunerations Commission shall make the proposal for appointment or re-election of independent directors.

The proposal for appointment or re-election of a director shall be, in any event, accompanied by an explanatory report issued by the Board of Directors in which the skills, experience and merits of the proposed candidate are valued. The report shall be attached to the minutes of the General Shareholders' Meeting or of the Board of Directors.

The appointment or re-election proposal of a non-independent director shall be also preceded by a report issued by the Appointments and Remunerations Commission.

This also applies to individuals who are appointed representatives of a director that is a legal entity. The proposal for appointment of a natural person as representative shall be subject to the Appointments and Remunerations Commission's report.

The foregoing is applicable notwithstanding the proportional representation right corresponding to the shareholders in accordance with the provisions of the Capital Companies Law.

Likewise, the Board of Directors shall seek to ensure that the directors proposed, in addition to meeting the legal requirements for the post and those of the By-laws, are recognized as having the professional knowledge, prestige and experience appropriate for performing their functions. In the event that a legal person is appointed, the same conditions shall be required of the natural person who represents it.

## 5.2 Type of directors

Executive directors shall be those who carry out management duties in the Company or in its group regardless of the legal connection between them. Notwithstanding this, the directors who are senior managers or directors of companies belonging to the group of which the Company is the parent entity shall be considered proprietary directors in the Company.

When a director carries out management duties and, at the same time, is or represents a significant shareholder who is represented in the Board of Directors, he shall be considered an executive director.

The other directors of the Company shall be non-executive and may be proprietary, independent or other external directors.

Proprietary external directors shall be (a) those who own an equity stake above or equal to the legally determined threshold for significant stake holdings, or appointed due to their status as shareholders, even if their stake holding does not reach such amount; and (b) those who represent the abovementioned shareholders.

Independent external directors shall be those who are appointed because of the professional and personal conditions, can undertake their duties without being determined by their relations with the Company, its significant shareholders or its officers

The following shall not be deemed, in any case, as independent external directors:

- (a) Past employees or executive directors of group companies, unless three or five years have elapsed, respectively, from the end of such relation.
- (b) Those who receive any payments or other form of compensation from the Company or its group other than their compensation as director, unless such amount is not significant for the director.

Dividends or pension supplements received by a director for prior employment or professional services shall not be taken into account for the purposes of this section, provided that such supplements are non-contingent, and that the Company has no discretionary power to, without breaching its obligations, suspend, modify or revoke their payment.

- (c) Those who are or have been during the past three years partners, in the external auditor or the firm responsible for the audit report of the Company or any other company within its group.
- (d) Those who are executive directors or senior officers of another company where an executive director or senior officer of the Company is an external director.
- (e) Those having significant business dealings with the Company or any other Company within its group or who have had such dealings in the preceding year, either on their own account or as significant shareholder, director or senior officer of an entity that has or has had such dealings.

Business dealings will include the provision of goods or services, including financial services, as well as advisory or consultancy relationships.

- (f) Those who are significant shareholders, executive directors or senior officers of an entity which receives or has received in the past three years donations from the Company or its group.

This provision will not apply to those who are merely patrons of a foundation receiving donations.

- (g) Those who are spouses, or partners maintaining an analogous affective relationship, or close relatives of one of the Company's executive directors or senior officers.
- (h) Those who have not been proposed for appointment or renewal by the Appointments and Remunerations Commission.
- (i) Those who have been directors continuously for over 12 years.
- (j) Those who are in some of the situations listed in a), e), f) or g) above in relation to a significant shareholder or a shareholder with Board representation. In the case of the family relations set out in letter g), the limitation shall apply not only in connection with the shareholder but also with his or her proprietary directors in the invested company.
- (k) And any other circumstances which, pursuant to the applicable law, prevent a director from qualifying as independent external director.

Proprietary directors disqualified as such due to the disposal of shares by the shareholder they represent may only be re-elected as independent directors once the said shareholder has sold all its shares in the Company.



A director with shares in the Company may qualify as independent, provided that he or she meets all the conditions stated in this article and its stake holding is not significant.

In the event that some external director can be deemed neither proprietary nor independent, according to the foregoing, the Company shall disclose this circumstance and the links that person maintains with the Company or its senior officers, or its shareholders.

