ZARDOYA OTIS, S.A.

Annual Report 2017

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Annual Report 2017


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Ready to continue growing

Dear Shareholders,

I would like to thank all of you for your presence here and, on behalf of the Board of Directors and on my own behalf, welcome you to this meeting, especially those of you who with us for the first time. My name is Mario Abajo and I am the Chairman of the company's Board of Directors. This year, before we begin, I would like to mention certain changes in the composition of the Board and to welcome Ms García Jáuregui, the new Board secretary. Lorea García Jáuregui has replaced Mr Alberto Fernández Ibarburu, who was our Board Secretary for almost 40 years and combined this task with the position of Chief Financial Officer for Spain and South Europe, which he held for the same period. I would like to thank him personally, on my own behalf, on behalf of the Board and the company in general, and also on behalf of all of you, for the all the wonderful work he has carried out for the company and shareholders throughout his career and his complete dedication to the company over all these years.

As I mentioned last year, we are continuing with our Digital Application Development and Investment Plan. In 2017, we began a strategic investment in new technologies (digitalization), providing our technical and sales personnel with state-of-the-art mobile devices and technologies, which allowed us to enhance our processes and improve the quality of our customer service.

We continue to bet on new markets and are reinforcing our position in the accessibility area. The successes achieved in the division of elevators and escalators for ships has enabled Zardoya Otis to be present in the most important shipyards in Germany, Finland and, of course, Spain. We are also investing to expand our product range for the residential sector and are able to install elevators in very small spaces where there is only room for an one-person elevator.

In addition, we continue to innovate in order to have a wide range of products that eliminate both architectural and sensorial barriers. An example of this is the inclusion of a system of communication from the car with the outside for people with hearing difficulties, all of which is integrated into our Multi-Purpose Display.

Mario Abajo García
CHAIRMAN

Bernardo Calleja Fernández
CHIEF EXECUTIVE OFFICER

Alberto Zardoya Arana
DIRECTOR

Otis Elevator Company
DIRECTOR (rep. by Nora LaFreniere) ■

Mark George
DIRECTOR ●

* Commission Chairman ■ Nominating and Compensation Commission
▲ Committee Chairman ● Audit Committee

1. Key Data at November 30, 2017

• PROFIT AND LOSS

Consolidated profit attributable to shareholders (after taxes and non-controlling interests) was 152.7 million euros, 0.1% up on 2016.

• SALES

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

New Installation Sales

- Work completed. The amount was 48.8 million euros, 16.8% higher than the figure obtained in 2016, for new buildings alone.
- Orders received. These totalled 197.2 million euros, 17.3% up on the 2016 figure, including elevators in existing buildings.
- Backlog of unfilled orders. In the second half of 2017, the backlog of unfilled orders rose by 26.7% in comparison with the same period of 2016.

Service

- Sales. Total service billing was 545.4 million euros in the period, 2% higher than the 2016 figure.
- Units under maintenance. In 2017, the maintenance portfolio surpassed 285,000 units, 0.1% up on 2016. Our Service Excellence allowed us to retain our customers' trust and improve the loyalty rate.

Exports

Net consolidated export sales were 184.2 million of euros, 8.4% higher than in 2016.

In 2017, exports represented 23.7% of the Group's consolidated sales (22.8% in 2016).

José María Loizaga Viguri
■ ● ✱ *DEPUTY CHAIRMAN*

Patrick Blethon
DIRECTOR

Robin Fiala
■ *DIRECTOR*

Euro-Syns, S.A. *DIRECTOR*
(rep. by Pedro Sainz de Baranda)

José Miguel Andrés Torrecillas
■ ● ▲ *DIRECTOR*

Pierre Dejoux
■ *DIRECTOR*

2. Stock market data at November 30, 2017

• PROFIT PER SHARE

The profit per share in 2017 was 0.325 euros.

• DIVIDEND AND PARTIAL DISTRIBUTION OF THE SHARE PREMIUM

In line with our profits, we paid three quarterly dividends, which we supplemented with the partial distribution of the share premium. This meant the payment of €0.319 to each one of the 470,464,311 shares that form the share capital, making a total amount of 150.1 million euros, 1.6% higher than the sum paid in 2016 and representing a pay-out of 98.25%, the highest of recent years.

• STOCK MARKET PRICE

At December 31, 2017, the ZARDOYA OTIS share was quoted at 9.12 euros, a rise of 13.6% on the preceding year's price. In the same period, the IBEX rose by 7.4%.

• TRADING FIGURES

The effective value traded on the stock exchange was 939 million euros, an increase of 14.7% on the 818 million euros of 2016.

• STOCK MARKET RATIOS

PER	28.1
Pay-out	98.25%

3. Business evolution in the first quarter of 2018

• SALES

Total consolidated sales for the first quarter of 2018 were 188.0 million euros, showing a 0.4% decrease on those obtained in the first quarter of 2017.

Consolidated Service sales totalled 136.5 million euros in the first quarter, representing an increase of 0.8% on those obtained in the first quarter of 2017.

