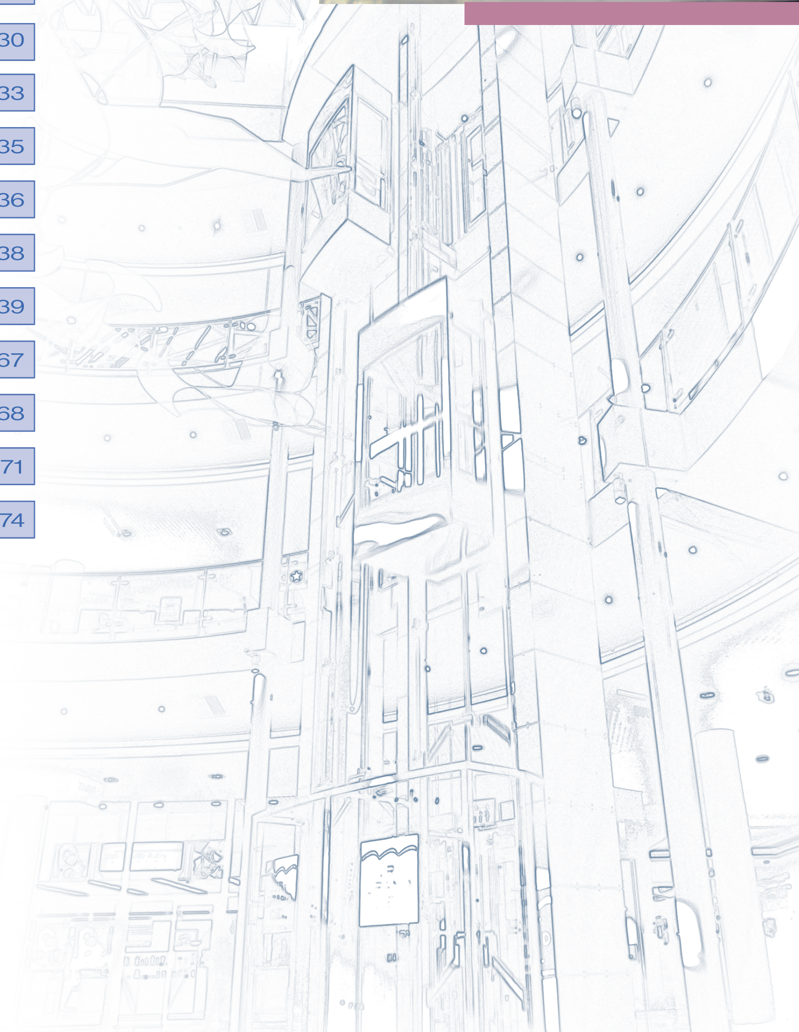
Annual Report 2003

Annual Report for the year: 1-12-2002 to 30-11-2003 presented by the Board of Directors at the General Meeting of Shareholders held on April 23, 2004 upon the first call, or April 26, 2004 upon the second call.



OTIS

F. JAVIER ZARDOYA
Presidente

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April 26, 2004

Dear Shareholders:

It is a pleasure for me to write to you for a further year, this time in order to present the Annual Report for 2003 of Zardoya Otis.

As always, I will begin this letter with a brief analysis of the most important figures for last year, the main characteristics of which were, once again, growth in business terms and high profitability for the shareholder.

You have more extensive information, with a summary of all the figures we feel may interest you, in the two charts at the beginning of this Annual Report.

As you will se, the net profit rose by 18.4% in relation to 2002, a growth rate in itself notable, which, furthermore, follows those obtained in 2002 (19.1%), 2001 (15.7%) and 2000 (13.2%).

The same percentage, 18.4%, was the adjusted growth rate attained by the net profit per share, which was 0.59 euros at the year end.

Sales grew by 5.1%, a very significant percentage after three consecutive years with annual increases of more than 10%.

In the sales analysis, the fact that new sales billing rose by only 1.7% and that new sales orders received dropped by 16.4% may draw your attention. These percentages could lead you to believe that new sales have fallen off, but they should be interpreted in the light of the fact that, in 2002, some very significant orders coincided and these were not repeated in 2003. I am referring, mainly, to the installations in the Madrid Metro and the new terminal of Barajas Airport. If we do not include these rather unusual one-off installations, new sales last year would have shown increases very similar to those of the preceding year.

Obviously, it seems logical to think that the strikingly dynamic nature of the building industry over recent years, favoured by very low interest rates and the situation of other investment alternatives, should tend to slacken off, however, until March 11, we did not see any clear signs that allowed us to estimate when this deceleration or reduction might take place.

Turning to another matter, I would like to draw your attention to the evolution of a growing market: elevator Replacements and Modernizations. This is a service segment which has shown a sharp increase over recent years, to the point where, in 2003, the orders our Company received for Replacements and Modernizations were practically the same as those for New Sales.

The Replacements and Modernizations activity, which may offset the possible drop in New Sales, should tend to increase appreciably over forthcoming years for the following reasons:

- *Units under maintenance have grown considerably in only a few years and the comparison between the current technology and the technology applied to elevators 40, 80 or more years ago means that the wish to modernize or replace these installations is increasing.*
- *In phases of economic growth, as we trust will be the case over the next few years, these wishes become an indispensable need in order to renovate old buildings in city centres, an operation may be very interesting, particularly if, as we expect, interest rates remain at acceptable levels in forthcoming years.*
- *We should not forget another positive factor: the legal change in Horizontal Property (apartment buildings) which allows the associations of condominiums to adopt decision by a simple majority, rather than unanimously, as was, until recently, legally compulsory.*

Regarding the other large service segment, Maintenance, the first aspect to be highlighted is that the milestone of 200,000 units under maintenance was surpassed during the year, with an exact total of 203,447 units under maintenance at November 30, 2003, more than 4.6% up on the preceding year. We believe that this figure will continue to grow at a favourable rate over the next few years on the basis of the orders we currently hold for New Sales, which will gradually become units under maintenance.

Apart from profits and sales, the issue that may really be of most interest to all of you is the return on the investment in our shares. In 2003, profitability was 49.1%, which is the total of the 44.6% increase in the adjusted share price plus the 4.5% obtained from dividends on a share purchased on December 31, 2002.

In the usual way, it may be interesting to see the evolution of our shares compared with that of the stock market indices since they came into existence:

- Between December 31, 1985 and December 31, 2003, the initial value of the General Index of the Madrid Stock Exchange (which was fixed at 100) was multiplied by 8.1, while the stock market capitalization of Zardoya Otis was multiplied by 42.7, i.e. 5 times more.
- Between January 1, 1990 and December 31, 2003, the value of IBEX-35 was multiplied by 2.6. In the same period, the stock market capitalization of Zardoya Otis was multiplied 9.8.

Regarding the PER, this was 28.0 at December 31, 2003, a relatively high ratio compared with the Spanish Stock Exchange average. However, this is logical if we remember that, in the 30 years that Zardoya Otis has now been present on the Stock Exchange, one of its distinguishing features in comparison with other companies has been the Company's permanent wish to create value for the shareholders through the following decisions adopted by the Board of Directors:

- In 1981, we were the pioneers in establishing a system for the payment of quarterly dividends on fixed dates, which we have maintained constantly throughout all these years, the dividends increasing irrespective of the economic cycle. We began with a pay-out of 80%, a rate that has grown appreciably over recent years.
- We have carried out 27 capital increases, 23 of which have been bonus issues, i.e. totally free of charge for the shareholder.
- We have also made three capital decreases returning contributions to the shareholder and another two in which the shares were written off against the freely available reserve.
- Lastly, we have carried out two splits. Although a split does not create value directly, it does influence the liquidity of the share and, therefore, its price.

All the foregoing has allowed Zardoya Otis' stock market capitalization to grow gradually, as you can see from the chart that appears in the Annual Report.

Regarding strategic policy, the Board of Directors reaffirms that the present policy is valid and permanent and does not plan any changes in the near future, unless there are unforessen important reasons that make this advisable. Specifically, the Board of Directors has decided to maintain the same policy of paying four quarterly dividends in 2004.

We will also submit the twenty-eighth capital increase in the Company's history for the approval of the General Meeting of Shareholders. It will be a bonus issue in the proportion of one new share for every ten outstanding old shares.

Finally, we would like to draw your attention to the documentation on Corporate Governance, which you will be finding for the first time this year. It comprises the Annual Corporate Governance Report, the Board of Directors Regulations and the General Meeting of Shareholders Regulations, which we will be submitting for approval. Furthermore, the Company's web page (www.otis.com) has been updated to include all the information required by the Law of Transparency.

It only remains for me to suggest you read our 2003 Annual Report and to express my recognition of all those who work for and with the Zardoya Otis Group for their effort and dedication.

Yours faithfully,

F. Javier Zardoya

Board of Directors

	Position	Capacity	% holding in share capital
Mr. Francisco Javier Zardoya García	Chairman	Shareholders Representative	0.206
Mr. Mario Abajo García (1)	Deputy Chairman	Executive	0.263
Mr. José María Loizaga Viguri *	Deputy Chairman	Independent	-
Mr. George Minnich (1) *	Board Member	Shareholders Representative	-
Mr. Ari Bousbib (1)	Board Member	Shareholders Representative	-
Mr. Bruno Grob (1) *	Board Member	Shareholders Representative	-
Otis Elevator Company (1) (Mr. Johan Bill)	Board Member	Shareholders Representative	-
Euro-Syns, S.A. (Mr. Jesús María Fernández-Iriondo)	Board Member	Shareholders Representative	10.622
Investment, S.A. (Mr. Francisco Javier Zardoya Arana)	Board Member	Shareholders Representative	0.251
			11.342
United Technologies Holdings, S.A. (2)			51.067
			62.409

Mr. Mario Abajo García	Managing Director
Mr. Rafael Gutiérrez Adelantado	General Manager
Mr. Alberto Fernández-Ibarburu Arocena	Secretary

(1) Represents its parent company United Technologies Corporation (UTC).

(2) United Technologies Corporation (UTC) holds 51.067% of the share capital through United Technologies Holdings, S.A.

(*) Members of the Audit Committee.

Key Data at November 30

(fiscal year end)

(Consolidated figues in millions of euros)

Annual results	2,003	2,002	2,001	2,000	1,999	% variance over prior year 03	02	01	00	99
Profit before tax	179.9	155.4	129.1	112.2	97.1	15.8	20.4	15.0	15.6	9.0
Profit after tax	116.1	98.1	82.4	71.2	62.9	18.4	19.1	15.7	13.2	10.1
Cash-Flow	127.3	112.5	104.3	90.3	80.4	13.2	7.8	15.6	12.2	7.3
Gross dividends	105.8	91.8	76.5	68.4	59.9	15.3	20.0	11.9	14.1	19.1

Shareholders' Equity	2,003	2,002	2,001	2,000	1,999	% variance over prior year 03	02	01	00	99
Capital and Reserves	91.6	81.9	76.6	80.0	87.8	11.8	6.9	(4.3)	(8.8)	(4.8)

Sales Data	2,003	2,002	2,001	2,000	1,999	% variance over prior year 03	02	01	00	99
New Installations	171.7	168.8	144.5	125.8	111.8	1.7	16.8	14.8	12.6	3.1
Service (*)	413.6	388.4	352.6	310.8	284.7	6.5	10.1	13.5	9.1	7.7
Total Exports	61.9	59.4	59.2	61.0	53.1	4.2	0.3	(2.9)	14.9	(11.5)
Exports to Portugal (**)	(10.8)	(11.0)	(13.0)	(11.4)	(9.0)	(1.7)	(15.5)	14.3	26.3	(0.2)
Net Exports (without Portugal)	51.1	48.4	46.2	49.6	44.1	5.5	4.7	(6.8)	12.5	(13.5)
Total:	636.4	605.6	543.3	486.2	440.6	5.1	11.5	11.7	10.4	4.0

(*) Service: Maintenance, Repairs, Modernizations and Replacements.

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

New Installations	2,003	2,002	2,001	2,000	1,999	% variance over prior year 03	02	01	00	99
Orders received	152.2	182.0	150.7	150.2	128.6	(16.4)	20.7	0.3	16.8	28.8
Backlog	109.9	124.6	112.8	106.5	84.2	(11.8)	10.4	5.9	26.5	25.3

Service Data	2,003	2,002	2,001	2,000	1,999	% variance over prior year 03	02	01	00	99
Units under maintenance	203,447	194,487	183,735	176,252	171,006	4.6	5.9	4.2	3.1	4.1
Maintenance centers	329	325	324	322	317	1.2	0.3	0.6	1.6	1.6

Manpower	2,003	2,002	2,001	2,000	1,999	% variance over prior year 03	02	01	00	99
Total manpower	5,045	4,974	4,780	4,731	4,752	1.4	4.1	1.0	(0.4)	2.9

Stock Market Data at December 31

(Euros)

Capital Stock	2,003	2,002	2,001	2,000	1,999
Amortized shares	-	855,321	1,346,557	-	-
Number of shares before increase share capital	178,903,882	162,639,892	148,632,013	136,344,155	123,949,232
Splits	-	-	-	-	2x1
Increase in share capital (bonus) Ratio	1x10	1x10	1x10	1x10	1x10
Number of shares at December 31	196,794,270	178,903,882	163,495,214	149,978,570	136,344,155
Nominal per share	0.10	0.10	0.10	0.10	0.42
Capital Stock (millions)	19.7	17.9	16.3	15.0	57.4

Profit per share	2,003	2,002	2,001	2,000	1,999
Profit After Tax	0.590	0.548	0.504	0.475	0.462
P.A.T. adjusted by Splits and share capital increase		0.499	0.419	0.362	0.320
P.A.T. adjusted variance	18.4%	19.1%	15.7%	13.1%	10.1%

Dividend per share (*)	2,003	2,002	2,001	2,000	1,999
Total dividend paid in the year (Millions)	101.4	87.2	74.8	66.9	56.5
Dividend per share in the year	0.567	0.536	0.504	0.492	0.456
Adjusted by share capital increase and Splits		0.443	0.380	0.340	0.287
Adjusted dividend variance	16.4%	16.5%	11.8%	18.3%	16.8%

Price per share	2,003	2,002	2,001	2,000	1,999
Price	16.50	12.55	10.42	9.35	9.77
Adjusted price by Splits and share capital increase		11.41	8.66	7.13	6.77
Adjusted price variance	44.6%	31.8%	21.5%	5.3%	(19.3%)

Annual yield of one share (%) (*)	2,003	2,002	2,001	2,000	1,999
Dividend	4.518	5.144	5.390	5.038	3.400
Increase in market value	44.622	31.793	21.488	5.271	(19.300)
Reduction of par value	0.000	0.000	0.000	0.000	0.500
Total:	49.139	36.936	26.878	10.309	(15.400)

(*) Calculated with dividends paid in the year, for a share owned on January 1st and valued at last price on December 31th.

Trading Data	2,003	2,002	2,001	2,000	1,999
Market capitalization (millions)	3,247	2,245	1,704	1,402	1,332
Trading Frequency (%)	100.0	100.0	100.0	100.0	100.0
Effective value traded	332	223	310	234	205

Stock Market ratios	2,003	2,002	2,001	2,000	1,999
PER (Price/Profit after tax)	28.0	22.9	20.7	19.7	21.2
PER variance	22.2%	10.6%	5.0%	(6.9%)	(26.7%)
Pay-out (%) (Dividend/Profit after tax)	91.1	93.6	92.9	96.0	95.2
Change in Market Value:					
Annual (%)	44.6	31.8	21.5	5.3	(19.3)
Base 100 = 31/12/1985 (IGBM start)	4,269.8	2,952.4	2,240.2	1,844.0	1,751.6
Base 100 = 1/1/1990 (IBEX 35 start)	979.9	677.5	514.1	423.2	402.0
Madrid Stock Market Index (IGBM)					
Annual (%)	27.4	(23.1)	(6.4)	(12.7)	16.2
Base 100 = 31/12/1985	808.0	634.0	824.4	880.7	1,008.6
Base 100 = 1/1/1990	272.4	213.8	278.0	296.9	340.1
IBEX 35:					
Annual (%)	28.2	(28.1)	(7.8)	(21.7)	18.3
Base 3000 = 1/1/1990	7,737.2	6,036.9	8,397.6	9,109.8	11,641.4
Base 100 = 1/1/1990	257.9	201.2	279.9	303.7	388.0

Management Report on the Zardoya Otis Group

FINANCIAL
AND STOCK
MARKET DATA

Management Report on the Zardoya Otis Group

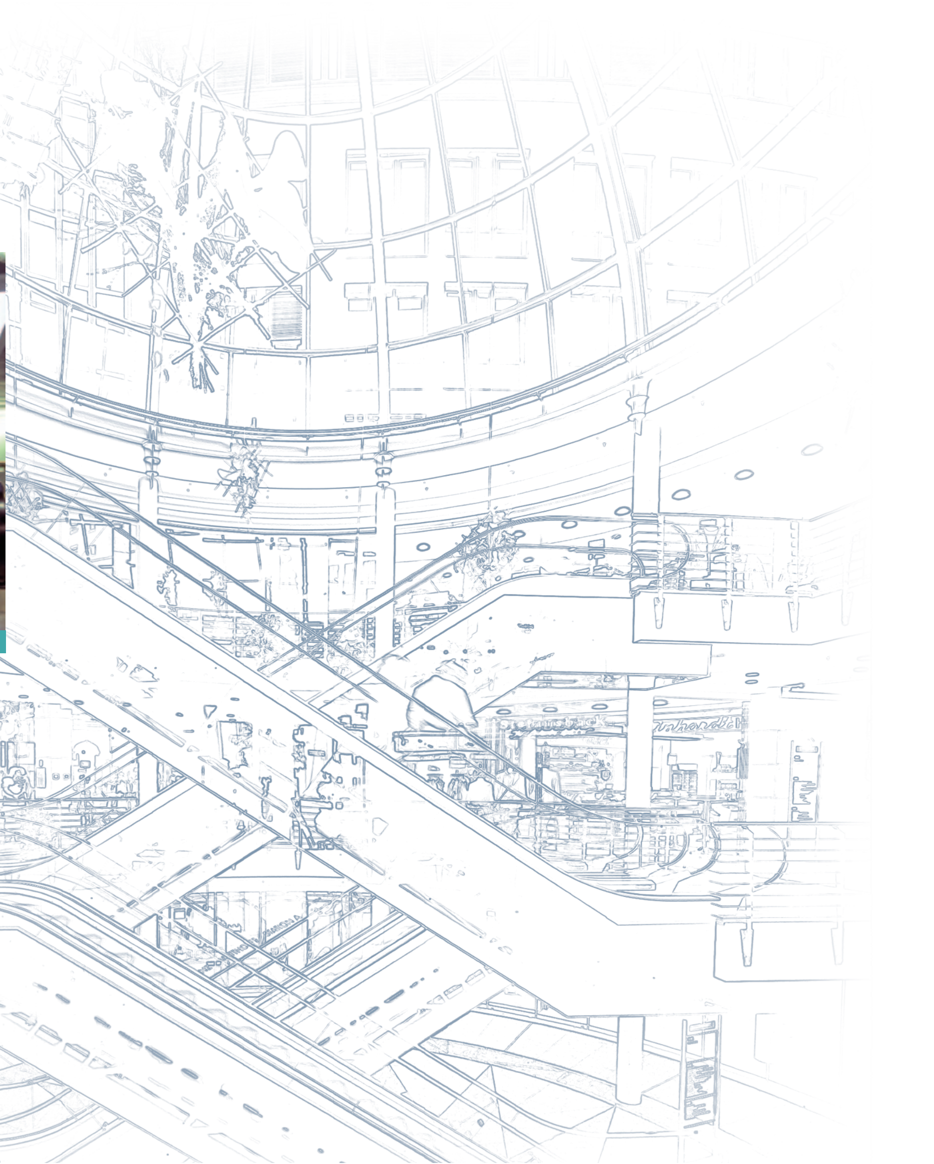
Presentation of the Annual Accounts

In accordance with the provisions of current mercantile legislation, we present the Consolidated Annual Accounts, formulated by the Directors of **Zardoya Otis, S.A.**, below.