The Board of Directors shall explain the nature of each director to the General Shareholders' Meeting which has to appoint or ratify his or her appointment, such determination shall be confirmed or, as the case may be, reviewed in each year's Annual Corporate Governance Report. Such Report, in addition to the disclosures required by law, shall also disclose the reasons for the appointment as proprietary directors at the request of shareholders controlling less than five per cent of the Company's share capital and explain any rejection of a formal request for a Board place from shareholders whose stake holding is equal to or greater than that of others who have successfully appointed a proprietary director.

## **Chapter IV**

### **STRUCTURE OF THE BOARD OF DIRECTORS**

#### **ARTICLE 6. CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER OF THE COMPANY**

The Board of Directors, following a report issued by the Appointments and Remuneration Commission, will appoint among its members a Chairman of the Board of Directors.

The Chairman of the Board of Directors is ultimately responsible for its effective operation. Apart from any other faculties granted by the Law, the By-laws and these Regulations, the Chairman will have the following faculties:

- (a) To call and chair the meetings of the Board of Directors, to draw up the agendas of the meetings and to direct the discussions and deliberations;
- (b) To chair the General Shareholders' Meetings;
- (c) To ensure, with the assistance of the Secretary, that the directors receive sufficient information on the items on the agenda in advance; and
- (d) To encourage debate and the active participation of all members, safeguarding their rights to freely express and adopt positions.

#### **ARTICLE 7. DEPUTY CHAIRMAN OR DEPUTY CHAIRMEN**

The Board of Directors, subject to a prior report by the Appointments and Remuneration Commission, may designate up to three Deputy Chairmen. In the event that it is impossible for the Chairman to chair the meeting or that he/she is absent, the oldest Deputy Chairman will replace him/her or otherwise, the other Deputy Chairman or the oldest among the other two Deputy Chairmen.

## **ARTICLE 7 BIS. THE CHIEF EXECUTIVE OFFICER**

The Board of Directors delegates the normal management of the Company to its Chief Executive Officer ("CEO") and, through him/her, the management team and the Board's activity focuses on the functions of executing the decisions of the General Shareholders' Meeting and of general supervision and definition of the Company's policy. This permanent delegation and the appointment of any director as CEO, shall require the favorable vote of two-thirds of the Board of Directors and shall be registered with the Commercial Registry in order to be effective.

Likewise, the CEO and the Company shall enter into an agreement, which shall be previously approved by the Board of Directors with the favorable vote of two-thirds of its members. The director in question shall refrain from both attending the deliberation and participating in the voting. The approved agreement shall be attached as an annex to the minutes of the meeting. The agreement shall detail all the possible items that could give rise to any remuneration due to the performance of executive functions, including, where applicable, the compensation for the early termination of such functions and the amounts payable by the Company as insurance or insurance premiums. The CEO shall not receive any remuneration for the performance of executive functions which amounts or descriptions are not foreseen in such agreement, which shall be in accordance with the remuneration policy approved by the General Shareholders' Meeting.

The CEO shall manage the Company's business, with the faculties delegated by the Board of Directors, except for the sale and purchase of real estate, which shall require in any case the approval of the Board of Directors, and any faculties which cannot be delegated in accordance with the Law, the By-laws or these regulations.

## **ARTICLE 8. THE SECRETARY TO THE BOARD OF DIRECTORS**

The Board of Directors, subject to a prior report by the Appointments and Remuneration Commission, shall designate its Secretary, who need not be a director. The same procedure applies to the removal of the Secretary.

In addition to any other faculties granted by the Law, the By-laws and these Regulations, the Secretary will have the following faculties:

- (a) To keep the documentation of the Board of Directors, recording the development of the meetings in the Minutes Book and certifying the resolutions passed by the Board of Directors and their content;
- (b) To ensure that the Board of Directors' actions are in line with the applicable law, the Company's by-laws, the Regulations of the General Shareholders' Meeting and of the Board of Directors and other Company rules;
- (c) To communicate with the Spanish National Stock Market Commission (*Comisión Nacional del Mercado de Valores*), unless the Board of Directors expressly assigns this faculty to another person;
- (d) To help the Chairman of the Board of Directors with his/her functions and, in particular, support the Chairman of the Board of Directors so that all directors

effectively receive the relevant information to exercise their functions sufficiently in advance.