Net consolidated Export sales were 38.1 million euros, 10.6% lower than the figure for the first quarter of 2017.

• PROFIT AND LOSS

EBITDA (operating profit plus depreciation plus amortization) in the first quarter of 2018 was 50.0 million euros, 5.9% down on the 2017 figure.

Profit after tax was 33.7 million euros, 4.7% lower than the 35.3 million euros obtained in the same period of 2017.

The comparison with the first quarter of 2017 is unfavourable due to a drop in the export activity and the expense incurred and investment made in the digitalization process.

In the second half of 2017, the Group began a digitalization plan. The figures for the first quarter of 2018 include expenses related to this process, which the CEO will explain subsequently.

• ORDERS RECEIVED AND BACKLOG OF UNFILLED ORDERS

Orders received for Installations in the first quarter, including both new and existing buildings, were 42.1 million euros, representing an increase on 20.9% on the same period of 2017, thus consolidating the upward trend noted in 2017.

The backlog of unfilled orders in the first quarter of 2018 was 126.7 million euros, showing an increase of 13.3% on the same period of 2017.

• UNITS UNDER MAINTENANCE

We ended the first quarter of 2018 with 285,981 units under maintenance, which represents growth of 0.6% in comparison with the units under maintenance at the end of the first quarter of 2017. In the second half of 2018, we hope that the growth in New Installations activity, which commenced in earlier years, will be reflected in the maintenance portfolio.

• DIVIDENDS

On March 20, 2018, Zardoya Otis, S.A. declared the first interim dividend charged to the profit for 2018, which was paid on April 10, 2018 for a gross amount of 0.080 euros per share. The resulting total amount was 37.6 million euros.

At this meeting, we will approve a payment of 0.080 euros per share to be paid on June 10, 2018.

4. Corporate Governance

Lastly, as you know, Zardoya Otis has made significant efforts over recent years to adapt its internal regulations to the best corporate governance practices.

Although there have been no significant changes in relation to corporate governance since the last General Shareholders' Meeting and the National Securities Market Commission (CNMV) has not approved any new recommendations or amendments to those issued previously, Zardoya Otis will closely monitor any future changes there may be in this field.

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

• Our customers, without whom we would not exist.

• All those who work for or with our Group, without whose effort and dedication we would not be what we are.

• Our shareholders, assuring you that we will do everything possible to retain the trust you have placed in us

Kind regards

Mario Abajo García

ZARDOYA OTIS. S.A.

Profit and loss

778.3M€
Sales

285,840
Units under maintenance

152.7M€
Profit

150.1M€
Dividend

98.25%
Pay-out

Human team

100
R&D&i engineers

170,000
Hours of training

5,233
Employees

17
Average number of years with the company

16,000
Training actions

Customer Service

95
Branches

280
Technical Service Offices

2,100
Mobile devices for technical staff

3
Million calls attended

105
Contact Center employees

98.1%
Calls answered on first attempt

2,150
Technical assistance vehicles

R+D+i

6
Patents

10,819
Elevators shipped

Communication

YouTube
34,000
Views
500
Subscribers

Followers
6,000
3,600

3.8M
Impacts with customers

600
Tweets 2017

280,000
Website visits

1

The customer, our raison d’être

The customer, our raison d'être

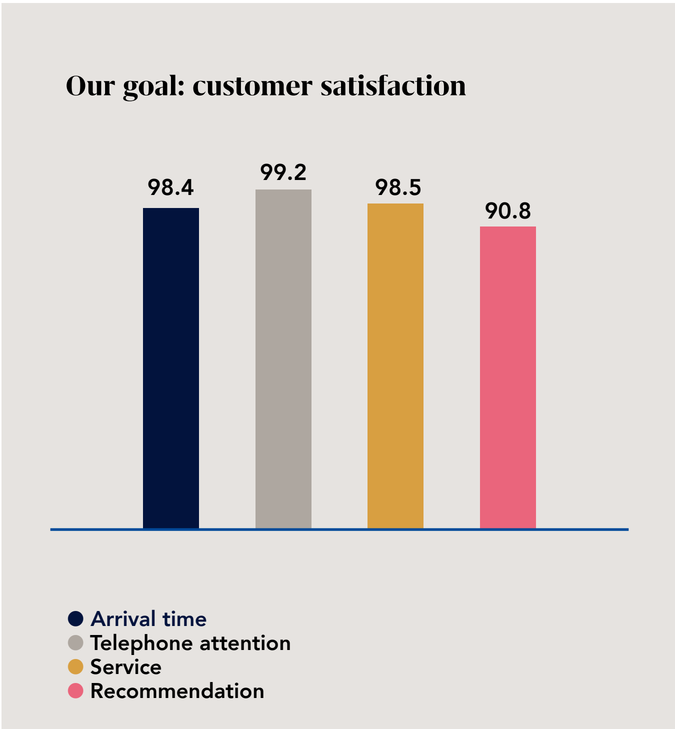
What we accomplished in 2017 is in your hands. Innovate, design, manufacture, sell, repair, co-operate, participate... our work pursues a single objective: the satisfaction of our customers. That is why they recommend us.