These Consolidated Annual Accounts of the Zardoya Otis Group for the year ended November 30, 2003 were signed by the members of the Board of Directors at the meeting held in Madrid on February 26, 2004.

Likewise, both these Annual Accounts and the Management Report for the year have been reviewed and certified by the firm PricewaterhouseCoopers Auditores, S.L.

The Notes accompanying the consolidated financial statements of the **Zardoya Otis Group** include the accounting principles applied and provide, in explanatory notes, details of the most important captions, showing the movements in 2002 and 2003 in two columns.



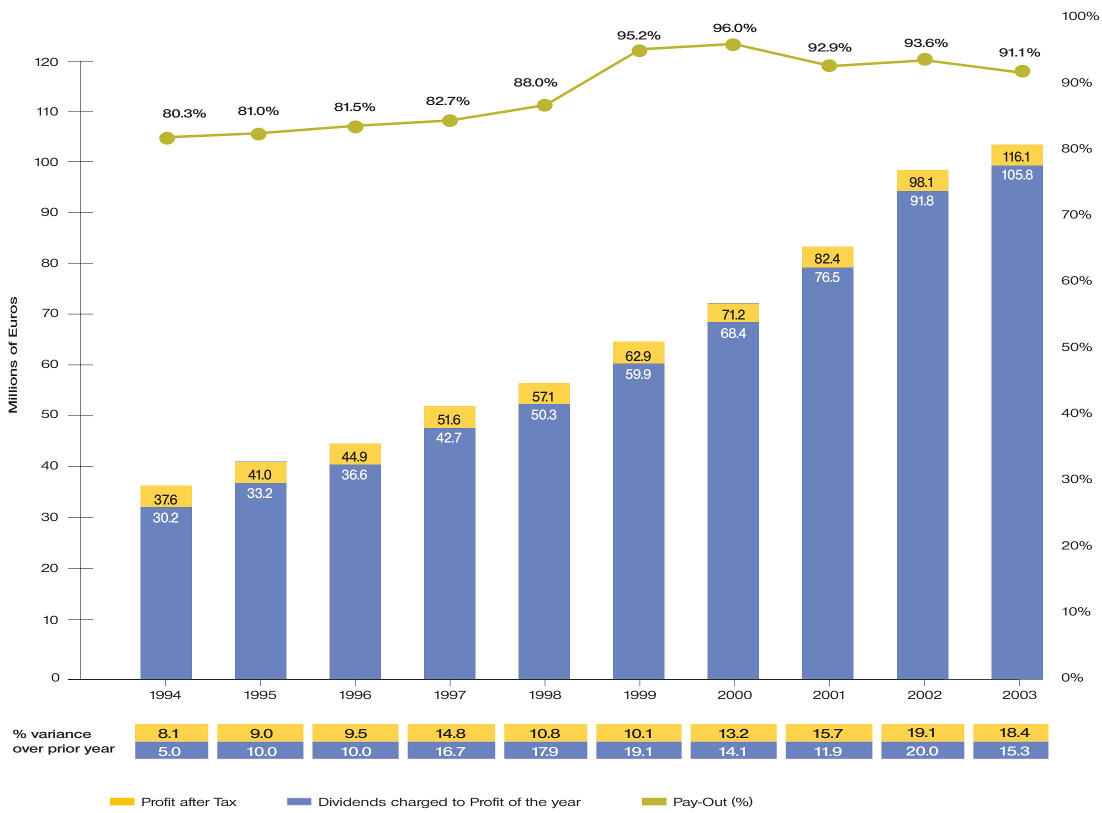
Profit and Loss

The consolidated profit before tax reached the figure of 179,9 million euros in 2003. This represented an increase of 15.8% on the 155.4 million euros of 2002. The consolidated profit after tax was 116.1 million euros, 18.4% higher than the 98.1 million euros obtained in 2002. This rate of increase, similar to that of 2002, is well in excess of the increase in consolidated sales attained in 2003, which was 5.1%. The profit per share was 0.59 euros in 2003. This figure should be compared with the profit per share of 0.499 euros in 2002, which value was reached after appyling the pertinent adjustment for the capital increase (0.548 euros/1.1 shares), representing, in short, a growth rate of 18.4%.

The consolidated cash flow increased by 13.2 in 2003, totalling 127.3 million euros. As usual in the Annual Reports of Zardoya Otis, we include a graph showing the constantly upward evolution of our net profit over the last ten years. This trend is of special significance if we take into account the different situations that have existed over this period as a result of the inevitable economic cycles.

Profit after Taxes vs. Dividends Distributed in the Year (Pay-Out %)

Millions of Euros



Sales

Total Sales

Total consolidated sales for the year 2003 were 636.4 million euros, 5.1% up on the preceding year. The behaviour of the three main areas of our business activity is analyzed below:

New Installations Sales represented 27% of total consolidated sales in 2003.

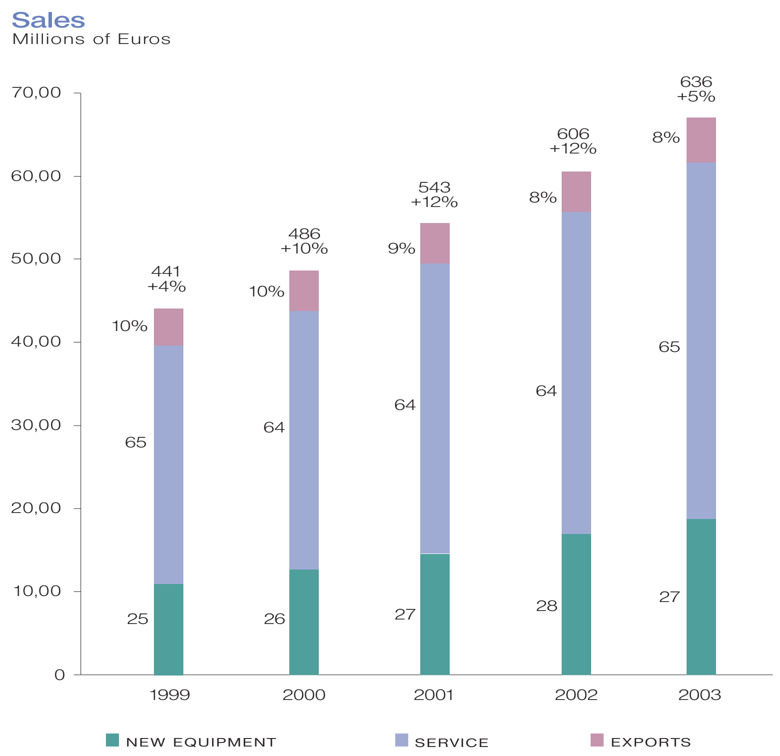
Orders received: Again in consolidated terms, the orders received for New Sales in 2003 were 152.2 million euros, 16.4% lower than those received in 2002.

This drop in 2003 was due to the fact that, in 2002, certain significant contracts were signed (Madrid Barajas Airport, Metro Sur in Madrid and Shopping Malls). The approximate amount thereof was 27 million euros. If we eliminate these, it may be seen that the annual orders received in the period 2000 to 2003 remained at similar levels.

Backlog of unfilled orders:

At the beginning of the year, the backlog of unfilled orders included the above mentioned significant contracts and, therefore, on completing these orders, the backlog of unfilled orders has fallen to a level similar to, or even higher than, that of previous years.

At November 30, 2003, the backlog of unfilled orders was 109.9 million euros, a volume equivalent to 8 months' activity in New Installations, which guarantees an important part of the activity for 2004.



New Sales

Work completed: The value of work completed in New Installations was 171.7 million euros in 2003. This represented an increase of 1.7% on the 168.8 million euros obtained in 2002. We should also highlight the fact that this increase was achieved after three consecutive years of heavy growth (including the 16.8% of 2002).

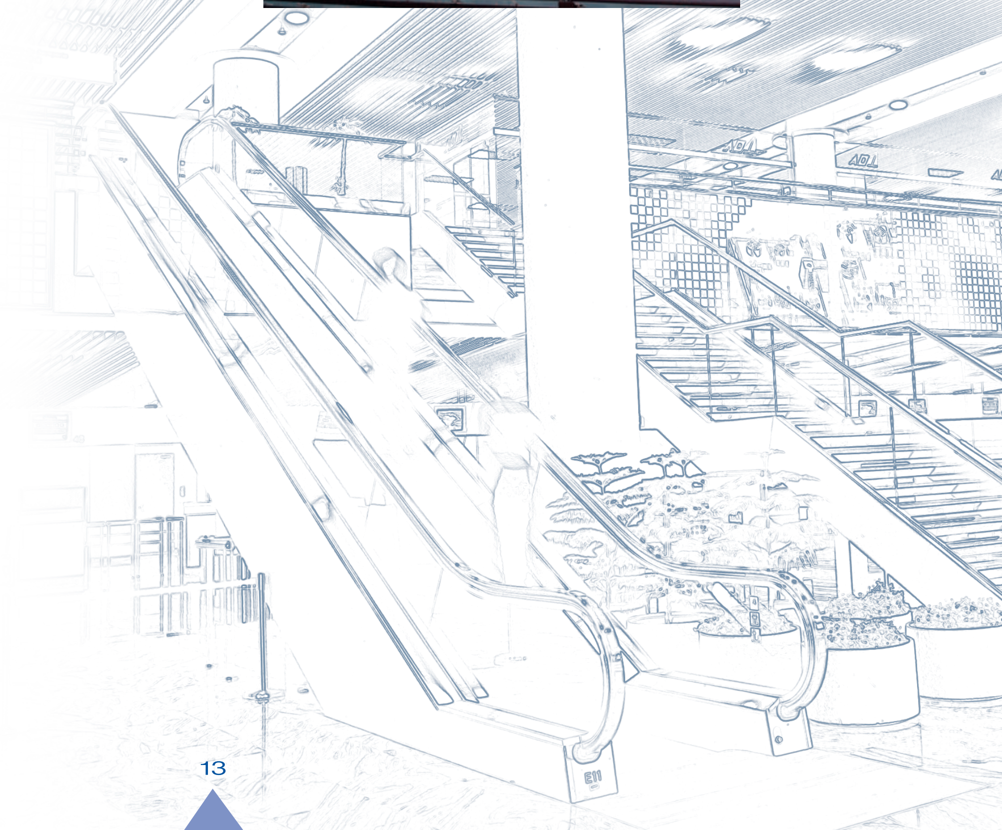
Service

Sales: Overall Service billing (which includes the activities of Maintenance, Repairs, Modernizations and Replacements) grew by 6.5% to 413.6 million euros. For a further year, the 2003 figures reflect the importance of the Service activity for Zardoya Otis, since it accounts for 65% of total Consolidated Sales.

Zardoya Otis Group Units under maintenance: At the 2003 year end, these were 203,447, i.e. 8,960 more units than in the preceding year. This is equivalent to a 4.6% increase. We should draw special attention to the fact that passing the threshold of 200,000 units under maintenance, which occurred during the third quarter of the year, is a record.

Exports

Finally, net export sales (not including sales to Portugal) were 51.1 million euros in 2003, showing growth of 5.5% on 2002. Thus, Net Exports' share in the Group's consolidated Sales was again 8%.



Dividends

The following chart summarizes the dividends distributed and paid in the year

2003	Gross per Share	Charged to	Shares entitled to dividend	Total gross dividend (euros)
Mar. 10 2003	0.135 euros	4th interim 2002	178,903,882	24,152,024.07
Jun. 10 2003	0.135 euros	1st interim 2003	178,903,882	24,152,024.07
Sept. 10 2003	0.135 euros	2nd interim 2003	196,794,270	26,567,226.45
Dec. 10 2003	0.135 euros	3rd interim 2003	196,794,270	26,567,226.45
TOTAL DIVIDENDS PAID IN THE CALENDAR YEAR 2003				**101,438,501.04**
Mar. 10 2004	0.145 euros	4th interim 2003	196,794,270	28,535,169.15
TOTAL DIVIDENDS CHARGED TO F.Y. 2003				**105,821,646.12**
				PAY-OUT 91.1%

Shares entitled to dividends

Both the fourth and last dividend charged to the profit for F.Y. 2002, paid on March 10, 2003, and the first interim dividend of the year 2003, paid on June 10, 2003, were applied to the total outstanding shares, the volume of which was, after the 1 x 10 bonus issue carried out on July 1, 2002, 178,903,882. The 17,890,388 shares from the 1 x 10 bonus issue that took place on June 16, 2003 were entitled to the second interim dividend charged to F.Y. 2003 (paid on September 10, 2003). Thus, the total number of shares entitled to dividends was established at 196,794,270.

The dividends for the third and fourth quarters charged to the 2003 profit, paid on December 10, 2003 and March 10, 2004, respectively, were paid to all the 196,794,270 outstanding shares.

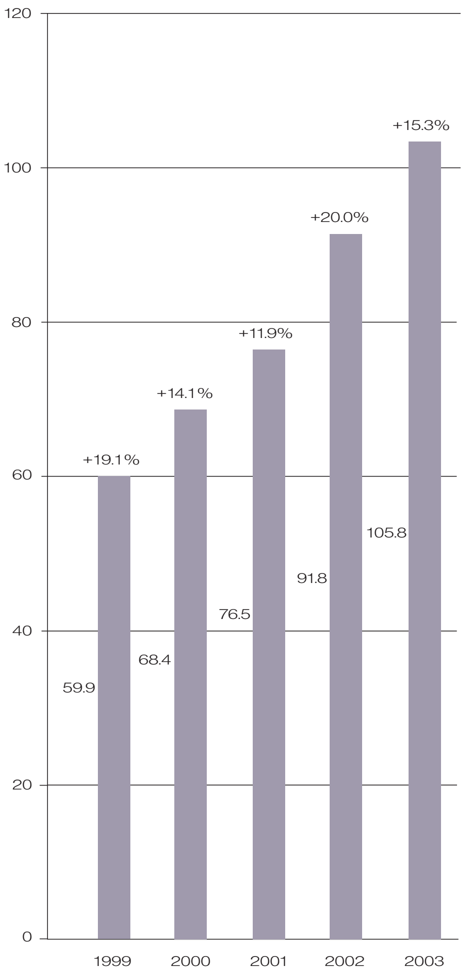
Attention should be drawn to the fact that the gross dividend per share paid on March 10, 2004 (the 4th and last dividend for the year 2003) was 0.145 euros gross per share, 7.4% higher than the 0.135 euros gross per share of each of the dividends paid during the calendar year 2003.

Total gross dividend

The overall dividends paid and charged to the 2003 profit were 105.8 million euros, compared with the 91.8 million euros of the preceding year, representing an increase of 15.3%.

Total Gross Dividend

Millions of Euros



Evolution of Capital

Capital increase

After the first quarterly dividend charged to the 2003 profit, the capital increase approved by the General Meeting of Shareholders held on April 23, 2003 took place.
The ratio was one new share for each ten old outstanding shares, by means of the issuance of 17,890,388 new bonus shares charged to the Voluntary Reserve for an amount of 1,789,038.80 euros.
The subscription period ran from June 16 to July 5, 2003, inclusive.
When the increase concluded, the share capital was 19,679,427.00 euros, represented by 196,794,270 shares with a par value of 0.10 euros each.
The new shares were entitled to the dividends paid after the date on which the capital increase had been completed and, therefore, they were entitled to the second, third and fourth dividends charged to the profit of F.Y. 2003, distributed on September 10 and December 10, 2003 and March 10, 2004.
The new shares were listed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, effective August 26, 2003.

Treasury Stock

The Board of Directors did not make use of the authorization to acquire treasury stock granted by the General Meeting of Shareholders of April 23, 2003.
At the date of the present General Meeting of Shareholders, no Zardoya Otis Group company holds treasury stock.

