ZARDOYA OTIS S.A.
AND SUBSIDIARIES

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND SEMESTER OF 2020

1. Accounting policies

The accounting policies and consolidation processes applied in these interim financial statements are the same as those used when preparing the consolidated annual financial statements for the annual period ended November 30, 2019. The Group's consolidated financial statements as of November 30, 2020 have been prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Union and in force at said date. The condensed consolidated interim financial statements for the six-month period ended May 31, 2020 set out the standards that entered into force in 2019 and have been adopted by the Group.

In relation to IFRS 9 *Financial Instruments*, it addresses the classification, measurement and derecognition of financial assets and liabilities, introduces new hedge accounting rules and a new financial asset impairment model.

The Group has reviewed and validated that the new guideline has no significant impact on the classification and measurement of its financial assets for the following reasons:

- The Group does not currently hold any debt instruments classified as available for sale.
- Equity investments currently held at fair value through profit and loss will continue to be measured on the same basis under IFRS 9.
- Debt instruments currently classified as held-to-maturity and measured at amortized cost meet the requirements to be classified at amortized cost under IFRS 9.

As explained in Note 5b, the Group has estimated the expected credit loss and credit risk depending on the age of the debt and experience in previous years, in accordance with a prior segregation of the customer portfolio and considering the current economic environment, in order to calculate the provisions necessary.

Details of receivables by age are shown below. In line with the estimated credit loss, the Group had provisioned EThs 739 as of November 30, 2020 (EThs 1,817 in 2019) for debt aged less than 6 months, which represented 0.8% (1.8% in 2019) of the balance of said age bracket, in line with the credit experience with our customers.

F.Y. 2020

Thousands of euros	Total	Impaired	Net	Not matured	Matured but not impaired
Less than 6 months	86,395	(739)	85,656	66,007	19,649
Between 6 months and 1 year	13,708	(1,371)	12,337	-	12,337
Between 1 and 2 years	12,805	(4,192)	8,613	-	8,613
Over 2 years	19,739	(19,739)	-	-	-
Under litigation	44,242	(44,242)	-	-	-
Total	**176,889**	**(70,283)**	**106,606**	**66,007**	**40,599**

F.Y. 2019

Thousands of euros	Total	Impaired	Net	Not matured	Matured but not impaired
Less than 6 months	100,281	(1,817)	98,464	78,100	20,364
Between 6 months and 1 year	13,673	(1,312)	12,360	-	12,360
Between 1 and 2 years	11,803	(5,051)	6,752	-	6,752
Over 2 years	18,511	(18,511)	-	-	-
Under litigation	42,399	(42,399)	-	-	-
Total	**186,667**	**(69,090)**	**117,576**	**78,100**	**39,476**

IFRIC 23 *"Uncertainty over Income Tax Treatments"*: the Interpretation provides requirements that will be added to those of IAS 12 "Income Tax", specifying how the reflect the effects of uncertainty on accounting for income tax. Note 23 of these financial statements provides a breakdown of the provisions which shows that any impact of this Interpretation will not be significant for the financial reporting of the period commencing December 1, 2019.

IAS 28 (Amendment). *"Investments in Associates and Joint Ventures"*: this narrow-scope amendment clarifies that long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied are accounted for in accordance with the requirements of IFRS 9. "*Financial Instruments".* The amendment of this IAS has no material impact on the Group.

IAS 19 (Amendment) *"Plan Amendment, Curtailment or Settlement"*: this amendment specifies how companies should determine pension expenses when changes to a defined benefit pension plan occur. The amendment is effective on or after January 1, 2019, although there have been no changes to the Group's defined benefit plans that entail application of this standard.

The Group has applied IFRS 16 *"Leases"* retrospectively as of December 1, 2019, although it has not restated the comparative figures for the 2019 reporting period, as permitted by the specific transition rules of the Standard. The reclassifications and adjustments arising from the new lease rules were, therefore, recognized in the opening statement of financial position as of December 1, 2019.