90.8%
of our customers recommend us

18,798
surveys

98.5%
satisfied with the service

99.2%
satisfied with the telephone attention



2

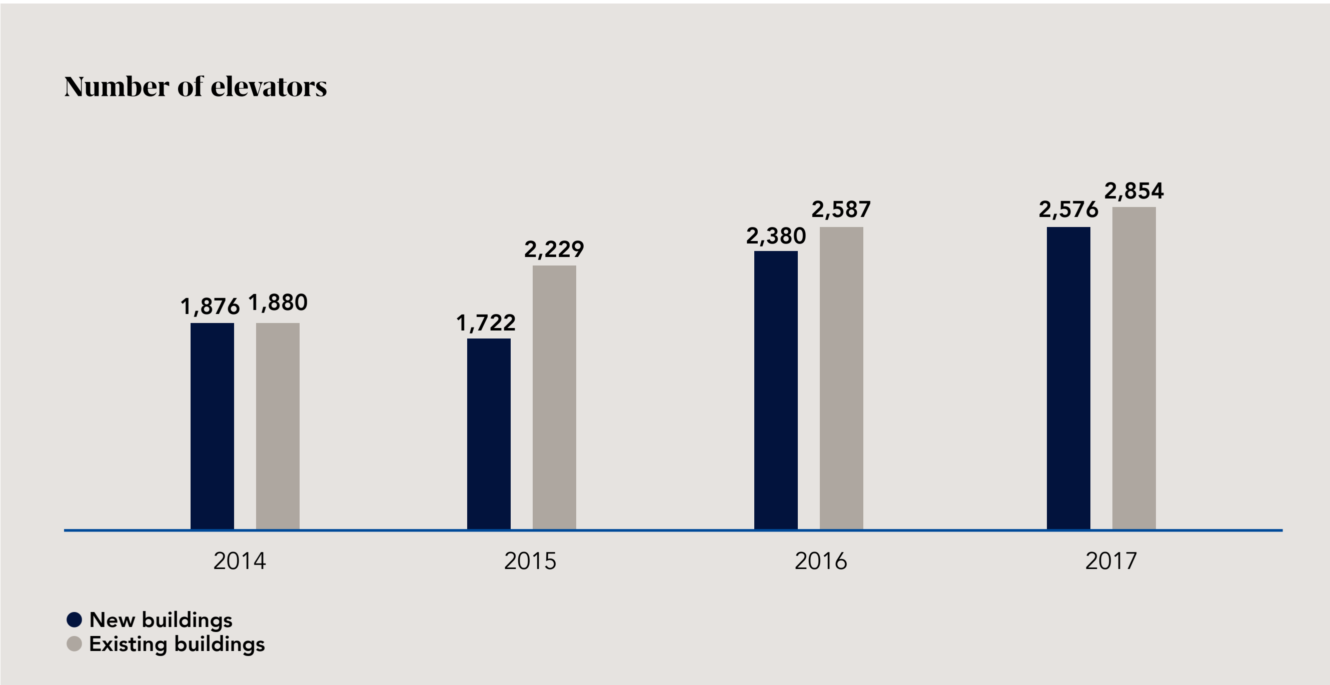
Our activity

Operations

In 2017, we sold more units than in the preceding year and again beat the world sales record for elevators in already-existing buildings

2,576
Units in new buildings

2,854
Units in existing buildings



If this has been possible, it is because the entire Zardoya Otis organization is oriented towards growth and the customer. Our penetration is second to none, both in Spain and elsewhere. We can say that the Zardoya OTIS group is the organization with the highest number of elevators and escalators on its maintenance portfolio in the world.

The great achievement of Zardoya OTIS is its capacity to reach even the remotest village in Spain, Portugal or Morocco. We never lose sight of the value of this. Even in the hardest moments of the financial crisis a few years ago, not only did the Zardoya OTIS group not close its technical assistance points, but it continued to open new ones wherever this was necessary in order to be closer to its customers. This is why we can, today, be proud to be the leading company in our sector on the Iberian peninsula.

2017 was also a key year because we continued to implement the digitalization process. This transformation has placed customer needs as its priority, seeking a more frequent and swifter communication with the customer. The new technologies developed and applied to achieve more efficient and productive processes have helped us to get even closer to the people who need us and to provide customers with the information, technical assistance and contracting processes.

As a result of its commitment to digitalization, Zardoya OTIS will, over forthcoming months, decrease its consumption of the paper that was traditionally required when providing customer assistance.

Within this digitalization process, in 2017, Zardoya OTIS also implemented an internal social network based on Yammer. This network has already become a communication and training tool of crucial importance to the company.

The success of the strategic commitment to digitalization will continue with its expansion, implementing it in the other group companies over the next year.