The Secretary shall clearly express his or hers opposition when he or she considers that a proposal submitted to the Board's approval might damage the corporate interest or could go against the interests of shareholders which are not represented in the Board.

When the Board makes material or reiterated decisions about which the Secretary has expressed serious reservations, then he or she shall draw the pertinent conclusions, and if he or she decides to resign for such causes, shall explain the reasons in the resignation letter.

#### **ARTICLE 9. LEGAL COUNSEL**

The Legal Counsel appointed by the Board of Directors shall provide legal advice on the legality of the resolutions passed by the Board of Directors, including the legality of any resolution to call the General Shareholders' Meeting and, if applicable, on the legality of the deliberations when present at a meeting of the Board.

### **Chapter V**

#### **OPERATION OF THE BOARD**

#### **ARTICLE 10. MEETINGS OF THE BOARD OF DIRECTORS**

The Board of Directors shall meet with the frequency required to properly perform its duties, in accordance with the calendar and agendas set out at the beginning of the year, and it shall meet within the first three months of each fiscal year in order to draw up the annual accounts, the management report and the proposal for the application of the earnings of the previous year, and at any time it must convene a General Shareholders' Meeting. In any case, the Board of Directors shall meet at least quarterly.

Meetings of the Board of Directors shall be called by letter, e-mail, telegram or fax sent to each one of the directors, at the address previously provided for this purpose, with at least ten days' notice before the date fixed for the meeting, and shall include the agenda of the meeting. Therefore, unless the Board of Directors is constituted or is exceptionally called for urgency reasons, the directors shall receive, sufficiently in advance, all the necessary information to be able to deliberate and adopt resolutions regarding the matters to be discussed. The Chairman of the Board of Directors, with the support of the Secretary, shall ensure that this faculty is fully complied with.

A meeting of the Board of Directors not called in advance shall be valid if all the directors are present or represented and agree to hold the meeting.

The Chairman may call Board meetings as many times as he or she considers it convenient, establishing its agenda. It will be compulsory to call a meeting if it is requested by one third of the directors. In that event, following the request to the Chairman, if the Chairman, without a reasonable cause has not called the meeting within a term of one month, the aforementioned directors representing at least one third

of the members of the Board may call it, establishing its agenda so as to hold the meeting in the municipality where the registered address of the Company is located. Without prejudice of the preceding paragraph, the Board of Directors shall meet at the Company's registered address or at such other place, either in Spain or abroad, as is designated in the call to the meeting.

The Board meeting may as well be held simultaneously in several places, connected by multi-conference systems which permit the recognition and identification of the attendees, permanent communication among the attendees regardless of their location, and participation in discussion and the casting of votes, all in real time. Attendees at any of such places shall be deemed to have attended the same meeting for all purposes relating to the Board of Directors. The meeting shall be deemed to have been held where the majority of the directors are located and, if they are located in different places in equal numbers, where the director chairing the meeting is located. The Secretary of the Board shall identify, under his responsibility, the attendees and ensure that the provisions of this paragraph are complied with.

As an exception, if no director opposes, resolutions may be passed in writing. In this case, the directors may deliver their votes and the considerations they wish to appear in the minutes using the same means mentioned above to the Chairman (or the Secretary). Resolutions adopted by this procedure shall be recorded in minutes prepared pursuant to the law.

## **ARTICLE 11. MEETING PROCEDURES**

In order for there to be quorum at a meeting of the Board of Directors, half plus one of the number of directors on the Board must be present or represented at the meeting.

Each director may confer the power to represent him to another director and there is no limit to the number of other directors that a director may represent at a Board meeting. Non-executive directors may only delegate their representation to other non-executive directors. The power to represent another director may be conferred using any written means, a telegram, e-mail or fax sent to the Chairman being valid. Each director present or duly represented shall have one vote.

Resolutions of the Board of Directors shall be adopted by an absolute majority of all directors present or represented at the meeting.