Stock Market

In 2003, the world stock markets brought three years of a bearish market tendency to an end. The growing evience of the recovery in the economy and in business profits facilitated the upward movement from the March minimums and allowed the main international indices to commence a climb towards the maximums for the

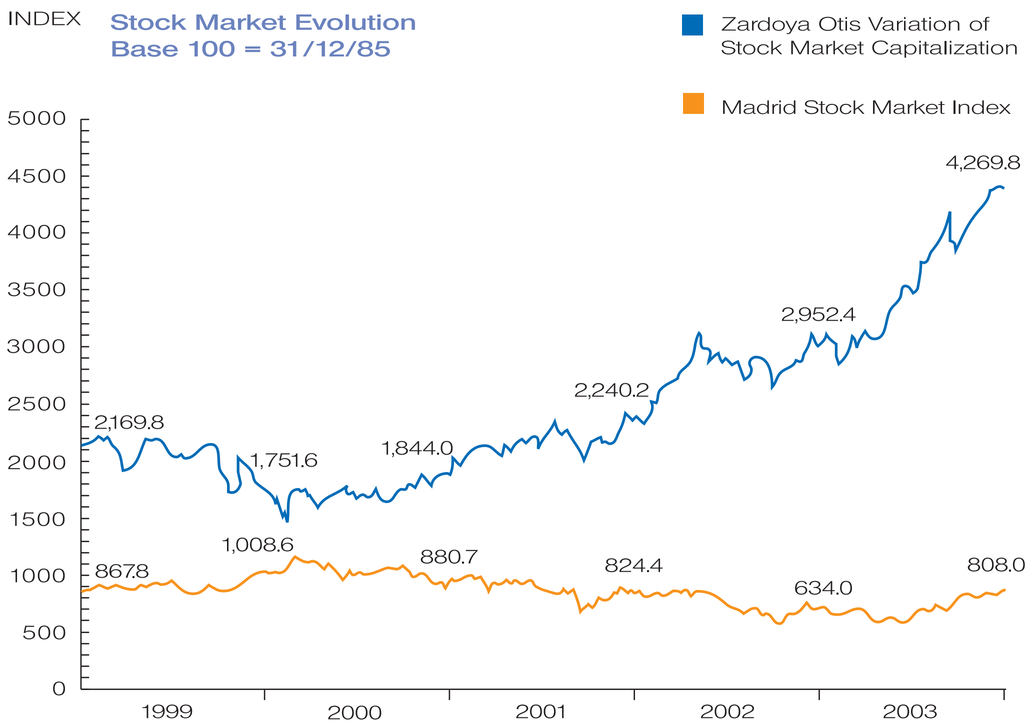
last two years. Thus, they surmounted episodes like the war in Iraq and the Asiatic pneumonia and distrust on the part of investors due to the business scandals.

At the beginning of the year, few believed that these levels would be possible, much less when, in mid-March, the umpteenth stock market collapse took place, propitiated by the increase in international tension that led to the invasion of Iraq by United States troops.

The end of the war brought a change in the stock market panorama, with a spectacular recovery in April.

From then until the end of the year, only September ended with losses. The drop in the dollar and the market's distrust of the United States deficit prevailed in the month's transactions, but October put matters back on their upward course and the hopes of a swift reactivation of the western economy was stronger than the weakness of the dollar.

A spectacular month of December, with thirteen maximums for the year (ten of which were consecutive) put the finishing touch to the stock market year.



The IBEX closed the year with an accumulated rise of 28.16 percent, the fifth highest percentage rise since 1989, when it was created. We should also highlight the fact that the Spanish market was the third among the world's large markets in terms of revaluation, only surpassed by the German and Hong Kong markets.

Evolution of Zardoya Otis, S.A.

In this context, the behaviour of the Zardoya Otis shares in the year 2003 can, once again, be described as extraordinary.

The price of the share at December 31, 2003 was 16.50 euros per share, with a revaluation of 44.6% over the 11.41 euros at which it was quoted at December 31, 2002.

The adjusted value of 11.41 euros is the result of dividing the value of 12.55 euros at December 31, 2002 by 1.1, as a consequence of the 1 x 10 bonus issue that took place in June 2003.

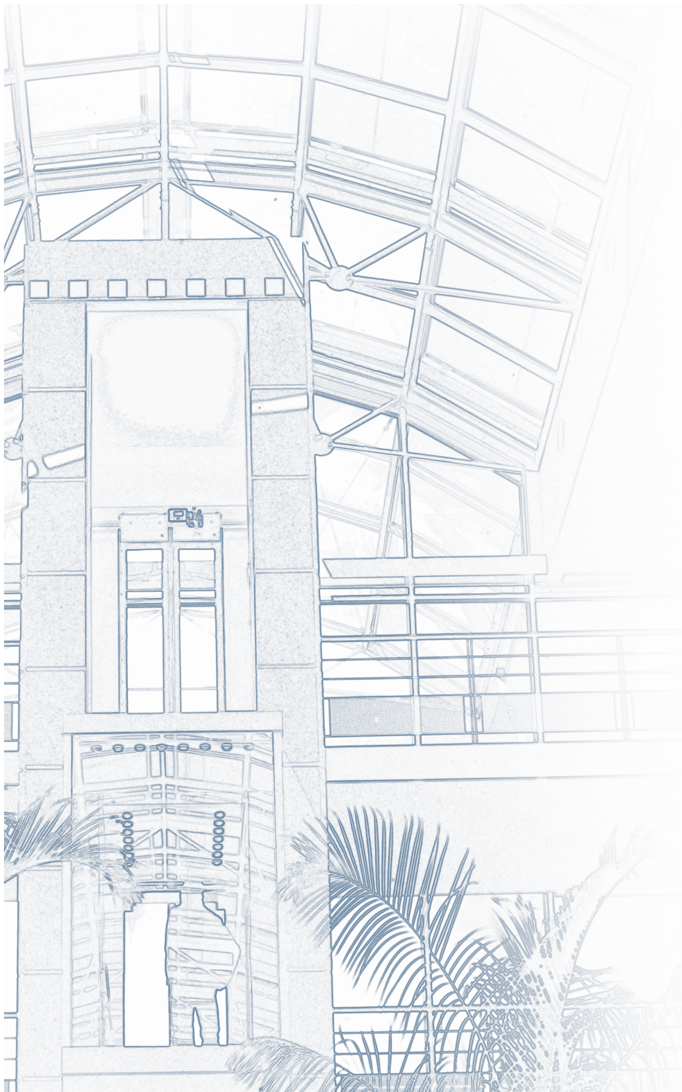
Attention should be drawn to the fact that this revaluation is added to the revaluation attained in 2002, which was significant: 31.8%. In the last three years, the adjusted share value has risen from 7.13 euros in 2000 to 16.50 euros in 2003, with a total revaluation of 131%.

At the end of last year, the PER was 28.0, 22.2% higher than the 22.9 with which it closed the previous year.

Stock market capitalization was 3,247 million euros at December 31, 2003, 44.6% higher than a year earlier.

Analyzing the evolution of the Zardoya Otis share over a longer term, it may be seen that the General Index of the Madrid Stock Exchange, which was fixed at 100 at December 31, 1985, was 808.0 at the end of the year 2003. However, over the same period, the market capitalization value of Zardoya Otis had risen from 100 to 4,270. In other words, the market capitalization of the General Index of the Madrid Stock Exchange had been multiplied by 8.1 in the last 18 years, while that of Zardoya Otis had been multiplied by 42.7, i.e. 5.3 times more.

If we make the comparison with the IBEX-35 index, which commenced with a base of 3,000 on January 1, 1990, at the 2003 year end, it had reached the value of 7,737.2, i.e. it had been multiplied by 2.6, a much lower ratio than that attained over the same 13-year period by the capitalization of Zardoya Otis, S.A., which was multiplied by 9.8.



Stock Market

To allow the evolution of our shares to be followed in detail, we include a chart with the Historical Stock Market Data since 1990, when the selective index IBEX-35 was created.

Historical Stock Market Data (euros)

Date	Capital Increase and splits	Share Price: Last Price	Share Price: Adjusted Price	Share Price: Variance %	P.E.R.	Pay-out %	Market Capitalization (Mill. Euros)
dec-90		63.71	**1.78**	5.69	13.8	78.2	350.2
dec-91	1 x 5	61.30	**2.05**	15.46	14.0	78.9	404.4
dec-92		52.23	**1.75**	(14.80)	11.0	81.7	344.6
dec-93	1 x 10	81.74	**3.01**	72.15	17.0	82.7	593.1
dec-94	1 x 10	82.28	**3.34**	10.73	17.4	80.3	656.8
dec-95	1 x 10	79.63	**3.55**	6.46	17.0	81.0	699.2
dec-96	1 x 10	90.75	**4.45**	25.36	19.5	81.5	876.5
dec-97	1 x 10	106.68	**5.76**	29.31	22.0	82.7	1133.4
dec-98	split 5 x 1 and 1 x 6	26.62	**8.38**	45.56	28.9	88.0	1649.8
dec-99	split 2 x 1 and 1 x 10	9.77	**6.77**	(19.26)	21.2	95.2	1332.1
dec-00	1 x 10	9.35	**7.13**	5.27	19.7	96.0	1402.3
dec-01	1 x 10	10.42	**8.66**	21.49	20.7	92.9	1703.6
dec-02	1 x 10	12.55	**11.41**	31.79	22.9	93.6	2245.2
dec-03	1 x 10	16.50	**16.50**	44.62	28.0	91.1	3247.1

After 3 consecutive years (2000-2002) of generalized falls in the Spanish and international stock exchanges, 2003 appeared to indicate a turning point and the beginning of an upward cycle, although the revaluation of the IBEX-35 (the 28.16 mentioned above) was greatly surpassed by Zardoya Otis.

What are the reasons for this magnificent behaviour?

The explanations that we ventured to suggest last year are still valid in 2003:

- Sustained growth in the profit per share.
- Creation of value for the shareholder.
- Anti-cyclical nature of Zardoya Otis' business.
- The market's opinion that our share is a safe haven in periods of uncertainty, but also holds its ground in a bullish market.

30 years creating value for the shareholder

In 2004, Zardoya Otis will have been listed on the Stock Exchange for 30 years. In all this time, one of the Board of Directors' main priorities has always been to create value for the shareholder, measured as total remuneration: revaluation of the share value plus dividends plus other monetary contributions.

Zardoya Otis, S.A. was one of the first companies in Spain to regularly pay four quarterly dividends (since 1981). The dividend pay-out, which was 80% at the beginning of the eighties, has been increasing gradually to the present levels of nearly 100%.

In addition to the dividend, Zardoya Otis, S.A. has reduced the par value of its shares three times -1997, 1998 and 1999-, by returning contributions to the shareholders, the present par value being 0.10 euros per share.

In 2001 and 2002, the company repurchased its own shares at a reasonable price and subsequently wrote them off, which, although it did not represent income for the shareholder, improved the profit per share.

Zardoya Otis, S.A. is the only company on the Spanish Stock Exchanges to have followed a policy of bonus issues -22 in the last 23 years-, while maintaining the same dividend for all the new shares issued and recovering the quoted price it had before the increase.

As may be seen from the Stock Market Data chart, at December 31, 2003, the total annual profitability of a share acquired at the closing price at December 31, 2002 was 49.1%.

Forecast Evolution

The repeated warning of the last two years that the building industry had reached its highest level and that the so-called “real estate bubble” would burst has, once again, been only a fear or warning and has not materialized.

Home building remained at a similar level to previous years and even increased slightly, which affected the New Installations work. As a contrast, this trend was not maintained in significant orders, which had a heavy weight in 2002.

It is a known fact that 65% of the Zardoya Otis Group’s turnover is based on Service activities and, therefore, a certain stagnation or even a decrease in home building that might materialize in 2004 would not have a significant effect on the Group’s total consolidated activity. This decrease would be offset, or even surpassed, by the increase in the Service area as a result of the inclusion of the units from the building boom of recent years in the units under maintenance.

In the light of the foregoing, when considering the forecast for 2004, we are moderately optimistic, taking into account the significant backlog of unfilled orders and the prospects for an increase in Service activity.

Technical and Commercial Information

The NextStep™ escalator, the safest in the world

For 150 years, Otis has been building a reputation based on safety, innovation, quality and reliability. All these premises are brought together in the most important launching of the year: the NextStep™ escalator, considered the safest in the world.

The main novelty of the NextStep™ escalator comes from the new design of the Guarded Step, which provides a solution to the hazard associated to the gap between the moving step riser and the side skirt of conventional escalators. The moving step riser and the side skirt are integrated into a single individual model and, therefore, move together, thus, the possibility of objects, such as clothing, shoelaces, etc., becoming trapped is significantly reduced.

Furthermore, there are twice as many grooves on the step of the NextStep™ escalator, which means that the space between grooves is reduced by 50%. At the same time, the combplates are placed further back in the step's grooves. These enhancements reduce the possibility of objects becoming trapped between the grooves or under the combplate.

Another contribution to passenger safety is the fact that the edge of the step of the NextStep™ is rounded with a radius of 4 mm., reducing the risk of cuts and scrapes if a passenger accidentally falls. In addition, two flat steps on boarding and leaving the escalator, together with the light located under the steps, make leaving the moving escalator step upon arrival more comfortable for the passenger.

Since it incorporates the flat belt technology developed by Otis for use in the Gen2 elevators, the NextStep™ escalator can use a compact machine and is operated using a grooved belt system. This flat belt technology allows NextStep™ to be 15 percent smaller than traditional escalators. This size reduction represents an important advantage by making it easy to adjust the escalator to the space assigned to it, opening up a new market for the renewal of this kind of equipment.

NextStep™ also uses a new kind of operating device to move the steps. Instead of the traditional chain of the step operated by a pinion, which requires constant lubrication, the NextStep™ employs aluminium links propelled by the toothed belt. These links use sealed and self-lubricated bearings, making the NextStep™ escalator cleaner and more respectful with the environment.

The NextStep™ escalator is the result of Otis' best knowledge all over the world, combining technological know-how, design level, speed and cost efficiency; further proof of Otis' world leadership and its commitment to providing the highest levels of safety in all its products.

Technical and Commercial Information

New capacities for the Gen2

After the revolution that resulted from the appearance of the Gen2 elevator, which replaced the traditional steel ropes by innovative flat belts and eliminated machine rooms from buildings, Otis has continued to develop this technology and expand the product range, in order to meet the needs of the greater number of costumers.

Now, the car capacity is from 8 to 21 passenger, i.e. between 630 and 1,600 kilos. Likewise, the nominal speed available has increased to 1.75 m/s.

Another new contribution has taken place in the design of the controller, which may now be used in groups of up to five elevators. The final result is a system that provides an exact, comfortable and exceptionally reliable journey.

All these novelties contribute to the flexibility and variety of the Gen2 system and make it the ideal solution for both buildings with medium or low traffic and those with high passenger traffic.

The DMS integrated into the car operating panel

Another step forward in the innovation and design has been with the Multi Purpose Device (MPD), the flat-screen multimedia device designed by Zardoya Otis that acts as a video-telephone in emergencies and also transmits contents such as music, news, advertising and messages from the building owners.

Zardoya Otis, always sensitive to its customers' needs followed the proposals and suggestions regarding the aesthetic options of this device in the elevator car, integrating it into the car operating panel and including new functions.

In the new elevator cars, the trunking with the system cables have disappeared, since the whole device leaves the plant fully integrated into the car operating panel, in the place formerly occupied by the elevator display. This saves space and represents a great step forward in the aesthetics of the car.

In addition, the MPD screen has taken over the functions of the car display, such as showing the position and direction, the opening and closing of doors and the characteristics of the model.

Zardoya Otis thus adds another technological innovation (selected by the magazine Actualidad Económica as one of the best hundred ideas for 2003) to the long list of contributions to the elevator sector made by Otis over its 150 years' history since the founder, Elisha Graves Otis, invented the first elevator with safety components and, therefore, safe for people.

Manufacturing

As explained in the 2002 Annual Report, the year 2002 was a record for the Zardoya Otis plants, reaching a really exceptional ratio of 46.2 elevators supplied each day. This intense rhythm, which benefited practically the whole product range (elevators, machines, safety components, etc.) continued until the first quarter of 2003. From that time onwards, it began to slacken off, reflecting the drop in demand. However, the annual billing showed a decrease of only 3.2% on the record year 2002. We should highlight the fact that machine room-less elevators have become the type most widely sold by Otis' European plants. In this sector, our company has two product ranges, the Gen2, with gearless machine technology, which is produced in France, and the M99, wholly developed in Spain, manufactured in this country and Italy and equipped with a geared machine produced at our San Sebastián plant.

This dual technology receives an appropriate response from the San Sebastián plant. For the Gen2, we supply the safety components (safeties and speed governors) and the machine disk brake. For the M99, we manufacture the machines and the safety components. The final result of this mix implies that, although machine production dropped by 5.4% in 2003, the growth in the other components (which, in the case of progressive safeties, was 12.2%) allowed San Sebastian's global billing to be similar to that of 2002.

Our manufacturing priorities are safety, quality and cost. In relation to the cost of the product, we should highlight the fact that this was maintained throughout last year, offsetting the increase in inflation, which was possible due to expenditure constraint and a systematic review of designs and processes, seeking a continual improvement in both of these, in an attempt to optimize costs and quality. This allowed a further improvement in the margin on the product dispatched at the plants.
The improvement in management quality has been reflected in other parameters. We highlight the fact that the Madrid plant showed an inventory turnover of 34 on an annual basis, reaching 41 in the last quarter. This consolidated the Madrid plant as the main reference (benchmark in technical terminology) for this ratio in Otis overall.
The San Sebastián and Munguía plants were also certified by AENOR under ISO 14001, related to the environment. Thus, the three centres now hold this certification, which bears out their favourable evolution in environmental management, reducing waste and energy consumption.

Excellence and total quality

The external image of Zardoya Otis, S.A.

Our company's achievements in both management style and results have extended beyond the scope of the sector and reached society in general. Members of the Zardoya Otis, S.A. management are frequently being invited to speak on the company's best practices and the management thereof at all kinds of forums, seminars and conferences and in the media.

This is because, apart from the theoretical explanation of how to do things well in order to obtain the planned results, we always seek to explain how the theory has been put into practice, with continual innovations in the Business Management and Strategy area.

A good example of the truth of the foregoing is the statistic that the Quality Department includes in each Four-monthly Report on Excellence/Total Quality in the company, where a strong upward trend in both the number of external participations and the number of people attending them may be noted.

The culmination of all the above mentioned recognition is the inclusion of a Case on Zardoya Otis, S.A. among those prepared by the *Cluster Conocimiento* organization.