Otis technicians now work with 2,100 state-of-the-art smartphones

New installations

Once again, 2017 was an excellent year for OTIS in this activity. Our sales for new buildings grew by 33.1% in units and 31.9% in value in comparison with 2016. This growth is even more notable insofar as it is in addition to the sales growth that Zardoya OTIS had already achieved in previous years. The trend, therefore, is very solid.

+33.1%

Units sold for new buildings grew by 31.1%

+31.9%

Increase of 31.9% in sales

Emblematic projects completed in 2017

Hard Rock Hotel (Tenerife)

Iberdrola Training Centre (Madrid)

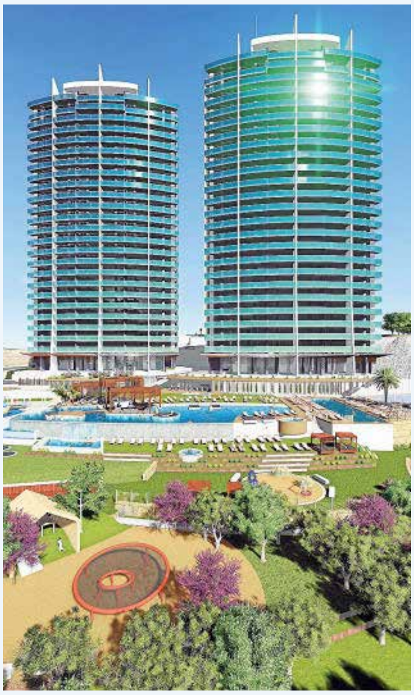
The company's activity has been as intensive as the growth in demand in the sector and, even though the new buildings market is growing, we do not overlook existing buildings

Torre Ilunion (Madrid)

Nevada Shopping Center (Granada)

Large projects for which we obtained contracts in 2017

Quirón Hospital (Córdoba)



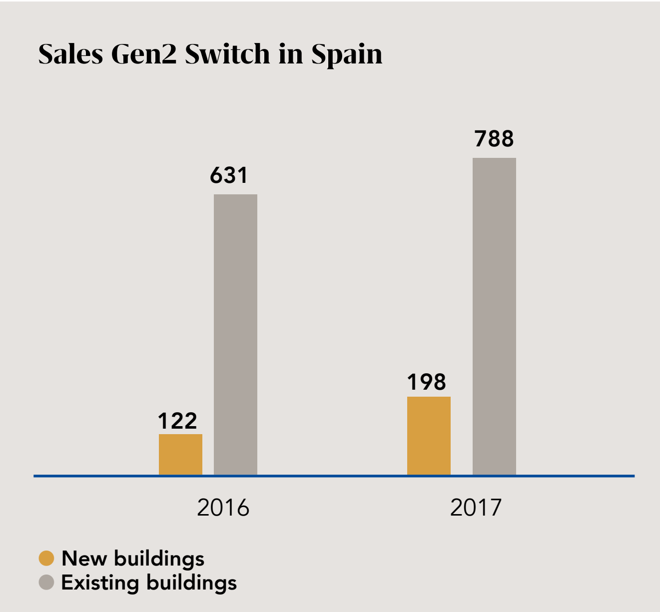
Sunset Drive (Benidorm)

In 2017, emblematic projects were signed in several Spanish cities and will be completed in forthcoming years

Arts Shopping Center (Tenerife)

Luxa Silver Building (Barcelona)

One of our strategic products in the new installations market and the already-existing buildings market is still the Otis Gen2 Switch. This elevator, manufactured exclusively by Zardoya OTIS at the Madrid plant, is plugged into a conventional 230 v socket and only needs 500W to operate, which allows our customers to obtain very considerable savings.



After the successful launch of the new Gen2 Home in 2017, we began to sell and put into operation our new elevating platform. As a result, Zardoya OTIS has entered the single-family home market with a model designed for a market that has been practically unexplored to date and has great growth prospects.

In Spain, there are more than a million homes with three or more floors that have no elevator. The Gen2, conceived to be installed with minimal impact, both structurally and aesthetically, is intended precisely for this type of installation, where the pit is almost non-existent. Although these elevators are used much less intensively than those installed in other kinds of building, OTIS has furnished the Gen2 Home with the same safety measures as it applies in its most advanced products.

– consumption   + silence

Safety and harmony

Zardoya OTIS is also a pioneer in the difficult area of inclined elevators, a sector for which our engineers have incorporated synchronous-motor permanent-magnet machines. Our company designs, manufactures, assembles and maintains high-technology equipment that moves on different planes with different angles of inclination, which we have already installed in the Camelias area of Vigo. This elevator has the capacity to transport 2,000 people per hour and covers a distance of 32 metres with a gradient of 20 degrees. Over the next few months, we will be installing two further elevators with the same characteristics in Mugía (La Coruña).

Likewise, the growth in orders for ancillary works, which inevitably arise when an elevator is installed in a building that does not have one, should be specially highlighted. For us, this is specially significant: our customers do not only place their trust in Zardoya OTIS because of its elevators, but also value and appreciate our ability to find architectural solutions in complex installations and deliver our products on a turnkey basis.