The Chairman shall organize the debate, seeking to ensure and encouraging the participation of all the directors in the deliberations of the corporate body, and shall put the matters to a vote when he or she deems them to have been sufficiently debated.

When directors or the Secretary express their concerns or opposition because they consider that a proposal submitted for the Board's approval might damage the corporate interest and such concerns are not resolved at the meeting, the person expressing them can request its recording in the minutes of the meeting.

Independent external directors and other directors which are not affected by a conflict of interest shall express their opposition to any decision which could go against the interests of the shareholders which are not represented at the Board.

## **ARTICLE 12. FORMATION OF COMMITTEES**

The Board of Directors may form any Committees or Commissions it deems convenient in order to carry out its duties, determining their composition, appointing their members and setting out the functions of each of their members. In particular, the Board of Directors shall form an Audit Committee and an Appointments and Remuneration Commission from among its members.

A) The Audit Committee

**1. Composition**

The Board of Directors shall form a permanent Audit Committee.

The Audit Committee shall be formed by five directors, appointed by the Board of Directors from among the non-executive directors. Its members shall include, at least, two independent directors, one of whom is to be appointed taking into account his/her knowledge and experience in accounting or auditing matters or both.

The Board of Directors shall likewise appoint a Chairman from among its members and a Secretary, who need not be a director, at the proposal of the Appointments and Remuneration Commission. The Chairman of the Audit Committee shall be appointed by the Board of Directors from among its independent members and shall be substituted every four years. Directors may be re-elected one year following their removal.

The members of the Audit Committee, especially its Chairman, must have knowledge and experience in accounting, auditing or risk management.

The directors who form part of the Audit Committee shall hold office while they remain in office as directors of the Company and maintain the status of external directors, unless the Board of Directors resolves otherwise.

The appointment, re-election and removal from office of the directors who form the Committee shall be governed by the resolutions of the board of directors.

The directors forming part of the Audit Committee who are re-elected as directors of the Company in a resolution adopted by the General Shareholders' Meeting shall continue to hold office on the Committee without the need to be re-elected thereto, unless the Board of Directors resolves otherwise.

**2. Functions**

The Audit Committee shall 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.
- (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 and its engagement conditions and to regularly gather from it information related to the audit plan

and its execution, as well as to preserve its independence in the exercise of its functions.

- (c) To supervise the Company's internal audit services, the risk management systems, including tax risks and, in particular: (i) to monitor the independence and efficacy in its functions of the internal audit services; (ii) to propose the selection, appointment, reappointment and removal of the head of internal audit services; (iii) to propose the budget of said services; (iv) to receive regular report-backs on their activities; (v) to review the annual work program and the yearly activities report of the internal audit services; (vi) to be informed of any incidents arising during the implementation of the internal audit services' yearly work program; (vii) to verify that senior management acts in accordance with the conclusions and recommendations contained in their reports; and (viii) to discuss any significant weaknesses detected in the internal audit system in the course of the audit with the account auditors.
- (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.
- (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 shall identify, at least:
  - (i) the different types of risk (operational, technological, financial, legal, reputational, 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 identified risk events, should they occur; 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 those 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 its review by the Committee. To this effect:
  - (i) the Company shall notify any change of auditor to the Spanish National Stock Market Commission (*Comisión Nacional del Mercado de Valores*, the) as a significant 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 shall ensure that the Company 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 auditors' independence; and
  - (iii) the Company shall 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 any other issues related to the process of conducting the account audit, together with the matters provided for in the account auditing legislation and auditing 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 related directly or indirectly thereto, together with confirmation of the additional services of any nature rendered to said companies and the corresponding 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) the Audit Committee shall investigate the issues giving rise to the resignation of any external Account Auditor; and
  - (v) the Audit Committee shall issue an annual report, prior to the issue of the audit report, expressing an opinion on the independence of the account auditors. Said report shall also always make a pronouncement on the additional services to which point (iii) above refers.
- (g) To urge the group auditor to take on the auditing of all the group's 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 shall 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 foreseen in the Law, the Company's by-laws and these Regulations and, in particular, on the following issues:
    - (i) the financial information that the Company must periodically disclose. The Committee shall 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; and
  - (iii) related-party transactions.
- (k) Any others that may be attributed to them by the by-laws, these Regulations, the Board of Directors or the law.