The *Cluster* is a non-profit making organization the objective of which is to increase Excellence in Company Management through knowledge of business management.

The organization works closely with the universities and obtains support from the authorities.

Since 1998, *Cluster* presents 9 examples of the most advanced companies in Business Management every year, structured in the form of Master MBA cases prepared by universities in collaboration with the chosen companies.

In 2003, one of them was Zardoya Otis, S.A., in recognition of its growth, internal efficiency and results, including customer satisfaction.

The case, prepared by the Quality Department with the prestigious Deusto University, was also chosen as the best of the 9 cases for 2003 and, at the formal public presentation in Vitoria, Messrs. Abajo (CEO of Zardoya Otis, S.A.) and Macía (Quality, Product and Regulations Manager) explained the most sifnificant aspects of the company and its evolution over time, together with the innovative internal benchmarking program and Integral Management Team "Area Management towards Excellence".

Thus, Zardoya Otis, S.A. has joined the exclusive club of 53 companies chosen as examples of advanced Business Managament and its Case is currently being studied at universities and business schools.

We are convinced that the strengthening of the Company's external image will help to consolidate its leading position in the sector and its recurring profits.

Strategic Plan for Training and Development

Zardoya Otis, S.A.'s training plan is intended to facilitate attainment of the Company's Strategic Plan. At the same time, it has served to meet our customers' needs and our shareholders' expectations

and improved technical and intellectual preparation of our employees has been of service to the Company.

At Zardoya Otis, the personnel participate in solving the day-to-day problems and fixing objectives. To encourage this attitude, the strategic plan for training and development is of key importance, since it provides wide cover for the needs that arise in the organization's professional activity.

In 2003, the basic lines of this plan related to technical training, health and safety at work, sales, quality, computing, management development, communications, ethics and English, the special course on safety imparted for management staff and the training on the Code of Ethics on the Intranet being worthy of special note. A total of 333 seminars and courses were imparted, most of which were attended in person. These represented 105,808 hours, with an average of 28 hours per person per year.

In economic terms, this effort accounted for a total of 2.36 million euros (between direct and indirect costs), part of which was funded through the Tripartite Foundation (formerly Forcem).

Apart from the specific contents of this training, the focus and philosophy were clearly directed towards the development and training of the abilities of our company's people, encouraging competitiveness, innovation, initiative, adaptation to change and, in short, the company's future.

The company applies the National Continuing Education Agreement, organized by the Tripartite Foundation and promoted by Confemetal/CEOE (employers' organizations) and is included in the Company Plan with the workers' representatives.

Employee Educational Program

In the course of last year, continuing with the strategy commenced in 1997 when Zardoya Otis joined the United Technologies Corporation (UTC) Educational Program, support was again provided to the individual education and development of all the people on our payroll.

This initiative is addressed to any of the members of the organization who wish to study and ranges from university access or professional training to postgraduate studies (master, MBA, etc.) in public institutions. In addition to the financing provided by our organization, once the studies have been completed, the employee is rewarded with a variable number of UTC shares, depending on the university or postgraduate qualification obtained.

In the year 2003, a total of 41 people from the Zardoya Otis, S.A. Group took advantage of the UTC educational program, the investment being close to 120,000 euros.

Training Program for scholarship-holders

For more than 15 years, our organization has been signing framework agreements with the most prestigious public and private univerisites and cooperation agreements with public professional training institutes. The initiative is of clear social utility: it helps new generations of both university and professional training students to have the opportunity to access their first experience in the business world through a training period spent with Zardoya Otis.

In 2003, a total of 84 students underwent this training. We should also draw attention to the fact that 18% of all the participants in this training program over the last 10 years were subsequently hired.

Internal Communication

In 2003, an internal communication plan that has covered a wide variety of communications channels and media, ranging from specific collective bargaining to continuing processes, continued its development. The continuing processes include *Dialogue in Intranet*, which provides any employee with the opportunity to express his/her concerns, complaints, ideas or anxieties up to the highest level of management, with the commitment that a prompt reply will be received and a total guarantee of confidentiality.

There is also a *Suggestion Program*, through which we invite alll members of the organization to propose the improvements they see fit, those that have the most positive effect on the processes being rewarded.

Finally, we should mention the *Corrective Action Plan*, which allows any employee to propose changes in the quality processes, the ethical development programs, etc.

In addition to these plans, written documentation was published on safety, health at work and the environment (contest, posters, etc.). Likewise, there were issues on the UTC Educational Program, the Code of Ethics and Special Olympics and the quarterly issue of the internal newsletter “Boletín Informativo”, in addition to the reinforcement, from the internal communication point of view, of the web page and the Intranet.

The implementation of a new Information System, Meta 4, should be highlighted.

Headcount

Within its sustainable development policy, Corporate Social Resonsibility has played a key role in Zardoya Otis for years. In 2003, this emphasis had two outstanding aspects: collaboration with Special Olympics and support to the Nantik Lum Foundation.

Corporate Social Responsibility

Within its sustainable development policy, Corporate Social Responsibility has played a key role in Zardoya Otis for years. In 2003, this emphasis had two outstanding aspects: collaboration with Special Olympics and support to the Nantik Lum Foundation.

Special Olympics

The company and a large number of its workers continued with their close collaboration with Special Olympics last year, initiated more than a decade ago. Special Olympics was founded in the sixties by Eunice Kennedy Shriver in the belief that sport is beneficial in improving the quality of life for people with some kind of mental disability. With strong roots internationally, it reached Spain in 1990, with H.R.H. Princess Elena as the Honorary President. At present, it exists on an organized basis in all the Autonomous Regions.

The support provided to Special Olympics has 2 aspects in Zardoya Otis: economic resources (to which the company and employees contributed with a total of 29,500 euros in 2003) and time spent, generously offered by those from the organization who decide to become volunteers.

Partly as a result of these contributions, a number of sports events were possible in 2003, including the Special Olympics VIII National Athletics Championship in Valencia, the Special Olympics VII National Basketball Championship in Seville and the Special Olympics VIII National Swimming Championship in Burgos.

But the main event of the year was, without any doubt, in the Irish capital, Dublin, where the most important gathering of Special Olympics, its Olympic Games, which take place every four years, was held from June 21 to 29. In the parade, the Spanish team, formed by 107 athletes, was headed by Mario Abajo, CEO of Zardoya Otis. This showed the commitment that both Zardoya Otis in Spain and Otis Elevator Company worldwide have acquired with Special Olympics.

On this occasion the Special Olympic Games brought together more than 7,000 athletes from 160 different countries, in order to show the world their courage and commitment far beyond their limitations. Spain was represented in 12 sports and won a total of 56 medals: 13 gold, 22 silver and 21 bronze.

Zardoya Otis' relationship with Special Olympics seeks commitment on the part of the employees and also collaboration from customers. Regarding the former, apart from their economic contributions and the voluntary work undertaken by many of them, there is an Otis Team, formed by 122 people, that manages the different fund-raising events that are organized. In respect of customers, these are involved through the satisfaction surveys: each year almost 100,000 questionnaires are sent to the same number of customers in which they are asked about their degree of satisfaction with the service provided. Each questionnaire that the customers complete and return is equivalent to 1.60 euros in favour of Special Olympics.

Nantik Lum Foundation

In the same Corporate Social Responsibility field, Zardoya Otis signed a collaboration agreement with the Nantik Lum Foundation in order to carry out a project to benefit the indigenous women of the Lacandona Jungle, in the state of Chiapas (Mexico).
The basic objective sought by this project is to promote and reinforce the organization and leadership processes of the Tseltal women, by means of an integral education program that allows them to increase their participation at all levels in their communities and organizations.
Likewise, work is carried out to foment sustainable economic/productive activities to improve the family and community economies, at the same time as greater access to and control over the goods and services derived from these activities is ensured.
The collaboration agreement consists of two phases. In the first phase, Zardoya Otis donated an amount in cash to Nantik Lum for the purchase of handmade diaries produced by the Chiapas women and the creation of a fund intended to build a women's educational centre. In the second phase, Zardoya Otis distributed the diaries among its branches and employees to be sold. The money collected, plus an equal amount contributed by the company, will be used for the development of this project.

The project is planned to continue in the medium and long-term. Community participation allows the production initiatives to be sustained, to the extent that these meet the needs of the situation and offer viable alternatives. The success of the projects, from both and economic point of view and a social cultural standpoint, will not only allow them to continue, but will enable them to be implemented in other communities.

Other initiatives

There are other examples of Zardoya Otis' work in society, including:

• Collaboration with *Save the children*, the largest worldwide independent organization that defends and promotes children's rights. The personnel of Otis Morocco have also collaborated by participating in the installation of the elevators of the Hanan Centre for disabled children in Tetuán, Morocco.

• John XXIII Association, which trains children and young people with Down's Syndrome to facilitate their finding work. Zardoya Otis has subcontracted some administrative functions to this association and is participating closely in the project for the new centre.

• Annual contributions to the Red Cross and a permanent attitude of contributing to the elimination of architectonic barriers for the benefit of the physically disabled, one of the symbols of which is the installation of Braille on the control panels of the standard elevators.

Health and Safety at Work and Environment

Over recent years, Zardoya Otis has made a significant effort to implement a sound and defined culture of Health and Safety at Work and Environment in the company.

Health and Safety at Work

With regard to Health and Safety at Work, this effort is based on a complete and demanding Preventive Program, which runs from the basic training that a technician receives when he joins the company to the development and implementation of new technologies and methods that help to improve Safety at Work. The Management System established is mainly aimed to cover the Health and Safety at Work needs of technicians, customers and users, but, at the same time, it needs the help of all of these in order to reach full development. Thanks, in fact, to the technicians, Safety Committees, Technical Committees, customers and users, the accident rate has dropped to a level that is highly valued and favourably recognized in our industry.

An initiative that gains ground year by year in this area is Safety Day, which was held for the fifth time in 2003. With the slogan “Work Safe-From Compliance to Conviction”, Management wished to symbolize the need for everyone to accept a safety-oriented culture and mentality that should reach beyond more compliance with the rules.

On Safety Day, held at all Zardoya Otis’ work centres in Spain, among other general activities, prevention audits are performed on the different jobs, meritorious individual or group actions are recognized and an open day is held. Likewise, there are meetings between management and technicians in order to review the incident statistics, the preventive measures applied and the branches’ progress in their safety plans.

As a result of all the foregoing, we are increasingly closer to our “Zero accidents” objective or, in other words, ALL SAFE (all the people, in all the jobs, every day).

Environment

At Zardoya Otis, environmental policy issues are considered with the same intensity as is applied to the Quality, Production, Cost and Customer Service policies and falls within the company's Health and Safety at Work Policy.

The beginnings of our environmental strategy date back to the year 1989 and it is currently applied to the whole organization, although with special emphasis on the plants: San Sebastián (specialized in the production of machines and safety components), Madrid (engaged in the manufacture of the other components of model elevators) and Munguía, in Vizcaya (concentrating on the manufacture of standard elevators for single-family homes, special elevators, etc.).

As a consequence of the development of this policy, the three plants have obtained certification under the ISO 14001 Standard, which bears out a commitment to respect for the environment, compliance with legislation, continuing improvement in the use of natural resources and the reduction and/or elimination of waste and atmospheric pollution.

In order to obtain these certificates, the company first had to define a specific policy and program, evaluate the environmental effects of its activity, implement a management system -with operating and control procedures that ensured the success of the policy and the environmental program- and perform internal audits.

AENOR
Gestión Ambiental

Aware of the importance of this certification, Zardoya Otis continues working to obtain ISO 14001 at the rest of its facilities.

Our environmental policy has meant that certain production processes have been changed and others have been introduced, more in line with the philosophy of respect for the environment to which Zardoya Otis has committed itself.

More specifically, among the actions performed by the company over these 15 years of sustained environmental effort, the following may be highlighted:

- Reduction in water consumption.
- Elimination of organic vapour emissions.
- Reduction in solid waste that is not toxic or dangerous.
- Reduction in toxic or dangerous waste.

Auditor's Report and Consolidated Annual Accounts

ZARDOYA OTIS GROUP

AUDIT COMMITTEE

Since the Audit Committee was formed, at its first meeting of May 27, 2003, to date, it has held five meetings, at which it has deliberated and informed favourably on the following points:

1. Review of the Annual Accounts formulated by the Board of Directors for the fiscal year closed in 2003.

2. Review of the information on the periodic reports sent to the Stock Market National Commission and the Stock Exchanges.

3. Reports on the payment of quarterly interim dividends charged to the profit for the fiscal year 2003.

4. Review of the internal audit plan for 2003 and 2004.

5. Implementation of the IAS rules.

6. Review, with the external auditors, of the individual Annual Accounts and those for the consolidated group.

7. Proposals to the Board of Directors for the appointment of auditors for Zardoya Otis, S.A. and the consolidated group for the year 2004.

8. Review of the intercompany transactions with the majority shareholder group of Zardoya Otis, S.A.

9. Review of the application of the Technical Assistance Contract with Otis Elevator Company.

The minutes of the meetings of the Audit Committee are in the possession of the Secretary to the Board of Directors.

PRICEWATERHOUSECOOPERS

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A free translation of the report on the consolidated annual accounts originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish language version prevails.

To the shareholders of Zardoya Otis, S.A.

We have audited the consolidated annual accounts of Zardoya Otis, S.A. and its subsidiaries (Zardoya Otis Group) consisting of the consolidated balance sheet as at November 30, 2003, the consolidated profit and loss account and the related notes to the consolidated annual accounts for the year then ended, the preparation of which is the responsibility of the parent Company's Directors. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain which require the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

In accordance with Spanish Corporate Law, the parent Company's Directors have presented, for comparative purposes only, for each item of the consolidated balance sheet, the consolidated profit and loss account and the consolidated statement of source and application of funds, the corresponding amounts for the previous year as well as the amounts for 2003. Our opinion refers exclusively to the consolidated annual accounts for 2003. On March 4, 2003, we issued our audit report on the 2002 consolidated annual accounts, in which we expressed an unqualified opinion.

In our opinion, the accompanying consolidated annual accounts for the year 2003 present fairly, in all material respects, the consolidated financial position of Zardoya Otis, S.A. and its subsidiaries (Zardoya Otis Group) at November 30, 2003 and the consolidated results of its operations and its source and application of funds for the year then ended, and contain all the information necessary for their interpretation and comprehension in accordance with generally accepted accounting principles in Spain, applied on a basis consistent with that of the preceding year.

The accompanying consolidated Directors' Report for 2003 contains the information that the parent Company's Directors consider relevant to the Zardoya Otis Group's position, the evolution of its business and of other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the aforementioned Directors' Report coincides with that of the consolidated annual accounts for 2003. Our work as auditors is limited to checking the Director's Report within the scope already mentioned in this paragraph and it does not include a review of information other than that obtained from the group companies' accounting records.

PricewaterhouseCoopers Auditores, S.L.

Raúl Óscar Yebra Cemborain
Partner

March 4, 2004

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Consolidated Balance Sheets

At November 30, 2003 and 2002 (In thousands of euros — Eths)
(Before the application of the results obtained in the year)

ASSETS	2003		2002	
FIXED ASSETS				
FORMATION EXPENSES		6		9
INTANGIBLE ASSETS (Note 5)		16,168		17,205
Research and development costs	2,322		2,784	
Concessions and patents	7,143		6,497	
Goodwill	16,204		16,202	
Software	359		342	
Capital leases	771		71	
Amortization	(10,631)		(8,691)	
Tangible fixed assets (Note 6)		13,796		15,895
Land and buildings	9,226		9,282	
Technical installations and machinery	23,130		26,681	
Other installations, tools and furniture	17,685		17,668	
Fixed assets in progress	264		411	
Other fixed assets	18,204		18,378	
Depreciation	(54,713)		(56,525)	
INVESTMENTS (Note 7)		21,988		17,681
Investments in Group companies	651			
Other investments	907		49	
Long-term deposits and financial guarantees	372		365	
Public Treasury long-term	20,067		17,282	
Provisions	(9)		(15)	
LONG-TERM TRADE DEBTORS (Note 10)		1,487		1,826
Long-term notes receivable	1,487		1,826	
TOTAL FIXED ASSETS		53,445		52,616
GOODWILL ON CONSOLIDATION (Note 8)		4,352		5,833
Full integration method companies	4,352		5,833	
DEFERRED CHARGES		19		-
CURRENT ASSETS				
INVENTORIES		127,959		132,956
Raw materials	10,551		12,302	
Products in progress	6,720		9,837	
Costs of contracts in progress (Note 9)	110,688		110,817	
DEBTORS		211,722		203,085
Customers (Note 10)	175,123		171,040	
Sundry accounts receivable (Note 11)	16,712		14,607	
Personnel	635		577	
Public Treasury (Note 12)	43,804		39,816	
Provisions (Note 10)	(24,552)		(22,955)	
SHORT-TERM INVESTMENTS		159.364		153,906
Short-term securities portfolio (Note 13)	48,462		30,568	
Loans to affiliated companies and other (Note 13)	110.627		123,087	
Short-term deposits and financial guarantees	275		251	
CASH AND BANKS		4,757		4,167
TIMING ADJUSTMENTS		493		316
TOTAL CURRENT ASSETS		504.295		494,430
TOTAL ASSETS	Eths	562.111		552,879

LIABILITIES	2003		2002	
SHAREHOLDERS' EQUITY (Note 14)		120,145		106,098
Capital stock	19,679		17,890	
Legal Reserve	3,936		3,276	
Voluntary Reserve	28,660		34,592	
Reserve for subsidiary companies	29,036		19,884	
Profits for the year	116,120		98,114	
Interim dividends (Note 3.b)	(77,286)		(67,658)	
MINORITY INTERESTS (Note 16)		4,315		4,121
LONG-TERM CREDITORS		39,782		48,766
Debts with financial institutions	-		15	
Notes payable	48		-	
Other Long Term Debt (Note 18)	39,734		48,751	
SHORT-TERM CREDITORS				
DEBTS WITH FINANCIAL INSTITUTIONS (Note 19)		2,746		800
Loans	315		575	
Interest	2,431		225	
TRADE CREDITORS		209,439		209,641
Suppliers (Note 20)	51,399		54,646	
Notes payable	1,186		1,077	
Billings on contracts in progress (Note 9)	156,854		153,918	
OTHER NON-TRADE DEBTS		136.340		136,644
Public Treasury (Note 12)	75,646		68,603	
Other payables	34,711		43,112	
Accrued salaries and wages	25,983		24,929	
PROVISIONS FOR TRADING OPERATIONS (Note 21)		28,518		27,015
TIMING ADJUSTMENTS (Note 22)		20,826		19,794
TOTAL CURRENT LIABILITIES		397,869		393,894