Service

Replacement of elevators, improvements, portfolio management: a year of great achievements. We beat our own world record for the installation of elevators in existing buildings.

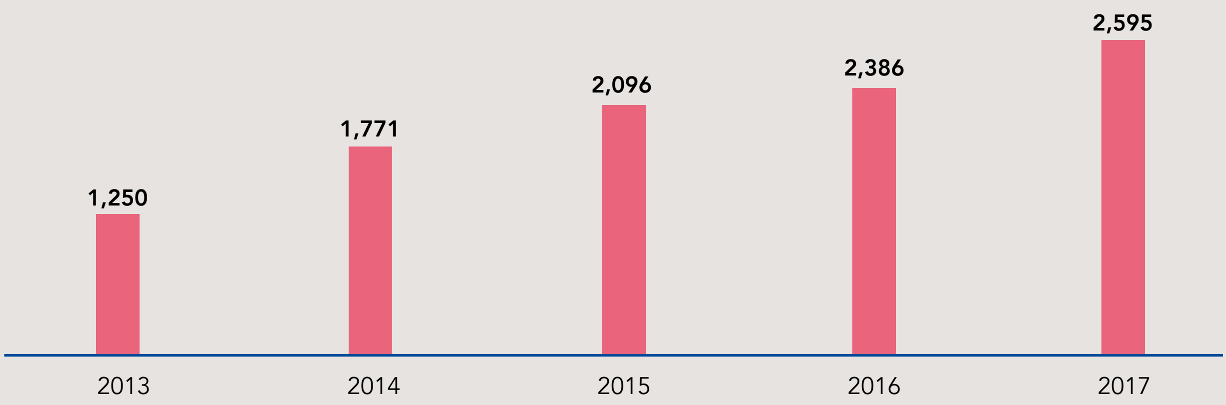
+8%

8% increase
in orders for improvements

7 years

Best cancellation ratio
of the last 7 years

Units sold for existing buildings in Spain



Outstanding operations

- *Marriott Hotel (Marbella): replacement of 32 elevators*
- *Larios Shopping Center (Malaga): modernization of the equipment*
- *Torres de Santa Cruz (Tenerife): modernization of the high-speed equipment*

An essential part of our post-sale activity is modernizations, in which some key elements of the elevator are replaced. In 2017, we reached the cumulative total of 3,800 elevators modernized with our exclusive flat-belt Gen2 technology. These figures are unachievable for any of the other OTIS companies in the world.

Through modernization with Gen2 technology, an energy-efficient elevator is achieved.

Gen2 Mod

3,800

units modernized

Both private and public investment is increasing in the modernizations area and OTIS is well prepared to meet this challenge, both nationally and internationally.

Our Compass Plus system, an intelligent tool created to save time and optimize traffic where there are large volumes of passengers, is already present in more than 20 of the most important buildings in Spain. And it was included in almost all of them through modernization contracts.

As in other areas of the company, OTIS's digitalization process has also provided an extraordinary impetus to the performance of our post-sale service. Our technical network now has unprecedented digital tools. In the second half of 2017, an app was developed to allow each one of our post-sale technicians to have all the information on possible improvements to our customers' installations in his/her mobile device, including documentation, photos and even demo videos. Thus, the technician may advise the customer efficiently and, if the latter wishes to order any of the improvements, they can do so there and then by signing in the device itself, which automatically generates a work order at our offices.

Likewise, our salesforce is now even more efficient, swift and autonomous. Digitalization has changed the way in which we conduct our customer relations.

Another of our commercial tools is electronic invoicing. This tool is in increasing demand, since it represents major time saving in terms of administration and also avoids paper consumption. Our electronic invoicing system can be adapted to different types of customer, the invoices are stored for five years, they are sent to the customers' systems and, in some applications, are automatically included in the accounting.

All this effort was rewarded by the EMEA prize that Zardoya OTIS received in 2017 as the best OTIS company in the world in terms of the improvement in customer loyalty. OTIS Portugal, a company 100%-owned by Zardoya OTIS, likewise received the prize for the best EMEA entity 2017.

Safety

For a further year, safety was the central pillar of OTIS's performance. In 2017 we had even fewer accidents than in the preceding year and they were less serious. We are more efficient in controlling risks and, when an accident occurs, there are only minor injuries.

4,967	97,000
safety courses	hours of training

However, there are still opportunities for improvement. Our objective is for not a single accident to occur in any of our installations and for none of our technicians to suffer any kind of mishap, wherever they are. We will not be satisfied until this is fully achieved.
Following our line of constant improvement, the company's target for 2018 is a further reduction of 5% in the number of incidents. We are aware that this is becoming increasingly complicated because we are constantly becoming safer, but we will never become complacent.

According to the Instituto Español de Seguridad e Higiene en el trabajo (Spanish Occupational Safety and Hygiene Institute), Zardoya OTIS is between 7 and 8 times safer than the average for companies in the construction and industrial sectors.