Under the new Standard, almost all leases are recognized in the statement of financial position, since the difference between operating leases and finance leases is eliminated and an asset (the right to use the lease asset) is recognized, together with a financial liability for the lease payments. The only exceptions are short-term, low-value leases.

The Standard affects principally the accounting of the Group's operating leases. At the end of 2019, the Group held operating lease commitments of EThs 17,097 over the next five years. This change in regulations will mean that, regarding the operating lease expense currently presented by the Group as "Other net expenses", the Group will, as from the period commencing December 1, 2019, recognize the asset and the liability for future payments related to these commitments. It has been determined that this will have no significant effect on the Group's profit but, however, the related depreciation will be recognized and will affect the Group's EBITDA (operating profit plus depreciation/amortization). All the information and impacts are set out in Note 7.

In 2020, there were no value adjustments with a material effect on the items of the assets, liabilities, equity, profit and loss or cash flows presented.

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

2. Accounting estimates and judgements

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

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

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

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

In 2020, companies belonging to the CGU Zardoya Otis Group (Spain) acquired 100% of the shares in the companies N&V Servirema S.L.U. (February 25, 2020) and Puertas Automáticas Seleman, S.L (October 1, 2020). Likewise, a non-controlling interest of 5,87% was acquired in Ascensores Pertor, S.L. (November 4, 2020) and after the closing of the fiscal year, a non-controlling interest of 20% was acquired in Ascensores Eleva (December 22, 2020). All these companies are engaged in the maintenance and repair of elevators or automatic doors in Spain (see Note 8).

In 2019, companies belonging to the CGU Zardoya Otis (Spain) Group acquired 100% of the shares of the companies Otis Lliset S.L.U. (December 4, 2018) Sige Ascensores S.L. (May 27, 2019) and Elevadores Tormes S.L. (October 10, 2019). Likewise, 80% of Ascensores Eleva S.L. was acquired (June 28, 2019). All these companies are engaged in elevator maintenance and repair in Spain (see Note 8).

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

5. Financial risk management

Financial risk factors

The Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, fair value interest 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 any potential adverse effects on the Group's financial profitability.
Risk management is controlled by Group Management in accordance with policies approved by the Board of Directors of the parent company. 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.

Impacts caused by the COVID-19 virus: the situation arising from the evolution of the COVID-19 virus adds a new uncertainty to the general business uncertainties. The effects of the situation of global pandemic may have an impact of the level of the demand and customer solvency. In this respect, the Group's directors and management are constantly supervising the evolution of the situation in order to tackle any financial or non-financial impacts that may arise with sufficient guarantees of success.

Specifically, the Zardoya Otis Group has implemented an Action Plan to Mitigate the Effects of COVID-19, the main features of which are:

- Creation of a Crisis Committee with the participation of the General Management Department, Human Resources, Safety and Works, Operations, Manufacturing, Medical Services, Systems and the Communication Area, in order to monitor the situation in real time and implement response actions.
- Actions with preventive measures will be put in place to protect employees and customers, assessing the Specific Risk in the different areas (on-site workers, administrative workers and sales representatives and plant workers).
- Actions to maintain service continuity through the pertinent contingency plans.
- Actions to mitigate the supply risk related to our service, material and equipment suppliers. Possible risks will be identified, actions will be taken to mitigate them and savings will be made through the reduction of certain supplies and services.

Market risk

(i) Foreign exchange risk

The Group operates internationally and, therefore, is occasionally exposed to foreign exchange risk arising from transactions in US dollars. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. However, these transactions are not significant and the effect of a change in the interest rate would not have a material effect on the financial information as of November 30, 2020.

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

The Group holds an investment in foreign currency in Otis Maroc S.A., the net assets of which are exposed to foreign exchange risk, although their value is not significant and the effect of a change in the exchange rate would not have a material effect on the Group's financial statements.

In relation to commercial export and import transactions, the Group is exposed to exchange rate risk that is not significant. At November 30, 2020, there were outstanding balances in currencies other than the euro equivalent to EThs 1,193 (EThs 2,477 in 2019).