### **3. Rules of operation**

In the performance of its activities, the Audit Committee shall be governed by the following rules of operation:

- (a) The Audit Committee shall 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 shall likewise be adopted by a majority of the members.
- (c) The Chief Executive Officer shall 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 shall 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 shall 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 shall be taken and a copy shall 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 shall, 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 shall review the financial information that is sent on a quarterly basis to the CNMV.
- (h) The Board of Directors shall discuss the proposals and/or reports presented by the Audit Committee.

In the absence of any specific rule, the provisions of these Regulations on the operation of the Board of Directors shall 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, delegating another director as a representative, 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 Board of Directors shall seek 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 shall give a clear explanation to the shareholders on the content and extent of said reservations and qualifications.

## B) The Appointments and Remuneration Commission

### 1. **Composition**

The Board of Directors shall form a permanent Appointments and Remuneration Commission.

The Appointments and Remuneration Commission shall be formed by five directors, appointed by the Board of Directors from among the non-executive directors. At least two of its members shall be independent. The Board of Directors shall likewise appoint a Chairman from among the members, who shall in any case be independent, and a Secretary, who need not be a director, at the proposal of the Appointments and Remuneration Commission itself.

The Board of Directors shall try to ensure that the directors who form part of the Appointments and Remuneration Commission have appropriate knowledge, capacity and experience for the functions they are to perform.

The directors who form part of the Appointments and Remuneration Commission shall hold office while they remain in office as directors of the Company and maintain the status of external directors, unless the Board of Directors resolves otherwise.

The appointment, re-election and removal from office of the directors who form the Commission shall be governed by the resolutions of the Board of Directors.

Directors forming part of the Appointments and Remuneration Commission who are re-elected as directors of the Company in a resolution adopted by the General Shareholders' Meeting shall continue to hold office on the Commission without the need to be re-elected thereto, unless the Board of Directors resolves otherwise.

### 2. **Functions**

The Appointments and Remuneration Commission shall have the following functions:

- (a) To assess the skills, knowledge and experience necessary on the Board and, consequently, to define the functions and abilities necessary in the candidates who are to cover any vacancies and assess the time and effort required for them to carry out their duties well.

- (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.
- (c) To present to the Board of Directors the proposals of appointment by co-optation of independent directors or their submission to the resolution General Shareholders' Meeting, as well as the proposals for the re-election or removal of directors by the General Shareholders' Meeting.
- (d) To inform of the proposals of the appointment by co-optation of the other directors or for their submission to the General Shareholders' Meeting, as well as the re-election or removal proposals of such directors by the General Shareholders' Meeting.
- (e) To report on proposals for designating the internal positions to be held by the members of the Board of Directors.
- (f) To propose the members of each Committee to the Board of Directors.
- (g) To inform of the appointment and removal proposals of the senior managers and of the main terms and conditions of their agreements.
- (h) To examine or organize, in the manner seen fit, the succession of the Chairman and the chief executive and, if applicable, to 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 procedures are not marred by implicit biases that may entail any kind of discrimination and to inform to the Board of Directors on gender diversity issues.
- (j) To propose to the Board of Directors the directors' remuneration policy, as well as the remuneration policy applicable to the general managers and those who may perform senior management functions and report directly to the Board of Directors, executive commissions or the CEO. The individual remuneration and other hiring conditions of the executive directors shall be also proposed.
- (k) Any others that may be attributed to them by the by-laws, these Regulations, the Board of Directors or the law.

The Appointments and Remuneration Commission shall consult the Chairman and the Company's chief executive, especially in relation to issues concerning the executive directors.

Any director may request the Appointments and Remuneration Commission to consider potential candidates to cover vacancies on the Board, so that it may decide on their suitability.