Training is a key factor in this results. A huge effort was made in 2017. OTIS invested more than 97,000 hours in training its technicians, half of which were devoted to 4,967 safety courses, attended by almost 3,700 technicians and supervisors.

In addition, OTIS's digitalization strategy led to a great leap forward in the organization of and the way in which our technicians execute the work.

Less errors	More information
Less time wasted	More precision
Less duplication	More organization

As a result of digitalization, we have attained improvements in efficiency, productivity and safety that directly benefit both the customer and the technicians themselves. However, these digital advances also present challenges. One of the most important was the culture clash arising from the direct intervention of technology in the day-to-day work, which we have overcome as a result of the good work of our supervisors, who were able to transmit the use of the smartphone as a useful tool to make our work safer and more efficient.

The growth in the Spanish economy also affected our company. The very significant sales increase in the last 12 months has required Zardoya OTIS to make an effort to improve production capacity and process efficiency. In September 2017, the company commenced a production increase plan that, in only four months, had already begun to show results.

Furthermore, given the growth in the units from other manufacturers that we have under maintenance, we have become technically prepared to provide the same service level for elevators of our own brand and those of others and we have adapted our quality and safety standards for equipment with different origins.

For OTIS, challenges are always opportunities

Institutional relations and media presence

In the course of its ordinary activities, Zardoya OTIS is still deeply involved in the objective of attaining universal accessibility. In 2017, our company promoted the conferences “2017: the end of architectural barriers?”, organized in several Spanish cities with a view to achieving the elimination of architectural and sensorial barriers.

Authorities from the autonomous regions and regional social organizations participated in these conferences with a common objective: to generate an inclusive environment for differently-abled people with physical, mental or sensorial disabilities.

Not all our users are the same. Each one of them, even more so when they have special needs, requires a different type of attention. OTIS is the only company in the sector that includes a product like the “eView” display as standard feature of all its equipment. If necessary, this allows contact to be made by videoconference with the users of our equipment and places a specially-trained human team at the disposal of users with physical, mental or sensorial disabilities to advise and help them in any way they need.

Our company moves 25 million people per day. In their work, our human teams make a day-by-day effort to achieve a more inclusive environment. We design, manufacture and repair equipment to make it easier for the more than 3.5 million differently-abled people in Spain to get around.

For us, the elevator is not only a means of transport. It is also the opportunity to furnish real and efficient help to groups who need us, including the elderly. In this context, we participated in SIMA 2017 together with the ONCE Foundation, presenting our proposals for a world without barriers within the framework of the accessible house created by the Foundation.

Apart from the foregoing, we never forget the pillar that supports the company: safety. In 2017, we created two awareness campaigns specially addressed to children on the safe use of elevators and escalators, in which the Asociación Nacional de Seguridad Infantil (National Child Safety Institute) co-operated by publishing them in the media and social networks.

Accessibility and safety are two concepts embedded in our DNA and we try to foment them among those who design and execute infrastructures. This is why, in 2017, we again sponsored the prizes of the Fundación Arquitectura y Sociedad (Architecture and Society Foundation), the 2017 slogan of which was "Humanize the city".

The intensive changes that our company underwent in the year, combined with the efforts made by everyone to connect and be with our customers and prescribers made it possible for us to generate nearly 4,000,000 impacts on society through our press releases, speeches, sports events, training days and social networks.

Number of followers on social networks

	Dec.	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
Twitter	4,386	4,379	4,350	4,384	4,413	4,466	4,486	4,523	4,547	4,561	4,596	4,631	6,256
G+	313	317	320	322	322	322	322	324	325	326	327	329	331
in	2,039	2,143	2,265	2,358	2,456	2,570	2,653	2,733	2,814	2,920	3,056	3,170	3,255

Corporate development

We continue to pursue a policy of growth through acquisitions.

5

transactions

2	2	1
companies	elevator portfolios	automatic door portfolio

When a transaction takes place, whether it is the purchase of the company or the acquisition of a portfolio, not only are we incorporating business value but also talent, through very valuable professionals in an extraordinarily dynamic sector.