(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, they are not exposed to securities price risk.

b) Credit risk

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

To minimize credit risk, the Group has risk management policies in place to limit the amount of risk with any one financial institution. The credit risk arises from cash and cash equivalents, financial instruments, deposits with financial institutions, debt available for sale and receivables. The banks and financial institutions with which the Group works are of recognized prestige and have 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, 2020, said provision was EThs 70,284 (EThs 69,090 at November 30, 2019). The Group 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, to calculate the necessary provisions. In the six-month period, the Group cancelled a provision of EThs 1,981 (EThs 14,199 in 2019) with no effect on profit and loss. This amount was written off against the customer account because it related to uncollectible balances.

As of November 30, 2020, the Group held current deposits with financial institutions of EThs 11,338 (EThs 13,492 as of November 30, 2019). As stated above these deposits are placed with prestigious financial institutions in Spain and Portugal.

Additionally, as of November 30, 2020, the Group's cash and cash equivalents caption showed cash deposits held by Zardoya Otis, S.A. with Otis Treasury Center INC (OTC) for EThs 14,000. Deposits with Group companies were cash placements maturing at 30 days, which accrued an average interest rate of 0.01%, approximately 0.01 percentage points higher than the normal market rate.

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. For this purpose, group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

As of November 30, 2020, cash and cash equivalents represented EThs 57,886 (EThs 50,489 November 30, 2019), including amounts held as cash, in banks and as current deposits with financial institutions.

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

	2020 (*)	2019
Cash at beginning of period	**50,589**	**56,445**
Cash flow from operating activities	179,423	172,388
Cash flow from investing activities	(16,730)	(19,385)
Cash flow from financing activities	(155,396)	(158,859)
Cash at end of period	**57,886**	**50,589**

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 interest rate risks derived from its activity.

The Group's interest rate risk arises on non-current borrowings tied to variable indexes. The variable interest rate applied to the loans from financial institutions is subject to fluctuations in the Euribor.

As stated in Note 13, the Group did not hold any borrowings at fixed rates at November 30, 2020 and 2019.

e) Capital risk management

The Group's objectives in relation to capital management are to safeguard its capacity to maintain sustained long-term profitability; to have the capacity to fund both its internal and external growth through acquisitions; to obtain adequate yields for the shareholders and to maintain an optimal capital structure that includes equity, the generation of its own cash from the business in each year and, as far as necessary, borrowings at the lowest cost possible.

The Group considers leverage as a capital management indicator. It is calculated by dividing the net debt by the total capital. The net debt is calculated as total borrowings plus other financial liabilities less cash and cash equivalents less current financial assets.

	2020	2019
Borrowings (current and non-current)	290	795
Other current and non-current financial liabilities	7,428	16,450
Cash and cash equivalents	(57,886)	(50,589)
Net financial debt	(50,168)	(33,344)
Equity	417,810	422,934
Leverage (*)	**-0.14**	**-0.09**

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

At November 30, 2020, the net financial debt represented -0.2281 of EBITDA (-0.1597 at the end of 2019). (EBITDA = Operating profit plus amortization plus depreciation).

6. Property, plant and equipment and intangible assets

In 2020, investments of EThs 9,080 and EThs 3,751 were made in property, plant and equipment and intangible assets, respectively (EThs 5,907 and EThs 24,237 in 2019).

At the end of the period, there were purchase commitments of EThs 1,206 for property plant and equipment (EThs 858 in 2019), EThs 441 of which had been paid in advance (EThs 46 in 2019).

In 2020, impairment testing of the goodwill recognized in each CGU showed the assets to have a higher value in use than their net carrying amounts. Therefore, the financial information for 2020 does not recognize any impairment of the value of intangible assets.

7. Leases

The Group adopted IFRS 16 *"Leases"* retrospectively as of December 1, 2019, although it has not restated the comparative figures for the 2019 reporting period, as permitted under the specific transition rules of the Standard. The reclassifications and adjustments that arise from the new rules on leases are therefore recognized in the opening statement of financial position as of December 1, 2019.