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	EThs	562,111	552,879

Consolidated profit and loss accounts

For the years ended November 30, 2003 and 2002
(In thousands of euros — ETHs)

	2003		2002	
INCOME		638,725		608,346
Sales (Note 25.a)	636,376		605,614	
Work carried out by the Company for fixed assets	2,322		2,672	
Other income	27		60	
EXPENSES				
Supplies (Note 25.b)		(220,626)		(219,419)
Personnel costs (Note 26.c)		(185,120)		(180,577)
Salaries and wages	(136,623)		(131,405)	
Social security	(41,943)		(40,755)	
Welfare commitments (Note 17)	(6,554)		(8,417)	
Depreciation of fixed assets		(8,967)		(9,129)
Tangible (Note 6)	(4,207)		(4,372)	
Intangible (Note 5)	(4,760)		(4,757)	
Variation in the provision for doubtful debts		(2,072)		(4,813)
Variation in the provision for risks		(4,034)		(1,827)
Other trading expenses		(38,846)		(37,544)
External services (Note 25.d)	(38,306)		(37,072)	
Taxes	(540)		(472)	
TRADING PROFITS		179,060		155,037
Income from capital investments		3		3
In associated companies	3		3	
Income from other marketable securities		649		720
Other financial interest		4,215		5,102
Positive exchange rate differences		102		129
Financial expenses		(3,323)		(1,086)
Negative exchange rate differences		(42)		(35)
FINANCIAL PROFITS		1,604		4,833
Amortization of goodwill on consolidation (Note 8)		(1,895)		(2,778)
PROFITS FROM ORDINARY ACTIVITIES		178,769		157,092
Profit (loss) from the sale of fixed assets		3		66
Variation in provisions		(2)		118
Securities portfolio	(2)		118	
Other extraordinary profits (Note 25.f)		1,985		1,006
Other extraordinary losses (Note 25.e)		(894)		(2,914)
EXTRAORDINARY PROFITS (LOSSES)		1,092		(1,724)
PROFIT BEFORE TAX		179,861		155,368
Corporate tax (Note 23)		(62,252)		(55,993)
Minority interests (Note 16)		(1,489)		(1,261)
PROFIT AFTER TAX		116,120		98,114
NET PROFIT AVAILABLE FOR DISTRIBUTION	ETHs	116,120		98,114

Notes to the consolidated annual accounts

At November 30, 2003
(In thousands of Euros — EThs)

NOTE 1. OPERATIONS

The group is engaged in the manufacture and installation of elevators and their maintenance, and the export of equipment for installation abroad. The breakdown of sales is given in Note 25a).

NOTE 2. BASIS OF PRESENTATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

The consolidated annual accounts are based on the accounting records of Zardoya Otis, S.A. and its subsidiaries and are prepared in accordance with generally accepted accounting principles in Spain under current legislation.

The amounts contained in the consolidated annual accounts and which are comprised of the balance sheets, the profit and loss accounts and the notes are expressed in thousands of euros (EThs).

NOTE 3. PROPOSED DISTRIBUTION OF PROFITS FOR ZARDOYA OTIS, S.A.

a) The following distribution of profits is subject to approval at the Shareholders' Annual General Meeting:

Available for distribution		
Net profit available for distribution		107,397
	EThs	107,397
Distribution		
To legal reserve		394
To voluntary reserve		1,181
To dividends		105,822
	EThs	107,397

b) During 2003 Zardoya Otis, S.A., paid the following interim dividends:

1st Dividend: 0.135 Euros gross per share. Declared on May 28, 2003 and paid out on June 10, 2003.		
Shares: 178,903,882. Total: 24,152,024.07 Euros		24,152
2nd Dividend: 0.135 Euros gross per share. Declared on September 2, 2003 and paid out on September 10, 2003.		
Shares: 196,794,270. Total: 26,567,226.45 Euros		26,567
3rd Dividend: 0.135 Euros gross per share. Declared on November 11, 2003 and paid out on December 10, 2003.		
Shares: 196,794,270. Total: 26,567,226.45 Euros		26,567
Interim dividend	EThs.	77,286

The following table shows that sufficient profit was made during the following periods to distribute the interim dividends on the dates already mentioned. In addition, the interim financial statements demonstrate sufficient liquidity to distribute interim dividends on those dates.

		Interim Dividends		
		1	2	3
		April	August	October
Gross profit from December 1, 2002		52,529	100,251	128,993
Estimated corporate tax to be paid		(20,102)	(37,430)	(46,857)
Available net profit	EThs.	32,427	62,821	82,136
Total cumulative amount distributed previously		-	24,152	50,719
Maximum quantity available for distribution	EThs.	32,427	38,669	31,417
Proposed and distributed interim dividends	EThs.	24,152	26,567	26,567
Liquidity in cash and banks		1,352	436	674
Short-term financial investments		115,357	141,737	115,882
Short-term loans		(33)	(213)	-
Net liquidity	EThs.	116,676	141,960	116,556

The net liquidity available at the date of declaring each interim dividend was much higher than the gross amount of each dividend and a liquidity study was carried out on each separate occasion covering the following twelve months period, showing that the liquidity was more than sufficient on those dates.

c) Subsequently to November 30, 2003 Zardoya Otis, S.A. has paid the other quarterly dividend:

4th Dividend: 0,145 Euros gross per share. Declared on February 26, 2004 and paid out on March 10, 2004.		
Shares: 196,794,270. Total: 28,535,169.15 Euros	EThs	28,535

The total interim dividend paid out and charged to 2003 results was EThs 105,822 and the Pay-out ratio amounted to 98.53% (EThs 91,810, Pay-out ratio of 98.89% in 2002), on the Zardoya Otis, S.A. net profit and 91,1% (93,6% in 2002) on the consolidated net profit.

NOTE 4. PRINCIPAL ACCOUNTING POLICIES

a) Preparation and presentation of the consolidated financial statements.

The consolidated financial statements have been prepared applying the full integration method to the accounting records of Zardoya Otis, S.A., and its subsidiary companies (those in which it holds more than 50% of the capital stock), by incorporating in the consolidation all the balance sheet and profit and loss items in the accounting records. The costs of the investments in subsidiaries were eliminated, and goodwill at the time of the acquisition was determined. Certain reclassifications have been made in order to improve the presentation of the consolidated financial statements. The results and reserves of subsidiaries created between the date of their purchase and the year end are taken to the corresponding profit and loss and reserve accounts, and the related minority interests are accounted for. Intercompany transactions and balances are eliminated.

The differences between the acquisition value of the investments and their book value at the purchase date are accounted for as "Consolidation Goodwill", which is amortized on a straight line basis over a period of 10 years, the period estimated to recover the investment, except for the goodwill arising in the subsidiaries of Otis Elevadores Group, Lda. (Inelda-Ind Nacional Elevadores, Lda., Masel Otis Elevadores de Madeira, Lda., Raul de Oliveira Elevadores, Lda. and Savirel, Lda.), which are being amortized over a period of 5 years.

The subsidary companies which have been consolidated and the percentage participation of Zardoya Otis, S.A. are as follows:

	2003	2002
Ascensores Eguren, S.A.	100.00%	100.00%
Ascensores Ingar, S.A.	100.00%	100.00%
Elevadores del Maresme, S.A.	80.00%	80.00%
Ascensores Serra, S.A.	75.00%	75.00%
Mototracción Eléctrica Latierro, S.A.	51.00%	51.00%
Puertas Automáticas Portis, S.A.	100.00%	100.00%
Otis Elevadores, Lda. (Portugal)	100.00%	100.00%
- Inelda-Ind. Nacional Elevadores Lda.	100.00%	100.00%
- Masel Otis Elevadores de Madeira, Lda	60.00%	60.00%
- Raul de Oliveira Elevadores, Lda.	100.00%	100.00%
- Savirel, Lda	100.00%	-
Ascensores Pertor, S.L.	94.13%	94.13%
Serveis de l'Ascensor, Manteniment, Reparació, Instalació i Reformes, S.L.	97.62%	97.62%
Conservación de Aparatos Elevadores Express, S.L.	100.00%	100.00%
Admotion, S.L.	75.00%	75.00%

All companies have been consolidated under the full consolidation method. The main business activity carried out by the companies of the corporate group consists of the manufacture and installation of lifts and the provision of related maintenance services (see Note 1), except for Mototracción Eléctrica Latierro, S.A. (lift engine manufacturer), Puertas Automáticas Portis, S.A. (sale, installation, repair and maintenance of automatic doors) and Admotion, S.L. (development, research and manufacture of electronic equipments).

b) Share capital increase expenses

Expenses incurred as a result of increases in share capital are regarded as expenses of the financial year.

c) Intangible assets

The items which make up the intangible assets are valued at their acquisition cost or the cost of production.

The following principles, in particular, are applied:

- Concessions and patents

The amounts correspond to the acquisition cost of elevator maintenance contract portfolios. Their amortization is carried out systematically over a period of five to ten years except when the figures are insignificant, in which case they are charged directly to the profit and loss account for the year.

- Research and development costs

They are regarded as expenses of the year in which they are incurred and are capitalised and fully amortized at the year end and then written-off in their entirety in the following year.

- Goodwill

Goodwill reflects the difference between the book value and the value of capital and reserves of these companies at the date of their incorporation in the Group. Goodwill is amortised on a straight-line basis over 10 years.

- Capital leases

Capital leases are included as intangible assets when, according to contract terms, assets can be capitalized and depreciated along their useful life. Financial costs are considered as expenses and calculated with financial criteria and the length of the lease agreement.

d) Tangible fixed assets

Assets included in the tangible fixed assets are valued at their acquisition cost plus revaluations made in accordance with the applicable legislation.

The value of the tangible fixed assets at November 30, 2003 includes the effect of the revaluation carried out under Royal Decree Law 7/1996 of June 7. The aforementioned revaluation was carried out only in the parent company, Zardoya Otis, S.A.

Renewal, enlargement or improvement costs of the fixed assets are included in the assets as a higher value of the item, only when it involves an increase in their capacity, productivity or prolonged useful life, and only if it is possible to estimate the accounting net value of the items which have been deleted from the fixed assets due to them having been replaced.

Depreciation of the fixed assets is calculated systematically applying the straight-line method to the useful life of the respective items.

e) Investments

Long-term as well as short-term security investments, with fixed or variable interest are valued at their acquisition price at the time of subscription or purchase. If an amount of goodwill arises from the transaction, it is accounted for according to Notes 4.a) and 4.c).

For securities which are officially quoted on the Stock Market, when the value of the securities based on the lower of the average quotation for the last quarter of the year and the market value at the year end is less than the acquisition cost, the necessary provisions for the depreciation suffered are made.

Similarly, those securities which are not quoted are valued at their acquisition cost, decreasing those values as appropriate by the provisions which are thought to be necessary for any devaluation suffered.

For presentation purposes, group companies are considered to be those which are more than 50% owned by the parent company, and associated companies are those where more than 20% of the company's capital is held by the parent company if they are not officially quoted on the Stock Exchange, or more than 3% if they are.

f) **Non-commercial loans and debts**

Loans are shown based on the amount utilised.

g) **Inventories**

Inventories are valued at the lower of market value or average cost of acquisition or production, which includes costs directly and indirectly attributable to the products in question as appropriate to their period of production.

h) **Contracts in progress**

Contracts in progress are valued at the cost incurred, plus the expected profit margin, based on the stage of advancement of the contract, in proportion to the difference between the total estimated cost and the contract price.

i) **Billings on contracts in progress**

These correspond to billings issued to customers, in accordance with conditions of the contract, before the work has actually been finished.

j) **Welfare commitments**

The welfare commitments acquired with retired employees and employees on the payroll, which in all cases are complementary to those granted by the Social Security, are established in accordance with actuarial criteria and represent the current value of future payment commitments assumed by the Company in relation to the payment of supplements, other retirement benefits and life insurance premiums, in accordance with the benefits agreed to by the entity.

At November 30, 2003, the actuarial calculations were made on the basis of actuarial financial hypotheses which include an annual discount rate of 4.0% (4.0% in 2002), mortality tables PER 2000 (PER 2000 in 2002) and tables of growth in income in keeping with the habitual practice of the environment. Likewise, in 2003 the actuarial calculations have considered an estimated retirement age of 62 years which coincides with the age also estimated in 2002.

The effect of the updating of the actuarial calculations which do not entail a change in the basic hypotheses or when they have no significant effect, is recorded in its entirety in the profit and loss accounts of the relevant years.

Deficits accumulated as a result of changes in the actuarial hypotheses and the transitional provision which the company availed itself of at November 30, 1990, and which at November 30, 2003 amount to EThs 7,500 are written off systematically over a maximum period of 10 and 15 years, respectively, (see note 17), which, in any event, is less than the period established for the expiry of the financing period for the externalisation of commitments mentioned in the following paragraphs.

In accordance with Royal Decree 1588/1999, whereby the Regulations on Pension Commitments between companies and employees were enacted and which lays down that pension commitments assumed by companies must be externalised and arranged through a group life insurance policy or pension plan, and in accordance with the modification introduced by Law 14/2000 concerning the transitional period for the formalisation or adaptation thereof, on November 7, 2002 and November 14, 2002, respectively, the Company signed, with both insurance companies, the framework agreements regulating the technical, economic and legal conditions of the group insurance policies in order to arrange the pension commitments assumed by the company with its employees and retired employees.

These framework agreements establish single premiums which are paid up annually until January 2012, the amounts of which,at nominal value and to be paid in relation to past services on the contracting date, is EThs 51,300 (EThs 73,559 at November 2002).

The financial expenses derived from financing the single premium in ten years, EThs 10,973, are recorded in the profit and loss account in accordance with the sum-of-the digits method, as from the contracting date and until the expiry and payment of the obligations arising from the contracts relating to the externalisation of the commitments.

The principal that will be externalised in the year finishing on November 30, 2004 and which amounts to EThs 9,373 (EThs 13,455 at November 2002) is included in current liabilities under the heading "Other debts". The difference between the amount previously maintained as the provision for welfare commitments and said amount is included in the current year under Long-term creditors.

The differences arising between welfare commitments calculated in accordance with the hypotheses described above and the amount of the contributions to be made to the external funds, which mainly derive from differences between the technical rate of interest used for the actuarial calculation of the commitments and the profitability guaranteed by the insurance companies on the basis of the underlying financial instruments, will be recognised in a maximum period of 10 years which is the financial externalisation period. Likewise, the invoice received by the Company for the normal cost each year will be recorded as a current cost in the relevant year as well as any possible variations in the cost of the externalised services for non-insurable items such as possible variations in the actuarial salary increase with respect to the forecasted.

k) Extra month's pay and vacation pay

The accrued liabilities arising from the extra month's pay and vacation pay are fully provided for.

l) Debtors and creditors for trading operations

Long-term as well as short-term debtors and creditors for the Company's trading operations are registered at their nominal value.

m) Corporate tax

The expense for corporate income tax is calculated on the basis of the profit before tax obtained, adjusted for permanent differences in accordance with tax criteria and taking into consideration the applicable tax credits and deductions. The tax effect of the temporary timing differences is included as part of the deferred tax assets or liabilities in the balance sheet. Deferred tax assets are only recognised under assets insofar as their future realisation is reasonably assured within a maximum of ten years.

n) Exchange rate differences

The following procedures are followed for foreign currency operations and their associated balances:

1. Fixed assets

Conversion to local currency is done by applying the exchange rate current at the date the goods are incorporated into the Company's accounting records.

2. Inventories

The acquisition price or the cost of production is converted into local currency by applying the exchange rate current at the time each item is acquired, except when forward contracts are taken out and then the rate in the contract is applied.

3. Creditors and debtors

The conversion of debits and credits in foreign currency into local currency is done by applying the exchange rate curent at the moment of each operation. At the year end they are valued at an internal exchange rate which does not differ significantly from the official exchange rates then applicable.

Unrealized positive exchange rate differences are not included in the results for the year, as a general rule, but are included in the balance sheet as income to be distributed over several years. On the other hand, the unrealized negative exchange differences are charged directly to expense of the year.

Foreign currencies are deemed to be all those other than the Euro.

o) Income recognition

Income from elevator installation contracts is recognized based on their 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.

Income from maintenance contracts is apportioned on a straight-line basis as it accrues. 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 recognise advance invoicing.

p) Environment

Expenses resulting from company actions aimed to improve or protect environment are accounted for as expenses of the year.

When said expenses include acquisition of fixed assets, used to minimise environmental effects or to improve or protect environment are considered higher value of the fixed assets.

NOTE 5. INTANGIBLE ASSETS

The amounts and variations experienced by the items which make up the intangible assets are the following:

	2001	Increases	Decreases	(*) Other	2002	Increases	Decreases	(**) Other	2003
Research and development costs	2,464	2,672	(2,352)	-	2,784	2,322	(2,784)	-	2,322
Concessions and patents	5,301	1,194	-	2	6,497	1,095	-	(449)	7,143
Goodwill	12,635	2,227	-	1.340	16,202	-	-	2	16,204
Assets acquired through leasing contracts	85	-	-	(14)	71	738	(17)	(21)	771
Software	345	-	(3)	-	342	19	(2)	-	359
	20,830	6,093	(2.355)	1,328	25,896	4,174	(2,803)	(468)	26,799
Research and development costs	2,352	2,784	(2,352)	-	2,784	2,322	(2,784)	-	2,322
Concessions and patents	2,979	492	-	-	3,471	710	-	2	4,183
Goodwill	344	1,400	-	422	2,166	1,618	-	1	3,785
Assets acquired through leasing contracts	75	3	-	(12)	66	37	(15)	(21)	67
Software	135	73	(3)	(1)	204	73	(2)	(1)	274
Accumulated amortization	5,885	4,752	(2.355)	409	8,691	4,760	(2,801)	(19)	10,631
EThs.	14,945				17,205				16,168

(*) The item "Other" mainly includes the net effect of the assignment of assets and liabilities from Inmobiliaria ZIE, S.A., Hermanos Gonzalo, S.L. and Ascensores Artzai, S.A., following its merger with Zardoya Otis, S.A.