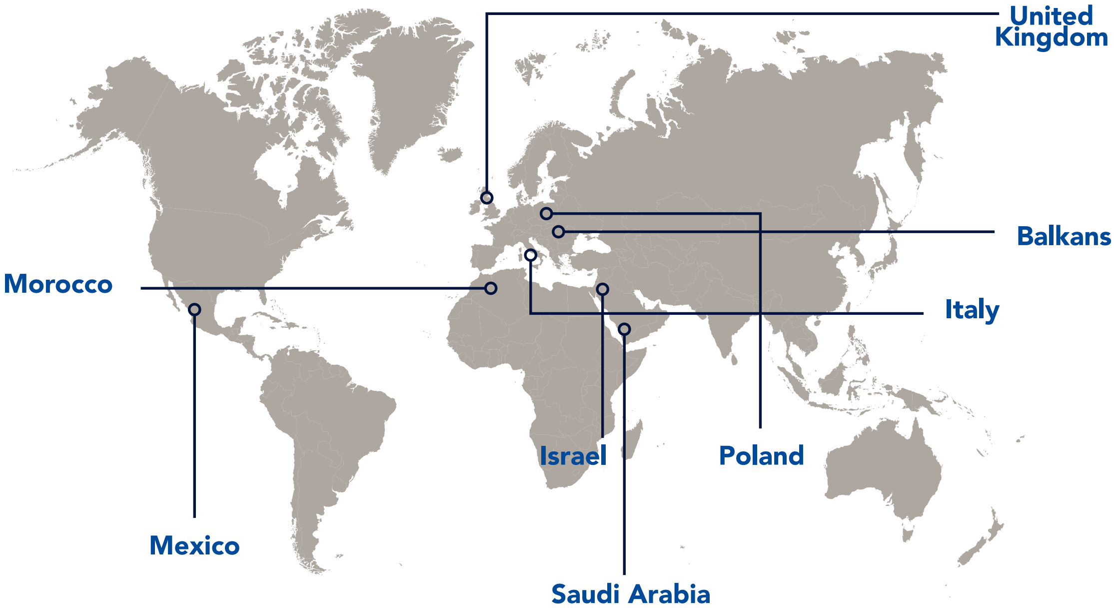
All the professionals who join our company do so in accordance with our requirements in the areas of ethics, safety and internal group control, since the integration of these professionals is crucial to our success.

Our philosophy has not changed over recent years and will continue to be the same in the near future. We will continue to add units, business and human capital in order to keep growing.

International sales

Zardoya OTIS sold nearly 8,000 elevators to other OTIS companies all over the world in 2017. This represented a 3% sales increase in comparison with 2016. If we look only a little further into the past, the cumulative total is even greater: the increase in international sales was 16% in comparison with 2015 and 34% in comparison with 2014. 104 countries worldwide received units manufactured by Zardoya OTIS in 2017.

Principal countries to which we export



Inter-company business has been showing sustained growth for the last 20 years. From the initial 100 or 150 elevators per year at the end of the nineties, we increased to nearly 8,000 in 2017.

This is possible because we are able to sell our technology all around the globe. In 2017, we took our elevators to 104 different countries.

Furthermore, during the year, we sold to Belgium, Norway, South Africa, Lithuania, Honduras and Taiwan for the first time.

Almost 50% of our international sales are Gen2 Comfort technology. We also have other products, such as the Genesis elevators, which are showing a very significant upward trend. This technology will soon account for a third of our total exports. The Switch and Flex Plus elevators likewise continue to attract great interest outside our borders. The two of them account for close to 10% of our foreign business.

Otis Marine

The years 2016 and 2017 were when elevators for ships took off in Zardoya Otis. With the engineering centre and the Vigo (Pontevedra) plant as a base, the Spanish OTIS subsidiary has become a worldwide benchmark for OTIS Elevator Co. in this growing sector

340	50
units sold (elevators and escalators)	million euros in sales

OTIS Marine, as the area is known within our corporation, worked with some of the most important shipyards in the world in 2017, located in Germany and Finland.

Furthermore, the José Barreras Shipyard in Vigo, one of the most prestigious shipyards worldwide, placed their confidence in us to install the elevators in a luxury cruise vessel that they are currently building. In this vessel, we are installing 7 very high-end elevators and it will be the first ship in the world to enjoy Gen2 technology.

The intensive activity carried on in this area at the Vigo plant led to a visit to our facilities by the President of the regional government of Galicia. In the course of his visit, Alberto Núñez Feijóo highlighted the "expansion that OTIS is undergoing", a group that, as he mentioned, "has a payroll of 350 people in the 'olive city' [Vigo]".

Our company was also present in the tender processes of the main shipyards in the world. We trust that the results of this effort will be reflected in the volume of our business this year and next.

Automatic doors

Portis continued with its geographic expansion strategy, which allowed it to reach the 39 service centres that it currently has throughout Spain.

32,000

units under maintenance

39

Portis centres throughout Spain

The target is to fully cover the whole of Spanish territory and attain the ideal situation of "one province, one branch". This will allow us to bring the service even closer to our customers and offer them the fullest maintenance service.

Portis's growth enabled the company to reach a figure of 32,000 units under maintenance, more than 7,000 of which relate to large customers with which, year by year, we are strengthening our relationship.

New Sales activity was likewise reinforced as a result of the agreements signed to market automatic glass doors and speed doors. This sales increase had a notable effect on the growth of the units under maintenance.

All these milestones were accompanied, moreover, by a considerable increase in the company's profitability, which allowed our business model to consolidate.

Industry

The LEAN transformation arrived at the three Zardoya OTIS plants: Madrid, San Sebastián and Vigo follow a production model in which the times of waiting, transport, inventory, etc. are reduced, in order to give the customer the highest value by maximizing the resources available. Thus, we are increasing our efficiency and flexibility.

As in day-to-day operations, digitalization forms part of the plant processes. Following the Industry 4.0 model, we have included sensors and information systems that have allowed us to transform our production processes and make them more efficient.