Since December 1, 2019, leases have been recognized as a right-of-use asset and the related liability as of the date on which the leased asset becomes available for use by the Group. Each lease payment is allocated between the liability and the finance cost. The finance cost is taken to profit and loss over the term of the lease in such a way as to product a constant regular interest rate on the outstanding balance of the liability for each reporting period.

With the application of IFRS 16, the Group recognizes lease liabilities in relation to the leases that had previously been classified as "operating leases" under the principles of IAS 17 *"Leases"*. These liabilities are measured as the present value of the remaining lease payments discounted at the lessee's incremental borrowing rate of 2.81%.

The right-of-use assets associated with real estate leases are initially measured at the amount at which the liability is initially measured, as described in the preceding paragraph. The right-of-use asset is depreciated over the lease term on a straight-line basis.

The right-of-use assets recognized are related to the following types of assets:

	November 30 2020	December, 1 2019
Real estate	15,253	15,099
Equipment	1,528	450
Vehicles	11,734	16,723
Total right-of-use assets	**28,516**	**32,272**

At November 30, lease liabilities matured as follows:

	Less than 1 yr.	**Between 1 & 3 yrs**	**Over 3 yrs**	**Total**
Lease liabilities	629	15,970	11,916	28,516

The difference between the depreciation of the leased asset and the payments is classified as a finance cost.

The impacts of applying the rules on leases are as follows:

	November, 30 2020
Depreciation of assets (Expense)	11,393
Operating lease payments (Note 21)	(12,114)
Finance cost (Note 22)	722

The reclassifications of cost increased the EBITDA for the period by ETHs 12,114.

8. Business combinations

F.Y. 2020:

In 2020, companies belonging to the CGU Zardoya Otis Group (Spain) acquired 100% of the shares in the companies N&V Servirema S.L.U. (February 25, 2020) and Puertas Automáticas Seleman, S.L (October 1, 2020). Both these companies are engaged in the maintenance and repair of elevators or automatic doors in Spain (see Note 8).

F.Y. 2019:

In 2019, companies belonging to the CGU Zardoya Otis (Spain) Group acquired 100% of the shares of the companies Otis Lliset S.L.U. (December 4, 2018) Sige Ascensores S.L. (May 27, 2019) and Elevadores Tormes S.L. (October 10, 2019). Likewise, 80% of Ascensores Eleva S.L. was acquired (June 28, 2019). All these companies are engaged in elevator maintenance and repair in Spain (see Note 8).

9. Dividends

In 2020, the company distributed four quarterly dividends as follows:

1st dividend: 0.080 euros gross per share, charged to the 2020 period. Declared on March 20, 2020 and paid out on April 09, 2020. Shares: 470,464,311 (treasury shares: 385,869) Gross total = 37,637,144.88 euros	37,606
Dividend charged to reserves: 0.060 euros gross per share. Declared on June 16, 2020 and paid out on July 10, 2020 Shares: 470,464,311 (treasury shares: 385,869) Gross total = 28,277,858.70 euros	28,205
2nd dividend: 0.065 Euros gross per share, charged to the period 2020. Declared on September 15, 2020 and paid out on October 9, 2020. Shares: 470,464,311 (treasury shares: 385,869) Total = 30,580,180.20 euros	30,555
Dividend at end of period	96,366
3rd dividend: 0.068 euros gross per share, charged to the period 2020. Declared on December 15, 2020 and paid out on January 11, 2021. Shares: 470,464,311 (treasury shares: 2,049,865) Total = 31.991.573,15 Euros	31,852
TOTAL 2020	128,218

10. Treasury shares

The Ordinary General Shareholders' Meeting of Zardoya Otis, S.A. held on May 23, 2018 authorized the Board of Directors to acquire, directly or indirectly, treasury shares of Zardoya Otis, S.A., observing the limits and requirements set out in article 146 and related articles of the Capital Companies Law.