### **3. Rules of operation**

In the performance of its activities, the Appointments and Remuneration Commission shall be governed by the following rules of operation:

- (a) The Appointments and Remuneration Commission shall 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 Appointments and Remuneration Commission shall likewise meet whenever the Chairman considers it necessary or when at least two members of the Commission so request.
- (b) Meetings of the Appointments and Remuneration Commission will reach a quorum when a majority of the members are present or represented. Its decisions shall likewise be adopted by a majority of the members.
- (c) The Chief Executive Officer shall provide the Appointments and Remuneration 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.
- (d) The Commission shall 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 Appointments and Remuneration Commission meetings shall be taken and a copy shall 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 Appointments and Remuneration Commission shall, 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 Commission meeting in question.

In the absence of any specific rule, the provisions of these Regulations on the operation of the Board of Directors shall be applicable to the Appointments and Remuneration Commission to the extent that they are not incompatible with the nature thereof, in particular, the rules on calling the meetings, delegating another director as a representative, 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.

## **ARTICLE 12 BIS. PERFORMANCE ASSESSMENT**

The Board of Directors shall carry out an annual assessment of its own performance and that of its committees and propose, in view of the result, an action plan that improves any shortcomings detected in accordance with the Law.

## Chapter VI

### APPOINTMENT AND RESIGNATION OF DIRECTORS

#### ARTICLE 13. APPOINTMENT OF DIRECTORS

The directors shall be appointed by the General Shareholders' Meeting or, provisionally, by the Board of Directors pursuant to the provisions contained in the Capital Companies Law and the by-laws.

In relation to the appointment by co-optation, the appointed director need not be a shareholder. If there is a vacancy once the General Shareholders' Meeting is called and before it is held, the Board of Directors may appoint a director until the next General Shareholders' Meeting is held.

No alternate directors shall be appointed.

The Board of Directors shall endeavor to ensure that, within the scope of their respective competencies, the candidates are chosen from among persons of recognized competence and experience.

The Board of Directors shall organize orientation programs for new directors to acquaint them rapidly with the Company and its corporate governance rules. Directors shall also be offered updating programs when circumstances so advise.

#### ARTICLE 14. TERM OF OFFICE

Directors shall hold office for an initial term of four years, pursuant to the provisions of the by-laws, and may be re-elected, once or more times, for successive periods of up to four years.

Directors appointed by co-option shall hold office until the date on which the first General Shareholders' Meeting after their appointment is held.

#### ARTICLE 15. RESIGNATION OF DIRECTORS

Directors shall leave office when the term for which they were appointed has elapsed or when the General Shareholders' Meeting so decides using the attributions conferred on it by law or the by-laws.

Directors must place their post at the disposal of the Board of Directors and, if the latter considers appropriate, 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 name or reputation.
- (c) When they have been charged, prosecuted, in the process of trial in an ordinary criminal proceedings or found guilty in summary criminal proceedings for any

serious crime, in particular, any of the crimes stated in article 213 of Capital Companies Law.

- (d) When they have been seriously admonished by the Audit Committee or because they have infringed their duties as directors.
- (e) When a 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 shall automatically resign when they cease to be directors.

#### **ARTICLE 16. ABSTENTION AND SECRET BALLOT**

Pursuant to the provisions of these Regulations, directors affected by proposals for appointment, re-election or removal from office shall refrain from participating in the deliberations and ballots that involve them.

All the ballots of the Board of Directors that concern the appointment, re-election or removal from office shall be secret.

### **Chapter VII**

#### **INFORMATION AVAILABLE TO DIRECTORS**

#### **ARTICLE 17. RIGHTS TO INFORMATION, INSPECTION AND ADVICE**

A director has the obligation to request and the right to obtain, with the widest powers, any appropriate and necessary information and advice that he/she may require on any aspect of the Company, provided that the performance of his functions so requires. The right to information extends to subsidiary companies, be they national or foreign, and will be channeled through the Chairman, who shall attend to the director's requests for information by providing the information directly, offering him/her the appropriate contacts or arranging any measures that may be necessary for the examination requested.

In order to be assisted in the performance of his duties, any director may request the hiring of legal, accounting, technical, financial, commercial or other expert advisors, whose services shall be paid for by the Company.

The assignment must deal with specific issues of certain significance and complexity arising during the performance of the director's duties.