(**) The item "Other" mainly includes the reclassification of payments on account corresponding to the acquisition by Otis Elevadores, Lda. of Savirel, Lda. and Elevaçores, Lda. for EThs 149 and 300 respectively

The amount paid in relation to assets being acquired under financial leases in 2003 amounts to EThs 365 (EThs 5 at November 30, 2002).

At November 30, 2003, the Company's Goodwill (see notes 4.a) and 4.c)) is as follows:

	Cost	Amortization	Net
Elevamar, S.L.	1,467	(379)	1,088
Ideal Boid, S.L.	9,331	(1,944)	7,387
Intedel, S.L.	1,837	(535)	1,302
Hermanos Gonzalo, S.L.	773	(386)	387
Ascensores Artzai, S.A.	568	(226)	342
Lorenzo Girón, S.L.	988	(140)	848
Molpla, S.A.	1,240	(175)	1,065
EThs	16,204	(3,785)	12,419

NOTE 6. TANGIBLE FIXED ASSETS

The amounts and variations in tangible fixed assets of the consolidated group and the related accumulated depreciation were as follows:

Thousand euros

	2001	Increases	Decreases	Other	2002	Increases	Decreases	Other	2003
Land and buildings	9,354	15	(29)	(58)	9,282	1	(57)	-	9,226
Technical installations and machinery	25,515	1,166	-	-	26,681	251	(3,802)	-	23,130
Other installations, tools and furniture	16,586	1,123	(49)	8	17,668	1,180	(1,157)	(6)	17,685
Assets in progress	912	1,207	(1,708)	-	411	457	(604)	-	264
Other assets	19,524	1,310	(2,495)	39	18,378	1,021	(1,288)	93	18,204
Restated cost	71,891	4,821	(4,281)	(11)	72,420	2,910	(6,908)	87	68,509

	2001	Increases	Decreases	Other	2002	Increases	Decreases	Other	2003
Land and buildings	5,793	233	(8)	(57)	5,961	233	(8)	-	6,186
Technical installations and machinery	20,061	1,171	-	-	21,232	1,241	(3,705)	-	18,768
Other installations, tools and furniture	13,046	1,142	(45)	-	14,143	1,171	(1,156)	19	14,177
Other assets	15,724	1,826	(2,384)	23	15,189	1,562	(1,213)	44	15,582
Accumulated depreciation	54,624	4,372	(2,437)	(34)	56,525	4,207	(6,082)	63	54,713
Net tangible fixed assets	17,267				15,895				13,796

Under the heading "Other" in 2003 it is represented mainly the incorporation of assets corresponding to Savirel, Lda. to the Otis Elevadores Group in Portugal.

Zardoya Otis, S.A. revalued its balance sheet at November 30, 1996 under Royal Decree Law 7/1996 of June 7, 1996, applying the criteria mentioned in Note 4.d). This revaluation gave rise to a net increase of EThs 4,056 in the value of the Company's tangible fixed assets.

In accordance with the provisions of Royal Decree Law 7/1996, the total amount of the revaluation was included in the accounts as an increase in the value of the revalued assets, the balancing entry, net of the tax thereon, of EThs 3,934 appears in the revaluation reserve.

At November 30, 2003 the effect of the aforementioned revaluation on the net book value of tangible fixed amounts to EThs 1,062 (EThs 1,185 at November 30, 2002). As a result, the effect of this revaluation on the annual depreciation charge for the year 2003 is EThs 134.

The average estimated useful lives used for calculating the depreciation of the various asset groups is as follows:

	Useful life in years
Buildings and other facilities	50 and 33
Machinery, installations and tools	8, 10, 13 and 4
Transport equipment	5 and 6
Furniture and fittings	10
Data processing equipment	4
Other fixed asset items	13

At November 30, 2003 and 2002 the following elements of fixed assets were still in use and have been totally amortized:

	2003	2002
Land and buildings	**2,645**	2,645
Technical installations and machinery	**13,107**	16,359
Other installations, tools and furniture	**10,926**	10,704
Other assets	**11,957**	11,247
EThs.	**38,635**	40,955

At November 30, 2003 Zardoya Otis, S.A. and its subsidiaries had firm commitments to purchase fixed assets amounting to EThs 467 (EThs 1,184 at November 30, 2002) which will presumably be acquired through self financing and, if appropriate, under financial leases.

It is the Company's policy to take out all the insurance policies thought necessary to cover the possible risks which could affect, among other things, tangible fixed assets.

NOTE 7. INVESTMENTS

The amount and variations experienced during the financial years in the investment items of the consolidated group are shown below:

	2001	Increases	Decreases	Other	2002	Increases	Decreases	Other	2003
Investments in Group companies	-	-	-	-	-	651	-	-	651
Other investments	49	-	-		49	873	-	(15)	907
Deposits and financial guarantees	334	30	-	1	365	21	(14)	-	372
Public Treasury long-term	16,166	1,101	-	15	17,282	2,776	-	9	20,067
EThs.	16,549	1,131	-	16	17,696	4,321	(14)	(6)	21,997
Provision	(11)	(4)	-		(15)	(2)	-	8	(9)
Net EThs.	16,538	1,127	-	16	17,681	4,319	(14)	2	21,988

Under the heading "Investments in Group Companies" the additions in 2003 represents the value of Valenciana de Ascensores, S.L. excluded from the consolidation and in the process of liquidation.

The amount recorded under Public Treasury long-term relates to the portion of deferred tax assets the recovery period of which exceeds one year (Note 23).

The companies included in the consolidation scope at November 30, 2002 and 2003 are as follows:

				November 30, 2002		
Company	Location	Percentage of participation	Book value of the participation (*)	Capital	Reserves	Net results of the year
Ascensores Eguren, S.A.	Bilbao	100.00	3,374	1,457	1,705	212
Ascensores Ingar, S.A.	Granada	100.00	477	600	(39)	(86)
Elevadores del Maresme, S.A.	Barcelona	80.00	165	60	580	690
Ascensores Serra, S.A.	Gerona	75.00	605	240	1,158	1,504
Mototracción Eléctrica Latierro, S.A.	Vitoria	51.00	493	313	1,898	986
Otis Elevadores, Lda.	Portugal	100.00	11,742	2,110	19.270	11,280
Ascensores Pertor, S.L.	Valencia	90.00	13,719	51	11.903	(86)
Serveis de L'Ascensor, Manteniment, Reparació, Instalació i Reformes, S.L.	Barcelona	97.62	8,315	9,948	2.014	920
Puertas Automáticas Portis, S.A.	Madrid	100.00	46	60	(99)	86
Conservación de Aparatos Elevadores Express, S.L.	Madrid	100.00	1,771	1,771	2.026	1,123
Admotion, S.L.	Zaragoza	75.00	529	184	723	(204)

(*) Amount net of provisions.

					November 30, 2003	
Company	Location	Percentage of participation	Book value of the participation (*)	Capital	Reserves	Net Results of the year
Ascensores Eguren, S.A.	Bilbao	100.00	3,307	1,457	1,917	(66)
Ascensores Ingar, S.A.	Granada	100.00	379	601	(124)	(98)
Elevadores del Maresme, S.A.	Barcelona	80.00	165	60	580	678
Ascensores Serra, S.A.	Gerona	75.00	605	240	1,158	1,646
Mototracción Eléctrica Latierro, S.A.	Vitoria	51.00	493	313	1,898	1,074
Otis Elevadores, Lda.	Portugal	100.00	11,742	2,110	25,915	13,457
Ascensores Pertor, S.L.	Valencia	94.13	13,830	51	11,817	826
Serveis de L'Ascensor, Manteniment, Reparació, Instalació i Reformes, S.L.	Barcelona	97.62	8,315	9,948	2,934	1,368
Puertas Automáticas Portis, S.A.	Madrid	100.00	376	60	(14)	330
Conservación de Aparatos Elevadores Express, S.L.	Madrid	100.00	1,771	1,771	2,026	1,375
Admotion, S.L.	Zaragoza	75.00	399	184	520	(173)

(*) Amount net of provisions.

NOTE 8. GOODWILL ON CONSOLIDATION

Goodwill	2001	Increases	Other	Decreases	2002	Increases	Other	Decreases	2003
Otis Elevadores, Lda.	8,523	-	-	-	8,523	-	-	-	8,523
Serveis de L'Ascensor, Manteniment, Reparació, Instalació i Reformes, S.L.	9,061	-	-	-	9,061	-	-	-	9,061
Ascensores Pertor, S.L.	7,183	-	-	-	7,183	-	-	-	7,183
Conservación de Aparatos Elevadores Express, S.L.	1,586	-	-	-	1,586	-	-	-	1,586
Companies of Grupo Otis Elevadores	2,650	-	-	-	2,650	599	(185)	-	3,064
Elevadores del Maresme, S.A.	706	-	-	-	706	-	-	-	706
Hermanos Gonzalo, S.L.	773	-	(773)	-	-	-	-	-	-
Ascensores Artzai, S.A.	568	-	(568)	-	-	-	-	-	-
The Goodwill full integration method companies ETHs	31,050	-	(1,341)	-	29,709	599	(185)	-	30,123

Accumulated amortization	2001	Increases	Other	Decreases	2002	Increases	Other	Decreases	2003
Otis Elevadores,Lda.	7,649	874	-	-	8,523	-	-	-	8,523
Serveis de L'Ascensor, Manteniment, Reparació, Instalació i Reformes, S.L.	6,276	697	-	-	6,973	696	-	-	7,669
Ascensores Pertor, S.L.	4,228	739	-	-	4,967	739	-	-	5,706
Conservación de Aparatos Elevadores Express, S.L.	872	145	-	-	1,017	145	-	-	1,162
Companies of Grupo Otis Elevadores	1,938	175	-	-	2,113	244	-	-	2,357
Elevadores del Maresme, S.A.	212	71	-	-	283	71	-	-	354
Hermanos Gonzalo, S.L.	231	45	(276)	-	-	-	-	-	-
Ascensores Artzai, S.A.	114	32	(146)	-	-	-	-	-	-
Accumulated amortization	21,520	2,778	(422)	-	23,876	1,895	-	-	25,771
Goodwill remaining to be amortized ETHs	9,530	(2,778)	(919)	-	5,833	(1,296)	(185)	-	4,352

In 2002, consolidation goodwill coming from Hermanos Gonzalo, S.L. and Ascensores Artzai, S.A. have been reclasified to Goodwill (Note 5) as a consequence of their merger with Zardoya Otis, S.A.. In 2003, increase in consolidation goodwill reflects the acquisition by Otis Elevadores, Lda. of Savirel, Lda. Also, the heading "Other" includes the impact of first consolidation of Savirel, Lda.

NOTE 9. CONTRACTS IN PROGRESS

	2003	2002
Costs of contracts in progress	102,242	101,920
Net profit margin applied	8,446	8,897
Total contracts in progress	110,688	110,817
Billings on contracts in progress	(156,854)	(153,918)
EThs.	(46,166)	(43,101)

The cost of contracts in progress and billings on contracts in progress include EThs 4,349 and EThs 5,738 (EThs 7,279 and EThs 6,694 in 2002) respectively for export contracts with companies affiliated to the Otis Group.

NOTE 10. CUSTOMERS

	2003	2002
New installations	92,609	89,907
Maintenance, repairs, replacements and modernizations	54,043	54,588
Doubtful accounts	28,471	26,545
EThs.	175,123	171,040
Provision EThs.	(24,552)	(22,955)

At November 30, 2003 the group has no customers, sales to whom account for 5% of turnover for the year then ended.

The amount of trade Receivable to be collected include notes receivables totalling EThs 63,714 (EThs 65,219 in 2002) in the consolidated group.

Notes receivables with maturity dates longer than one year amount to EThs 1,487 (EThs 1,826 in 2002) and are included under the heading "Long-term trade debtors".

An analysis of notes receivable by maturity date is as follows:

	2003
Two years	1,434
Three years	50
Four years	3
EThs	1,487

NOTE 11. SUNDRY ACCOUNTS RECEIVABLE

	2003	2002
Affiliated companies' debts	13,991	13,489
Others	2,721	1,118
EThs.	16,712	14,607

"Affiliated companies' debts" do not include balances denominated in currencies other than euros (EThs 18 in 2002).

NOTE 12. PUBLIC TREASURY

Debtors balances	2003	2002
Treasury for tax refund	138	12
On account corporate tax payments (Note 23)	35,930	31,258
Withholding tax	72	103
VAT recoverable	3,985	3,486
Deductions under VAT	495	1,662
Deferred tax assets (Note 23)	3,184	3,295
EThs.	43,804	39,816

Payable balances	2003	2002
Provision for corporate tax	59,727	53,576
Treasury for tax deductions made	3,863	3,514
Treasury credit for VAT	2,699	1,965
Treasury for VAT invoiced	5,354	5,434
Social Security organization payable	3,974	4,092
Other taxes payable	29	22
EThs.	75,646	68,603

NOTE 13. SHORT-TERM SECURITIES PORTFOLIO

This heading corresponds to the short-term investment in Treasury Bonds of funds in excess of immediate requirements, totalling EThs 48,462, with the interest rate varying from 1.97% to 3.00% in 2003 (2.70% to 3.50% in 2002). This amount includes EThs 24 (EThs 20 in 2002) corresponding to accrued interest pending maturity at November 30, 2003.

The heading Other loans mainly includes cash placements, EThs 80,000 for Zardoya Otis, S.A. and EThs 27,000 for Otis Elevadores Lda. (EThs 75,000 and 22,000 respectively in 2002), 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 optimisation of the placement of cash surpluses, exchange insurance and other. These deposits have accrued interest during the year at an average interest rate of 2.51% (3.37% in 2002) which exceeds the market rate by 0.20 percentage points. This amount includes EThs 68 (EThs 88 in 2002) relating to accrued interest pending maturity at November 30, 2003.

NOTE 14. SHAREHOLDER'S EQUITY

The amount and movements in the shareholders' equity accounts have been as follows:

Thousand euros

	Balance at 30.11.01	Distribution of profits 2001	Decrease in capital	Increase in capital	Other movements	Balance at 30.11.02	Distribution of profits 2002	Increase capital	Other movements	Balance at 30.11.03
Capital stock	16,350	-	(86)	1,626	-	17,890	-	1,789	-	19,679
Legal reserve	3,005	271	-	-	-	3,276	660		-	3,936
Voluntary reserve	33,994	1,993	86	(542)	(939)	34,592	(2,865)	(1,789)	(1,278)	28,660
Reserve for treasury stock	396	-	(396)	-	-	-	-	-	-	-
Revaluation reserve	1,084	-	-	(1,084)	-	-	-	-	-	-
Reserve for subsidiary companies	15,910	3,622	-	-	352	19,884	9,169	-	(17)	29,036
Profits of the year	82,374	(82,374)	-	-	98,114	98,114	(98,114)	-	116,120	116,120
Interim dividends	(56,972)	56,972	-	-	(67,658)	(67,658)	67,658	-	(77,286)	(77,286)
Total shareholders equity	96,141	(19,516)	(396)	-	29,869	106,098	(23,492)	-	37,539	120,145

a) Share capital and reserves

The capital stock consists of 196,794,270 bearer shares with a par value of 0,10 euros each, fully subscribed and paid up, as shown by the following:

	Shares		Percentage of participation	
Shareholders	**2003**	2002	**2003**	2002
United Technologies Holdings, S.A.	**100,497,417**	91,361,288	**51.07**	51.07
Euro-Syns, S.A.	**20,902,845**	19,002,585	**10.62**	10.62
Minority shareholders	**75,394,008**	68,540,009	**38.31**	38.31
	196,794,270	178,903,882	**100.00**	100.00

All the shares of Zardoya Otis, S.A. are listed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges. There is no other individual shareholder with a participation of over 10% of the capital stock.

In the Shareholders' General Meeting held on April 23, 2003, the following resolutions were adopted:

- To increase share capital against the Voluntary Reserve, in proportion to one new share for every ten old shares, by 1,789,038.80 euros. Once completed the capital increase, capital amounted to 19,679,427.00 euros and consisted of 196,794,270 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 interim dividend paid against 2003 profits on September 10, 2003. The increase was realized since June 16, 2003 until July 5, 2003, both dates included. The new shares were listed on the Madrid, Barcelona, Valencia and Bilbao stock exchanges with effect from August 26, 2003.

On November 30, 2003 interim dividends totalling EThs 77,286 were declared for the year then ended. These interim dividends were paid (Note 3) on shares numbered 1 to 178,903,882 (1st interim dividend), on shares numbered 1 to 196,794,270 (2nd interim dividend), and on shares numbered 1 to 196,794,270 (3rd interim dividend).

The balance of the Revaluation Reserve Royal Decree Law 7/1996 of June 7 of EThs 3,934, has not been available for distribution until it has been verified and accepted by the tax authorities or the term for so doing has elapsed. After the term of three years as from the closing date of the restated balance sheet (November 30, 1996) for so doing has expired, the credit balance may be applied:

- To eliminating losses.
- To increasing the share capital.
- To freely-available reserves, after 10 years has elapsed as from the closing date of the revalued balance sheet.

Zardoya Otis, S.A. has increased paid up capital against the Revaluation reserve, therefore the reserve at November 30, 2003 is fully utilised.