At its meeting of December 11, 2018, the Board of Directors agreed to acquire treasury shares so that they could be used in company acquisition transactions.

As of November 30, 2020, Zardoya Otis, S.A. held 1,420,016 treasury shares (385,869 treasury shares at the end of 2019) for a value of EThs 8,087 (EThs 2,572.at the end of 2019).

<u>F.Y. 2020:</u>
During 2020, 1,598,708 shares were acquired for a value of EThs 8,806. On November 4, 2020, a non-controlling interest of 5.87% was purchased in Ascensores Pertor, S.L in a share exchange whereby 564,561 shares, valued at EThs 2,964 with an acquisition cost of EThs 3,291, were handed over

<u>F.Y. 2019:</u>
In 2019, as a consequence of one of the acquisition transactions (Ascensores Eleva, S.L.) mentioned in Note 8, Zardoya Otis, S.A. acquired 922,794 shares for a value of EThs 6,206 and handed over in exchange, on June 28, 2019, 536,925 treasury shares valued at EThs 3,557.

11. Segment reporting

This information is included in Section 11 of the selected information of the six-monthly financial report.

12. Related-party transactions

This information is included in Section 14 of the selected information of the six-monthly financial report.

13. Borrowings

As of November 30, 2020 and 2019, the carrying amount of current borrowings from financial institutions was equal to its fair value, since the impact of discounting was not significant. Interest accrued in the period was EThs 65 (2019: EThs 104).

At November 30, 2020:

	Current	2020	2021	Noncurrent
Borrowings from financial institutions	155	-	-	-
Other	135			
EThs	290	-	-	-

At November 30, 2019:

	Current	2019	2020	Noncurrent
Borrowings from financial institutions	795	-	-	-
Other	-			
EThs	795	-	-	-

14. Welfare commitments

Post-employment commitments held with Group employees, consisting of the payment of social security benefit complements, other retirement benefits and life insurance premiums, are met through group insurance policies and are classified as defined benefit plans.

The liability recognized on the statement of financial position for the defined benefit plans is the present value of the obligation at reporting date less the fair value of the assets attached to the plan. The defined benefit obligation is calculated annually, once the salary adjustment process has concluded in October, by independent actuaries, using the projected unit credit method. The consolidated income statement in these financial statements shows an expense of EThs 2,023 (2019: EThs 1,697) for this item, presented as employee benefit expenses.

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

	2020	**2019**
Current service cost	2,387	2,012
Interest cost	408	713
Expected yield on plan assets	(433)	(741)
Settlements	(339)	(287)
Actuarial (gains)/losses	-	-
EThs	**2,023**	**1,697**

15. Deferred taxes

Deferred taxes are calculated on the temporary differences that arise between the tax bases of the assets and liabilities and their carrying amounts in the consolidated annual financial statements. In order to determine their amounts, tax rates enacted or substantially enacted at the reporting date and expected to apply when the deferred tax asset is realized or the deferred tax liability is settled are used.

	Deferred tax asset	**Deferred tax liability**
At November 30, 2018	24,197	23,672
P&L impact	(723)	(2,323)
Movement due to change in rate	-	-
Business combinations	-	3,598
November 30, 2019	23,474	24,947
P&L impact	(641)	(2,508)
Movement due to change in rate	-	-
Business combinations	-	219
November 30, 2020	22,833	22,658

16. Events after the reporting date

On December 15, 2020, Zardoya Otis, S.A. declared the third interim dividend charged to the profit for the period for a gross amount of 0.068 euros per share. The resulting amount was a total gross dividend of ETh s 31.992, which was paid out on January 11, 2021.

On December 22, 2020, a non-controlling interest of 20% in Ascensores Eleva was acquired through an exchange of securities, in which Zardoya Otis handed over 309,713 shares, valued at ETh s 1,762, in payment.

At the date of approval of this financial information, the Company holds 2,049,865 treasury shares with an acquisition value of ETh s 11,823, which will be used for the acquisition of companies during 2021.