The request for an expert to be hired shall be done through the Chairman or the Secretary of the Board of Directors, who may subject it to the prior approval of the Board of Directors; such approval may be denied in well-founded circumstances, including the following:

- (a) That it is not necessary for the proper performance of the duties entrusted to the directors.
- (b) That the cost thereof is not reasonable in light of the significance of the issues and the Company's assets and income.
- (c) That the technical assistance sought may be adequately provided by the Company's or its group's own experts and technical personnel.
- (d) That it may entail a risk to the confidentiality of the information that must be made available to the expert.

The Audit Committee and Appointments and Remuneration Commission may also engage external advisors, when they consider that this is necessary for the performance of its duties.

The Chairman may temporarily and exceptionally restrict access to certain information, informing the Board of Directors of this decision.

## **Chapter VIII**

### **REMUNERATION OF THE DIRECTORS**

#### **ARTICLE 18. REMUNERATION OF THE DIRECTORS**

Holding office as a director shall be remunerated pursuant to the Company by-laws and the Capital Companies Law.

External directors' remuneration shall be sufficient to compensate them for the dedication, abilities and responsibilities that the office entails, but shall not be so high as to compromise their independence.

#### **ARTICLE 18 BIS. ANNUAL REPORT ON DIRECTORS' REMUNERATION**

The Board of Directors shall prepare and publish annually a report on directors' remuneration, including the remuneration received or to be received for their condition of directors and, if applicable, for the performance of executive duties. The content and structure of the aforementioned report will be determined by the Law or regulations enacted by the relevant authority.

Such report shall include complete, clear and understandable information regarding the directors' remuneration policy applicable to the current fiscal year. It shall also include a global summary regarding the implementation of the remuneration policy during the closed fiscal year, as well as the detail of the individual remuneration accrued for any item by each of the directors in such fiscal year.

The report will be voted, on a consultative basis and as a separate point of the Agenda, by the General Shareholders' Meeting and will be published as a relevant fact by the Company simultaneously with the publication of the annual corporate governance report.



## Chapter IX

### DUTIES OF DIRECTORS

#### ARTICLE 19. GENERAL DUTIES OF A DIRECTOR

The directors shall comply with any duties set out in the Law and, in particular, with the following:

##### 19.1 Duty of care

In performing their duties, directors shall hold office and comply with the duties set out by the laws and the Company's by-laws with the diligence of a good businessman, considering the nature of the position and the functions attributed to them.

To that end, directors shall work with suitable dedication and shall adopt the necessary measures to effectively manage and control the Company.

In performing their duties, directors have the obligation to request and the right to receive from the Company the appropriate and necessary information to be able to fulfill their duties.

##### 19.2 Business judgment protection

Within the scope of the strategic and business decisions, subject to business judgment, the standard of diligence of a good businessman is considered reached when a director acts in good faith without any personal interest in the matter at hand, having enough information and in accordance with an adequate decision-making process.

Decisions affecting other directors and related persons personally and, in particular, decisions aimed at authorizing the transactions provided for in article 230 of the Capital Companies Law, will not fall within the scope of business judgment.

##### 19.3 Duty of loyalty

Directors shall exercise their duties with the loyalty of a faithful representative, acting in good faith and in the Company's best interest. Breaching the duty of loyalty shall result not only the obligation to compensate the damage caused to the Company's equity but also to return any unjust enrichment obtained by the relevant director.

In particular, the directors shall:

- (a) Refrain from exercising their faculties for purposes other than those for which they were granted.
- (b) Keep secret any information, details, reports or data to which they have had access during the performance of their duties, even when they no longer hold office, except when this is allowed or required by law.
- (c) Refrain from participating in the deliberation or voting of the resolutions in which they or any related party has a direct or indirect conflict of interest. Resolutions

or decisions that affect them in their capacity as directors, such as their appointment or removal from the Board of Directors or other similar matters, are exempt from this obligation.

- (d) Carry out their duties in accordance with the principle of personal responsibility with freedom to decide and independence from instructions or links with third parties.
- (e) Carry out any required measure to avoid situations in which their interests, whether personal or of third parties, may be in conflict with the Company's corporate interest and with their duties.