NOTE 15. COMPANIES' CONTRIBUTIONS TO THE ZARDOYA OTIS GROUP ACCOUNTS

Companies	To consolidated profit 2003	To reserves 2003
Ascensores Eguren, S.A.	(66)	(6,978)
Ascensores Ingar, S.A.	(98)	(1,211)
Ascensores Serra, S.A.	1,235	444
Elevadores del Maresme, S.A.	613	347
Mototracción Eléctrica Latierro, S.A.	548	634
Grupo Otis Elevadores (Portugal)	10,957	24,757
Puertas Automáticas Portis, S.A.	330	-
Ascensores Pertor, S.L.	778	961
Conservación de Aparatos Elevadores Express, S.L.	1,502	3,053
Serveis de L'Ascensor, Manteniment, Reparació, Instalació i Reformes, S.L.	2,148	7,029
Admotion, S.L.	(130)	-
	17,817	29,036
Zardoya Otis, S.A.	98,303	32,596
EThs.	116,120	61,632

The reserves contributed by Zardoya Otis are analysed below:

Legal reserve	3,936
Voluntary reserve	28,660
EThs	32,596

NOTE 16. MINORITY INTERESTS

Minority interests correspond to the minority participation in the equity of the following companies:

Company	Balance at 30.11.01	% Minority participation	Net equity	Results	Balance at 30.11.02	% Minority Participation	Net equity	Results	Balance at 30.11.03
Grupo Otis Elevadores (*)	379	0.00	84	298	382	0.00	85	377	462
Elevadores del Maresme, S.A.	209	20.00	128	138	266	20.00	128	136	264
Ascensores Serra, S.A.	654	25.00	350	376	726	25.00	350	412	762
Mototracción Eléctrica Latierro, S.A.	1,641	49.00	1,083	483	1,566	49.00	1,083	526	1,609
Ascensores Pertor, S.L.	214	5.87	703	(5)	698	5.87	697	48	745
Serveis de L'Ascensor, Manteniment, Reparació, S.L.	289	2.38	285	22	307	2.38	307	33	340
Admotion, S.L.	227	25.00	227	(51)	176	25.00	176	(43)	133
EThs	3,613		2,860	1,261	4,121		2,826	1,489	4,315

(*) Otis Elevadores, Ltda. has a 40% investment in MASEL.

NOTE 17. WELFARE COMMITMENTS

In accordance with the actuarial calculations specified in note 4.j), the current value of the commitments assumed with employees covered by these benefits is as follows:

	2003	2002
Employees on the payroll	68,432	62,729
Retired employees	13,117	13,012
Assets externalised prior to the signing of the framework agreement	3,155	3,155
EThs.	84,704	78,896

Liabilities established for welfare commitments may be analysed as follows:

Balance recorded in the provision at November 30, 2001	EThs.	59,759
Provision for the year		8,417
Payments		(1,975)
Payments to insurance entities		(3,995)
Balance recorded in the provision at November 30, 2002	EMls.	62,206
Provision for the year		6,554
Payments to insurance entities		(19,653)
Book liabilities at November 30, 2003	EThs.	49,107
Classified on the balance sheet:		
Other current liabilities		9,373
Other long-term liabilities	EThs.	39,734
	EThs.	49,107

The current value of the commitments at November 30, 2003 and its reconciliation with the book liabilities at said date may be analysed as follows:

	2003	2002
Early retirement (active employees)	20,525	20,432
Apportionment of insurance premiums and other benefits (active employees)	51,061	45,452
Apportionment of insurance premiums (retired employees)	3,608	3,489
Benefits to retired employees	9,510	9,523
EThs.	84,704	78,896
Assets externalised prior to the signing of the framework agreement	(3,155)	(3,155)
EThs.	81,549	75,741
Reversal of apportionment of the difference between total payments value and current value of commitments	(489)	-
Accrued and paid interests	(2,732)	-
Accumulated payments to insurance entities	(21,721)	(3,995)
EThs.	56,607	71,746
Book liabilities at year end	49,107	62,206
Accumulated deficit EThs.	(7,500)	(9,540)

As explained in note 4.j), the accumulated deficit relates to the effect to the changes in the actuarial hypotheses and the amounts pending amortisation resulting from the transitional provision which the Company availed itself of in 1990, as shown below:

	Amounts pending amortisation at 30.11.2003	Annual appropriations	Years pending amortisation
Transitional provision	485	485	1
Change in assumptions in 1998 (interest rate from 6% to 4%)	3,038	759	4
Change in assumptions in 1999 (estimated age of retirement from 63 to 62 years)	3,977	795	5
EThs	7,500	2,039	

Current commitments relating to the early retirement of active employees only include employees who were paying Social Security contributions before 1 January 1967, in accordance with applicable legislation.

The reconciliation between the total value of the payments to be made in accordance with the framework agreement mentioned in note 4.j) and the current value of commitments pending externalisation, in accordance with actuarial calculations based on the assumptions stated in said note, is as follows:

	2003	2002
Total value of the amounts to be paid in the ten year period	83,151	85,360
Interest to be apportioned	(10,973)	(11,801)
EThs.	72,178	73,559
Payments made to insurance entities	(21,721)	(3,995)
Provision for the year	3,743	-
Assets externalised prior to the signing of the framework agreement	(3,155)	(3,155)
Payments pending at year end EThs.	51,045	66,409
Real value of the net commitments in relation to staff externalised	56,607	71,746
Difference to be apportioned in the externalisation period	5,562	5,337

NOTE 18. LONG-TERM CREDITORS

As mentioned in Note 4.k), the difference between the amount previously maintained as the provision for welfare commitments and the principal amounts to be externalised is recorded under Long-term creditors. The amount recorded in this respect is EThs 39,734 (EThs 48,751 in 2002).

NOTE 19. LOANS

This heading corresponds to the overdraft facilities subscribed by the Companies and are shown here by the amounts utilised

	2003	2002
Banco Bilbao Vizcaya Argentaria	-	184
Banco Santander Central Hispano	259	269
Caja Madrid	56	-
Bankinter	-	100
Other	-	22
EThs.	315	575
Accrued interest pending maturity EThs.	2,431	225

The accrued interest pending maturity includes EThs 2.206 corresponding to the interest related to the financing of the welfare commitments externalised (note 17).

During 2003 loans accrued interest at a rate from 2.31% to 2.91% (from 3.36% to 3.98% in 2002).

NOTE 20. SUPPLIERS

	2003	2002
Suppliers	29,220	28,218
Invoices pending receipt	5,022	7,545
Affiliated companies	10,276	14,399
Trade creditors	6,881	4,484
EThs.	51,399	54,646

The amounts payable to affiliated companies are partly in foreign currency, and there are no other significant amounts payable in foreign currency.

The heading “Affiliated companies” includes balances denominated in foreign currencies other than Euro, whose equivalent value in euros amounts to EThs 912

NOTE 21. PROVISIONS FOR TRADING OPERATIONS

	2003	2002
Delayed sales costs	11,623	14,204
Provision for risks	16,236	12,145
Guarantees	659	666
EThs.	28,518	27,015

The provision for delayed sales costs relates to the costs incurred in work which has already been completed but for which third-party charges have yet to be received. The risks provided for, relate to litigation and other risk items which have been identified or which may arise inherent to the Company’s business activity.

NOTA 22. TIMING ADJUSTMENTS FOR LIABILITIES

	2003	2002
Advance maintenance billings	17,626	15,759
Others	3,200	4,035
EThs.	20,826	19,794

"Advance maintenance billings" record the relevant apportionment of amounts invoiced in advance to maintenance customers.

NOTE 23. TAX SITUATION

As the Group has not asked for permission to apply the consolidation regime for corporate income tax purposes, the corporate income tax expense and tax payable by the Group has been calculated by adding the corporate tax obligations of each consolidated company.

Reconciliation of the difference between the profits and estimated corporate taxable income is as follows:

	2003	2002
Income before tax EThs	179,861	155,368
Permanent differences:		
Amortization of goodwill	234	1,186
Profit from foreign companies	(20,949)	(18,282)
Losses in consolidated companies and differences in investment provisions	34	(558)
Others	302	2.851
Provision for risks	4,034	1,827
Prior year timing differences in respect of which the revelant deferred tax asset was not recorded	(1,944)	(2,161)
Temporary differences arising 2003 in respect of which the relevant deferred tax asset is not recorded	1,246	3,372
Adjusted income before tax	162,818	143,603
Temporary differences arising in 2003 in respect of which the relevant deferred tax asset is recorded	7,932	5,045
Taxable income	170,750	148,648
Adjusted income before tax	162,818	143,603
Overall quota (35%)	56,986	50,261
Less:		
Other deductions	1,818	891
Others	30	80
Add:		
Corporate tax expense from foreign companies	7,114	6,703
Corporate tax expense EThs	62,252	55,993

The group follows the criteria of recognizing only those deferred tax assets that are expected to be realized in the future, within the time frame considered by the law actually in force.

As a consequence, the timing differences arising in 2003, except those relating to Otis Elevadores (Portugal), correspond to provisions relating to welfare commitments. The relating deferred tax asset has been recorded on the condition that the deferred tax asset recorded at November 30, 2003 does not exceed forecasts for payments relating to social welfare commitments over the next 10 years, the tax effect on EThs 1,246 (EThs 3,372 in 2002) is not included in the application of this rule. In this respect, the deferred tax asset recorded in 2003 amounts to EThs 2,776 (35% 7,932) and the deferred tax asset accumulated at November 30, 2003 amounts to EThs 23,251, (EThs 18,685 in 2002). Of the EThs 23,251, a total of EThs 20,067 (Note 7, EThs 17,024 in 2002) is recorded as long-term deferred tax assets and EThs 3,184 (Note 12, EThs 3,295 in 2002) is recorded under Taxes and Social Security amounts falling due within one year.

Furthermore the accumulated amount of deferred tax assets generated in Otis Elevadores, Lda. (Portugal) at November 30, 2003 amounts to EThs 1,503 and is shown under "Public Treasury - receivable". These deferred tax assets are mainly related to timing differences for bad debts, delayed sales costs and other provisions that are expected to be realized in future years.

The effective tax rate for Otis Elevadores, Lda. (Portugal) is 37% and its tax expense for 2003 amounted to EThs 7,114.

At the year end the consolidated group had paid EThs 35,930 (EThs 31,258 in 2002) taxes on account corresponding to the final liability for corporate tax (Note 12).

During 1999, the tax authorities completed their inspection of personal income tax returns in Zardoya Otis, S.A. for the years 1993 to 1997. As a result of this inspection, assessments were raised against which the Company has appealed. Nonetheless, these assessments do not have a significant effect on the true and fair view expressed by the accompanying annual accounts.

In 2002, Otis Elevadores, Lda. (Portugal) received additional assessments, amounting EThs 331, in respect of tax withheld on TAC and SAC payments for the years 1996 and 1997.

For Zardoya Otis, S.A. and its affiliates, Corporate Income Tax and, in general, all taxes for the last four years are open to inspection by the tax authorities, except for personal income tax which, in accordance with the above has been open for inspection since 1999 for Zardoya Otis, S.A.

For Otis Elevadores, Lda. (Portugal) and its Group of companies, taxes are open to inspection for the last ten years, in accordance with legislation in force in Portugal.

Due to possible different interpretations of the fiscal principles applicable to certain operations, some contingent tax liabilities might exist. However, the resulting tax liability is not expected to significantly affect the accompanying annual accounts.

NOTE 24. GUARANTEES

The outstanding performance guarantees which refer to installation contracts currently in progress amount to EThs 32,454 (EThs 27,548 in 2002).

NOTE 25. INCOME AND EXPENSES

a) Sales

The following is a breakdown of sales for the year:

	2003	2002
New installations	171,367	168,479
Maintenance, repairs, replacements and modernizations	413,576	388,384
Export sales	51,056	48,436
Other sales	377	315
EThs.	636,376	605,614

Export sales are mainly made to companies of the Otis Elevator Group.

Included in the consolidated total sales are the sales of Otis Elevadores, Lda. (Portugal) amounting to EThs 80,466 (EThs 73,145 in 2002).

b) Supplies

	2003	2002
Purchases	219,122	219,228
Difference between opening and closing inventories	1,504	191
EThs.	220,626	219,419

C) Staff costs

	2003	2002
Wages and salaries	136,623	131,405
Staff welfare expenses	41,943	40,755
Welfare commitments (Note 18)	6,554	8,417
EThs.	185,120	180,577

Expenses relating to welfare commitments relate to the appropriation made by the company this year to welfare commitments.

d) External services

This item includes expenses relating to royalties for agreements entered into with Otis Elevator Company for the use of licenses, technology and other support services which amount to EThs 7,155 and represent 2.0% of service activity (apart from the sub-group Otis Elevadores (Portugal) which represents 3.5% of net turnover). In addition in 2003, EThs 5,581 was recorded under cost in process and represents 2.0% of net turnover for installation agreements (3.5% for the sub-group Otis Elevadores (Portugal)).

e) Extraordinary income

Under this heading the subsidiary Otis Elevadores, Lda. has mainly recorded the reversal of the provisions recorded in previous years to cover litigation and other risks totalling EThs 1,985.

f) Transactions with companies of the Otis group

Other than commercial transactions carried out in 2003 and 2002 with the companies of the Otis group are as follows:

	2003	2002
Financial income	2,387	2,966
Royalties	12,736	9,575
Billings of costs relating to the development engineering centre	2,342	2,750

The amount of royalties paid by the Group to Otis Elevator Company in the year is the net amount of royalties accrued and the costs passed on in respect of the engineering development centre.

NOTE 26. ENVIRONMENT

During 2003 Zardoya Otis, S.A. has continued with the implementation and follow up of the different programs on environmental protection and waste treatment initiated in 1986.

The Madrid factory has ratified again this year the certification ISO-14001 obtained in 2001 while the production centers of San Sebastián and Munguía have obtained the certification in 2003.

The main programs established pretend to reduce the impact on environment by:

- Reduction of non recyclable waste (oils).
- Reduction of recyclable waste (packaging).
- Reduction of emission resulting from industrial processes and combustion (usage of cleaner combustibles such as natural gas).
- Reduction of water and energy consumption.

In 2003 the expense incurred by the above mentioned programs are as follows:

Waste tratment	EThs 34
Emissions Testing	EThs 6
Control of water and energy consumption	EThs 10

There are no current litigation or pending indemnities due to environment related issues.

NOTE 27. OTHER INFORMATION

a) The overall remuneration for members of the Board of Directors in 2003 was EThs 2,695 (EThs 2,692 in 2002).

Additionally, in compliance with Section 127 ter, 4 of the Spanish Companies Act, the members of the Board of Directors state that they have no holdings in the share capital of and do not hold offices or perform duties in companies having an identical, analogous or complementary kind of activity to that which makes up the corporate objects of Zardoya Otis, S.A. and its Group.

b) The average number of personnel employed by the consolidated group during the year 2003 broken down into categories, follows:

	2003	2002
Directors	84	85
Administration/workshop/field	470	447
Engineers, university graduates and other experts	273	270
Administrative and technical personnel	690	694
Workers	3,528	3,478
	5,045	4,974

c) The amount paid to PricewaterhouseCoopers as audit fee for 2003 is EThs 154, additionally the fees corresponding to other than audit paid to other companies of the PriceWaterhouseCoopers group amount to Eths 3.

NOTE 28. STATEMENT OF CHANGES IN FINANCIAL POSITION

USE OF FUNDS		2003	2002
Asset acquisitions:			
Intangible		4,174	6,093
Tangible		2,910	4,821
Investments		1,545	30
Formation expenses		(3)	-
Deferred charges		19	-
Other assets		(440)	43
Goodwill on consolidation		414	-
Long-term creditors		(33)	5
Payments of welfare commitments		19,653	5,968
Decrease in minority interest generated by dividend payments and other		1,295	754
Change in reserve for subsidiary companies		634	587
Dividends paid		101,439	87,174
Transfer to short term debt of welfare commitments		(4,082)	13,455
Increase (Decrease) in working capital		5,890	2,754
TOTAL USE OF FUNDS	EThs.	133,415	121,684
SOURCE OF FUNDS			
Funds from operations			
Net distributable income		116,120	98,114
Plus:			
Minority interests		1,489	1,261
Depreciation of tangible fixed assets		4,207	4,372
Amortization of intangible assets		4,760	4,758
Amortization of goodwill on consolidation		1,895	2,778
Provision for risks and expenses		6,554	8,417
Financial expenses leasing		-	-
Provision for investments		(6)	3
Less:			
Profit on sale of fixed assets		(3)	(66)
Deferred tax asset		(2,785)	(1,101)
		132,231	118,536
Sale of assets			
Intangible		2	3
Tangible		829	1,910
Investments		14	-
Long-term Debts		339	1,235
TOTAL SOURCE OF FUNDS	EThs.	133,415	121,684
VARIATIONS IN WORKING CAPITAL			
Increase (Decrease) in inventories		(4,997)	20,759
Increase (Decrease) in debtors		8,637	7,448
Increase (Decrease) in short-term financial investments		5,458	21,194
Increase (Decrease) in cash and banks		590	1,441
Increase (Decrease) in timing adjustments assets		177	(1,471)
(Increase) Decrease in debts with financial institutions		(1,946)	407
(Increase) in trade creditors		202	(6,230)
(Increase) in other non-trade debts		304	(36,792)
(Increase) in provisions for trading operations		(1,503)	(1,768)
(Increase) in timing adjustments liabilities		(1,032)	(2,216)
INCREASE (DECREASE) IN WORKING CAPITAL	EThs.	5,890	2,754

Proposals to the General Shareholders' Meeting

AND RESULTING BALANCE SHEETS

Proposals to the General Shareholders' Meeting

The Board of Directors presents the following motions to the General Shareholders' Meeting for approval:

1. Examination and, if applicable, approval of the Annual Accounts (Balance Sheet, Statement of Profit and Loss and Notes to the Financial Statements) and Management Reports of the consolidated Group and the Company for the fiscal year December 1, 2002 to November 30, 2003.

2. Approval of the Profit Distribution for the fiscal year 2003 as follows:

Legal reserve	393,587.94
Dividends	105,821,646.12
Voluntary reserve	1,181,328.79
TOTAL (euros)	107,396,562.85

3. Approval of the Board of Directors' performance, with particular reference to the distribution of dividends, all of which were charged to the profit of the fiscal year.

4. Resignation, appointment and re-election of Board Members.

5. Appointment of the auditors of the Company and the consolidated Group for the fiscal year 2004.

6. Modification of the By-Laws. New wording of the following articles of the actual By-laws: Article 22 (Call and quorum of the Board of Directors meeting. Adoption agreements) and Article 24 (Remuneration of the Board Members).