#### 19.4 Duty to avoid conflicts of interest

The duty to avoid conflicts of interest referred to in paragraph (e), obliges directors (without prejudice to the exemptions provided for in the Capital Companies Law) to refrain from:

- (a) Carrying out any transaction with the Company, unless it is an ordinary transaction, carried out in standard conditions for customers and those which are inconsequential. These include transactions which information is not necessary to reflect the true and fair image of the Company's status, its financial situation and earnings.
- (b) Using the Company's name or their capacity as directors to unlawfully influence private transactions.
- (c) Using the Company's assets, including the Company's confidential information, for private purposes.
- (d) Taking advantage of Company's business opportunities.
- (e) Gaining advantage or obtaining remuneration from third parties other than the Company and its group as a result of the performance of their position, except for courtesy gifts.
- (f) Developing activities on its own behalf or as an employee that effectively, currently or potentially compete with the Company or that, in any other way, put them in a permanent conflict of interest with the Company.
- (g) The above prohibitions also apply in the event that the beneficiary of the acts or activities is a related party to the director.
- (h) In any case, directors shall inform the other directors and the Board of Directors of any direct or indirect conflict of interest that they or related parties may have with the Company.

The situations of conflicts of interest in which any of the directors may be involved, shall be recorded in the Company's Report.

#### 19.5 Other duties

Likewise, the directors shall:

- (a) Obtain information on and properly prepare the Board of Directors' meetings and, if applicable, the Committee or Committees on which he/she sits.
- (b) Attend the meetings of the corporate bodies of which he/she forms part and actively participate in the deliberations, so that his/her criteria make an efficient contribution to the decision-making process. If, for a justified reason, he/she is unable to attend the meetings to which he/she has been called, he/she must instruct the director who, as the case may be, represents him/her, although non-executive directors shall only be able to delegate their representation to other non-executive directors.
- (c) Perform any specific task entrusted by the Board of Directors that is reasonably included in their commitment to the Company.
- (d) Refrain from performing, or suggesting that anyone performs, transactions with securities of the Company itself or subsidiaries, associated or related companies which he/she has, due to his position as a director, privileged or reserved information, until such information is made public, and complying in any event with the Company's Internal Code of Conduct on matters related to the securities market.
- (e) Leave any meeting of any corporate body of which he or she forms part when deliberations are held on questions in which, in the opinion of said corporate body or the Board of Directors, holds direct or indirect personal interests.
- (f) Communicate, as soon as possible, to the Board any circumstance that might harm the Company's name or reputation with particular mention of any criminal charges brought against them and the progress of any subsequent trial, and, as the case may be, to resign.

## **Chapter X**

### **RELATIONS OF THE BOARD**

#### **ARTICLE 20. RELATIONS WITH THE MARKETS**

The Board of Directors shall ensure prompt compliance with current rules on the notification of relevant information.

The Board of Directors shall adopt the measures required to ensure that the quarterly, six-monthly and annual information are prepared, after a prior report by the Audit Committee, pursuant to the same principles, criteria and professional practices with which the annual accounts are drawn up and is as reliable as the latter.

#### **ARTICLE 21. RELATIONS WITH THE AUDITORS**

These relations shall be conducted through the Audit Committee. The Board of Directors shall inform publicly of the global fees that the Company has paid to the audit firm, distinguishing between those relating to account auditing and those relating to

other services provided, and, in the Notes to the annual accounts, must provide a breakdown of payments to the account auditors, together with payments made to any company belonging to the same group of companies as the account auditor, or any other company to which the auditor is related due to common ownership, management or control.

## **Chapter XI**

### **FINAL PROVISIONS**

#### **ARTICLE 22. SUBMISSION TO THESE REGULATIONS**

Irrespective of the compulsory nature of these Regulations due to their approval by the Board of Directors of the Company, executing the self-regulation function attributed to it by law, the acceptance and performance of the position of director is deemed to also imply the individual voluntary acceptance of each and every one of the rules of these Regulations.

#### **ARTICLE 23. PUBLICATION OF THE REGULATIONS**

After approval hereof, the Regulations of the Board of Directors shall be available through the Company's web page.

The Regulations of the Board of Directors will be notified to the CNMV. Once such communication has been carried out, the Regulations shall be registered with the Commercial Registry, pursuant to the general rules. After registration, these Regulations of the Board of Directors will be published by the CNMV.