7. Approval of the Regulations of the General Meeting of Shareholders. Information about Regulations of the Board of Directors.

8. Increase in Share Capital, in the proportion of one new share for each ten old shares as a bonus issue charged to the Voluntary Reserve, likewise requesting the listing of said shares on the Madrid, Bilbao, Barcelona and Valencia Stock Exchanges. Modification of Article 5 of the Articles of Association.

9. Authorization to the Board of Directors for the purchase by the Company of its own shares, either directly or indirectly, within the limits and requirements of Art. 75 of the Spanish Corporations' Law.

10. Requests and questions.

11. Delegation of powers in favour of the Board of Directors to formalize the resolutions, with authorization to interpret, correct and develop them.

12. Approval of the minutes of the meeting.

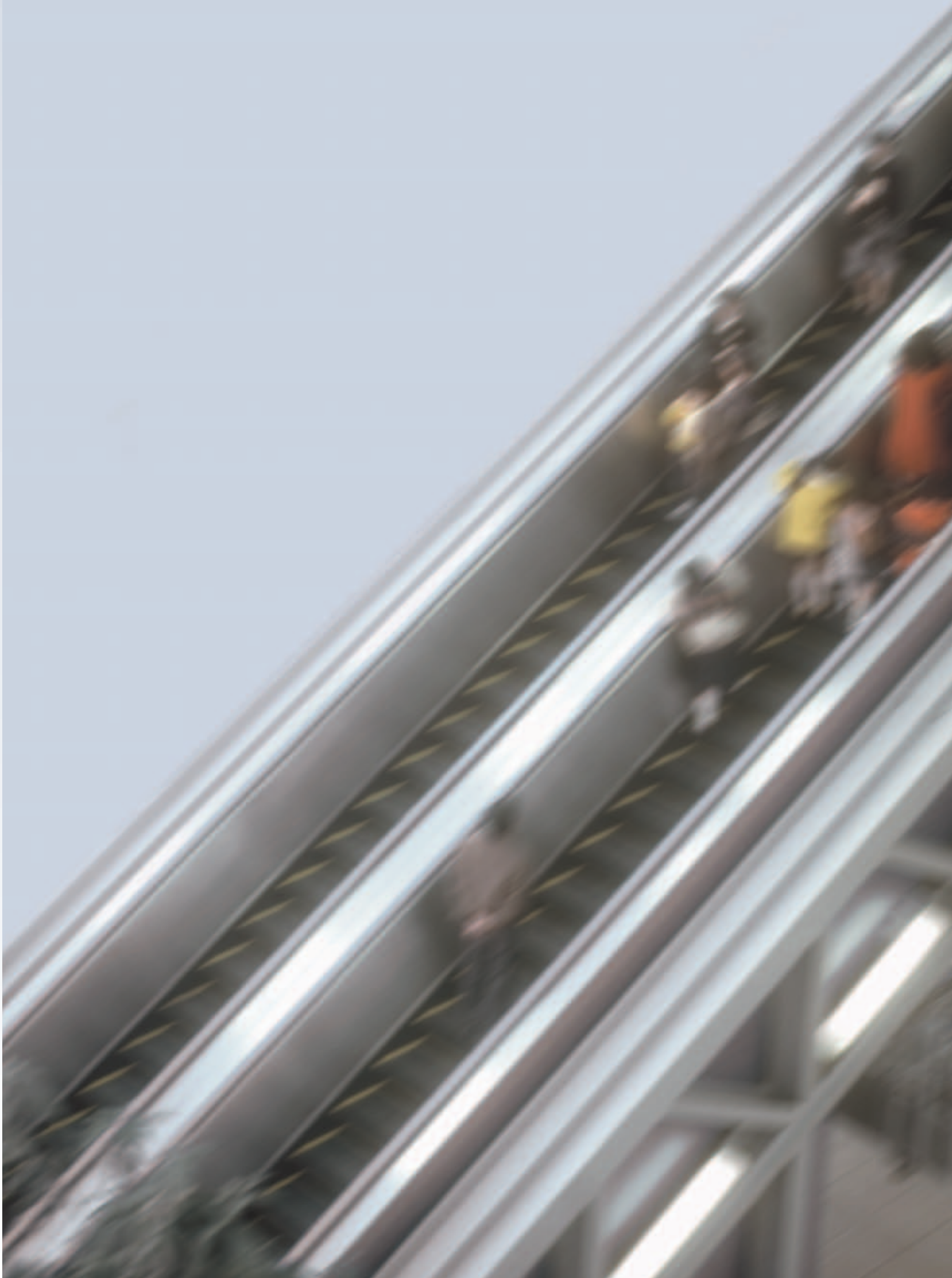
Consolidated Balance Sheets

At November 30, 2003 (In thousands of euros - ETh s)
(After the application of the results obtained in the year)

ASSETS		2003
FIXED ASSETS		
FORMATION EXPENSES		6
INTANGIBLE ASSETS		16,168
Research and developmente costs	2,322	
Concessions and patents	7,143	
Goodwill	16,204	
Software	359	
Capital leases	771	
Amortization	(10,631)	
TANGIBLE FIXED ASSETS		13,796
Land and buildings	9,226	
Technical installations and machinery	23,130	
Other installations, tools and furniture	17,685	
Fixed assets in progress	264	
Other fixed assets	18,204	
Depreciation	(54,713)	
INVESTMENTS		21,988
Investments in Group’s companies	651	
Other investments	907	
Long-term deposits and financial guarantees	372	
Public Treasury long-term	20,067	
Provisions	(9)	
LONG-TERM TRADE DEBTORS		1,487
Long-term notes receivables	1,487	
TOTAL FIXED ASSETS		53,445
GOODWILL ON CONSOLIDATION		4,352
Full integration method companies	4,352	
DEFERRED CHARGES		19
CURRENT ASSETS		
INVENTORIES		127,959
Raw materials	10,551	
Products in progress	6,720	
Costs of contracts in progress	110,688	
DEBTORS		211,722
Customers	175,123	
Sundry accounts receivable	16,712	
Personnel	635	
Public Treasury	43,804	
Provisions	(24,552)	
SHORT-TERM INVESTMENTS		159,364
Short-term securities portfolio	48,462	
Loans to affiliated companies and Other	110,627	
Short-term deposits and financial guarantees	275	
CASH AND BANKS		4,757
TIMING ADJUSTMENTS		493
TOTAL CURRENT ASSETS		504,295
TOTAL ASSETS	ETHs	562,111

LIABILITIES		2003
SHAREHOLDERS' EQUITY		91,609
Capital stock	19,679	
Legal Reserve	4,330	
Voluntary Reserve	29,841	
Reserve for subsidiary companies	37,759	
MINORITY INTERESTS		4,315
LONG-TERM CREDITORS		39,782
Notes payable	48	
Other Long Term Debt	39,734	
SHORT-TERM CREDITORS		
DEBTS WITH FINANCIAL INSTITUTIONS		2,746
Loans	315	
Interest	2,431	
TRADE CREDITORS		209,439
Suppliers	51,399	
Notes payable	1,186	
Billings on contracts in progress	156,854	
OTHER NON-TRADE DEBTS		164,876
Public Treasury	75,646	
Other payables	63,247	
Accrued salaries and wages	25,983	
PROVISIONS FOR TRADING OPERATIONS		28,518
TIMING ADJUSTMENTS		20,826
TOTAL CURRENT LIABILITIES		426,405
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	ETHs	562,111

Financial Statements of the Last Five Years



Consolidated profit and loss accounts

(In millions of euros)

	2003		2002		2001		2000		1999	
		%		%		%		%		%
SALES	636,4	100.0	605,6	100.0	543,4	100.0	486,2	100.0	440,6	100.0
Other income	2,3	0.4	2,7	0.5	2,5	0.5	2,6	0.5	2,4	0.5
Supplies	(221,3)	(34.8)	(219,4)	(36.2)	(199,2)	(36.7)	(173,7)	(35.7)	(149,1)	(33.8)
Personnel costs	(185,1)	(29.1)	(180,6)	(29.8)	(175,0)	(32.2)	(165,4)	(34.0)	(154,8)	(35.1)
Depreciation of fixed assets	(9,0)	(1.4)	(9,1)	(1.5)	(7,6)	(1.4)	(8,1)	(1.7)	(8,4)	(1.9)
Provision for doubtful debts	(2,1)	(0.3)	(4,8)	(0.8)	(0,7)	(0.1)	0,3	0.1	(0,9)	(0.2)
Provision for risks	(4,0)	(0.6)	(1,8)	(0.3)	(2,7)	(0.5)	(1,6)	(0.3)	0,1	0.0
Other trading expenses	(38,8)	(6.1)	(37,5)	(6.2)	(35,4)	(6.5)	(33,4)	(6.9)	(32,2)	(7.3)
TRADING PROFITS	178,4	28.0	155,1	25.6	125,2	23.0	106,8	22.0	97,8	22.2
Dividends from associated companies	0,0	0.0	0,0	0.0	0,0	0.0	0,0	0.0	0,2	0.0
Financial income	4,9	0.8	5,8	1.0	7,1	1.3	5,8	1.2	4,9	1.1
Financial expenses	(3,3)	(0.5)	(1,1)	(0.2)	(1,0)	(0.2)	(1,1)	(0.2)	(1,4)	(0.3)
Exchange rate differences	0,1	0.0	0,1	0.0	0,0	0.0	0,2	0.0	0,3	0.0
FINANCIAL PROFITS	1,6	0.3	4,8	0.8	6,1	1.1	4,9	1.0	4,0	0.9
AMORTIZATION OF GOODWILL ON CONSOLIDATION	(1,9)	(0.3)	(2,8)	(0.5)	(2,8)	(0.5)	(2,7)	(0.6)	(2,6)	(0.6)
PROFITS FROM ORDINARY ACTIVITIES	178,1	28.0	157,1	25.9	128,5	23.6	109,1	22.4	99,2	22.5
EXTRAORDINARY PROFITS (LOSSES)	1,7	0.3	(1,7)	(0.3)	0,6	0.1	3,1	0.6	(2,1)	(0.5)
PROFIT BEFORE TAX	179,9	28.3	155,4	25.7	129,1	23.8	112,2	23.1	97,1	22.0
NET PROFIT AVAILABLE FOR DISTRIBUTION	116,1	18.2	98,1	16.2	82,4	15.2	71,2	14.6	62,9	14.3

Consolidated Balance Sheets

(After distribution of the profits obtained in the year)

(In millions of euros)

	2003		2002		2001		2000		1999	
ASSETS		%		%		%		%		%
Intangible assets	16.2	2.9	17.2	3.1	14.9	2.9	3.9	0.9	4.6	1.1
Tangible fixed assets	13.8	2.5	15.9	2.9	17.3	3.4	17.3	3.9	19.0	4.6
Investments	22.0	3.9	17.7	3.2	16.5	3.3	12.2	2.8	10.2	2.5
Long term trade debtors	1.5	0.3	1.8	0.3	3.1	0.6	4.4	1.0	4.9	1.2
Treasury Stock	0.0	0.0	0.0	0.0	0.4	0.1				
TOTAL FIXED ASSETS	53.4	9.5	52.6	9.5	52.2	10.3	37.9	8.6	38.7	9.4
GOODWILL ON CONSOLIDATION	4.4	0.8	5.8	1.1	9.5	1.9	13.5	3.1	13.4	3.3
Deferred charges	0.0	0.0	0.0	0.0						
Inventories	128.0	22.8	133.0	24.0	112.2	22.1	92.4	20.9	86.4	20.9
Debtors	211.7	37.7	203.1	36.7	195.6	38.6	163.7	37.1	155.1	37.5
Short-term investments	159.4	28.4	153.9	27.8	132.7	26.2	130.0	29.5	117.0	28.3
Cash and Banks	4.8	0.8	4.2	0.8	2.7	0.5	2.6	0.6	1.3	0.3
Timing adjustments	0.5	0.1	0.3	0.1	1.8	0.4	1.0	0.2	1.4	0.3
TOTAL CURRENT ASSETS	504.3	89.7	494.4	89.4	445.1	87.8	389.7	88.3	361.3	87.4
TOTAL ASSETS	562.1	100.0	552.9	100.0	506.8	100.0	441.2	100.0	413.5	100.0
LIABILITIES										
SHAREHOLDERS' EQUITY	91.6	16.3	81.9	14.8	76.6	15.1	80.0	18.1	87.8	21.2
MINORITY INTERESTS	4.3	0.8	4.1	0.7	3.6	0.7	3.5	0.8	2.9	0.7
PROVISION FOR RISKS AND EXPENSES	0.0	0.0	0.0	0.0	59.8	11.8	48.2	10.9	40.0	9.7
LONG TERM CREDITORS	39.8	7.1	48.8	8.8	0.0	0.0	0.1	0.0	0.4	0.1
Debts with financial institutions	2.7	0.5	0.8	0.1	1.2	0.2	1.0	0.2	1.3	0.3
Trade creditors	209.4	37.3	209.6	37.9	203.4	40.1	162.1	36.7	145.9	35.3
Other non-trade debtors	164.9	29.3	160.8	29.1	119.4	23.6	108.8	24.7	102.8	24.9
Provision for trading operations	28.5	5.1	27.0	4.9	25.2	5.0	20.2	4.6	17.2	4.2
Timing adjustments	20.8	3.7	19.8	3.6	17.6	3.5	17.2	3.9	15.2	3.7
TOTAL CURRENT LIABILITIES	426.4	75.9	418.0	75.6	366.8	72.4	309.3	70.1	282.5	68.3
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	562.1	100.0	552.9	100.0	506.8	100.0	441.2	100.0	413.5	100.0

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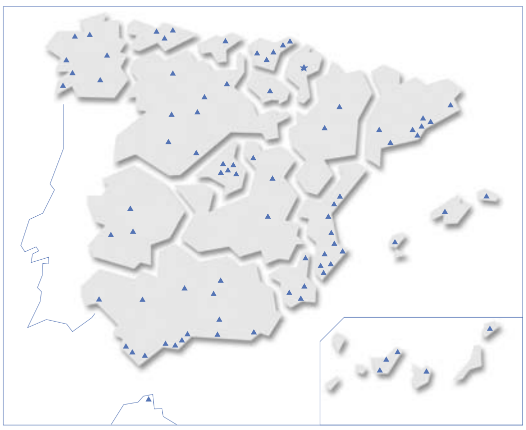

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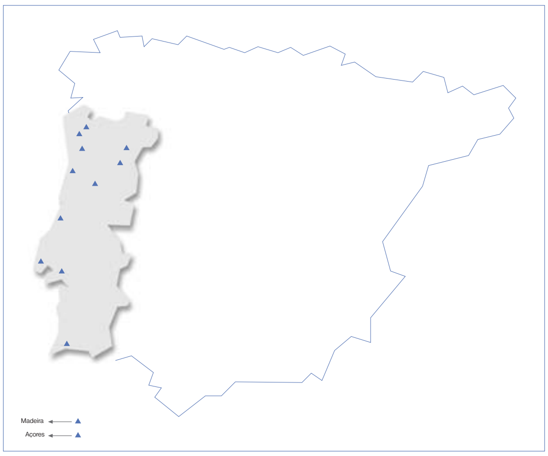

AENOR Gestión Ambiental

Calidad OTIS ISO 9001

AENOR Empresa Registrada ER-0084/1992

Zardoya Otis:
30 years on the Stock Exchange

In 1974 Zardoya Otis, S.A. began its stock market career. Thus, the company is now celebrating its 30th anniversary on the stock markets. In all this time, the Company's continual growth and expansion has allowed a significant and sustained creation of value for our shareholders, which has been reflected in the quoted price of the shares and the favourable evolution of the stock market capitalization. Here are some data:

- 27 capital increases, 23 of which were bonus issues.
- 2 splits, 3 capital decreases returning contributions to the shareholders and another 2 writing off treasury stock.
- An ajusted share value that has risen from the 0.70 euros of December 1974 to the 16.50 euros at December 31, 2003.
- A stock market capitalization that has evolved from the 13.3 million euros at the end of 1974 to the 3,247 million euros at the 2003 year end.
- A traditional (and, at the time, pioneer) policy of paying four quarterly dividends since 1981.

The initial confidence that the markets placed in Zardoya Otis 30 years ago, progressively consolidated since then, was heavily influenced by the sum of the contributions that the two founding companies (Zardoya, S.A. and Schneider Otis, S.A.) made at the time of its incorporation.

The present Zardoya Otis is the result of several company concentrations that have been carried out since the end of the sixties by the Spanish company Zardoya, S.A. and the United States multinational Otis Elevator Company. In 1972, the merger of the activities of the two companies gave rise to a company that was, from the beginning, and still is today the leader in the vertical transportation sector.

Zardoya Otis' business philosophy is supported by one basic principle: seeking maximum customer satisfaction. This has meant that human, technical and production resources have been organized to guarantee the highest quality levels in the product and the service.

Some of the company's distinguishing features are:

- Leader in the Spanish elevator market.
- A productive structure in Spain including three plants: San Sebastián (specialized in the production of machines and safety components, with 66% exports), Madrid (manufacture of the other elevator components) and Munguía (standard elevator for family-homes, special elevators, modernizations, etc.).
- It is present all over the country with 329 assistance points.
- "24 hour" service, through which attention to any possible emergency is guaranteed for 24 hours a day, seven days a week, 365 days a year.
- Implementation of the "Customer Ombudsman", who channels any complaints towards the most appropriate person in the Organization in order to provide each case with the most suitable solution.
- A dynamic strategy in R&D through the Madrid Engineering Centre, one of the six that Otis Elevator Company possesses worldwide.

Zardoya Otis has always founded its leadership on its permanent concern for research and, from the beginning, has always marked the most important milestones in the history of the elevator. Thus, sice Elisha Graves Otis invented the first elevator with safety components and, therefore, valid for people 150 years ago, the Company has developed many products and services. In all of them, the idea of increasing passenger safety and comfort has prevailed.

True to these innovative roots, Zardoya Otis was able to redefine its customer service by introducing a portfolio of electronic commerce tools known as e*Business, included in a web page, www.otis.com. Once more, the Company merged technology with the creative commercial guidelines on which its leadership is based and generated new opportunities, which have completed the way in which it understands and carries out its business.