A clear example is our Vigo (Pontevedra) plant, where we have managed to increase the available space by almost 20% and quadruple the number of units shipped in only three years.

In terms of volumes manufactured and subsequently shipped, 2017 was an excellent year for the three plants.

Madrid

The Madrid plant beat its historical record in 2017. In the 12 months, it shipped 10,819 elevators, showing growth of 13% on the preceding year.

The plant design has made it an unbeatable sales showcase in itself: our present and future customers can see the production process of the technology that they will finally buy *in situ*.

San Sebastián

The Barrio Herrera plant in San Sebastián is undergoing a major transformation of the processes for managing materials, which will culminate in the move to Zubieta. The construction of the new plant will commence in mid-2018. It will be operating at full capacity in 2020.

The production figures of this plant are spectacular: in 2017, 51,584 machines were manufactured and shipped to Spain and the rest of the world due to, among other factors, the Green Power machine, used by all the countries where OTIS Elevator Co. operates. In the last four years alone, these facilities increased their production by 10,000 machines.

Vigo

The production of the Vigo plant has changed greatly, not only in terms of the number of elevators shipped, but also because of its product range. Thus, in 2017, in addition to 45 elevators for cruise vessels, almost 100 special elevators and 1,700 Gen2 modernizations were shipped from the plant.

The development carried out by the Vigo engineering department to adapt Gen2 technology to ship elevators allowed six new patents to be obtained.

Human resources

If any one thing has made us leaders, it is our culture of commitment and teamwork. With that potential, we have focused on fostering the pride in belonging among all our employees. In Zardoya OTIS we share a single vision: “Together, we are unstoppable”.

40

Hours of training/Employee/Year

The pillar of the company’s activity are its people. This is why training is one of the key factors in our performance. Zardoya OTIS’s ratios are not only the highest in our sector, but also the highest among other companies of our size.

All company employees have the right and obligation to be trained. The training plans are monitored and analyzed at the monthly management committee meetings.

The digital transformation process that OTIS is undergoing has been a challenge of the first magnitude because it entails a very significant cultural change. The whole company has successfully adapted to this new situation. Our training itineraries are now much more effective for our employees, in term of both interest and utility.

Another of the keys to this success are the new tools that have been available to us. For example, we have been teaching work techniques to our specialists using games. Something that was unimaginable only a short time ago is now happening. And, moreover, it has been demonstrated that it provides more motivation to employees and allows us to retain them.

Identifying the training required by employees, the tools that will allow them to make the best decisions and how we can help them to grow is of crucial importance.

This vision allowed us to obtain the 'Top Employers' certificate for the third year running. We are where we want to be: with the leading multinationals worldwide in terms of training, rewards and corporate culture.

One of the great future challenges is to incorporate female talent into the company. OTIS is striving for this every day.

In a sector that is particularly complicated in respect of diversity, we improved the parity rate on all the levels of the corporate pyramid. This does not only relate to having better men-women balance in terms of quantity, but is also a key factor in fomenting the growth and development of female talent in the company.

OTIS feels specially proud of its equality plan. And another of the pillars of this plan is the inclusion of differently-abled people in our company.

For the third year running, we have obtained the "Top Employers" certificate

top EMPLOYER ESPAÑA 2018
CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

We work with foundations that help us to include professionals with disabilities, who perform excellent work for the company. Furthermore, we now have more than 140 people in the company who came to us as a result of our relationship with these entities.

Our selection processes have a maxim: in any one of them, there must always be men, women and differently-abled candidates.

Supplier policy

OTIS's suppliers are an essential part of our success. Therefore, in order to always provide excellent products and services responsibly, our supplier policy was guided by four principles in 2017: reduction in the number of suppliers, a saving plan, common policies and procedures, and improvement in processes and tools.

Reduction in the number of suppliers.	Saving plan.	Common policies and procedures.	Improvement in our processes and tools.
This is a worldwide goal. Starting with a portfolio of between 6,000 and 7,000 suppliers, OTIS managed to reduce the figure by 15% in 2017. We focused on those who provided the best price, service and quality.	In 2017, we added a new success to our cost-reduction objective. We have been becoming increasingly efficient for years and, for this very reason, it is now increasingly difficult to improve. But we have done it again. There has been a key change of mindset: not only do we save large sums in a few large projects; we also save small sums of money in less striking projects.	OTIS requires the same rules of the game from its workers and suppliers all over the world. One of the key factors in 2017 was our capacity to efficiently incorporate the policies designed at the company's world headquarters. Furthermore, the code of conduct for our suppliers is still one of the pillars of the OTIS philosophy. Any company in the world that works with us must undertake to comply with it in writing.	We have also reinforced the organization of our purchasing centre. And we have continued to publish tools in accordance with the program for the continuing improvement of company processes to optimize our day-to-day management.

Zardoya OTIS does not work alone. Around us, we have all our associated companies. The rules of the game are for them, too. This is why we have unified the control of the registration and deregistration of suppliers and are doing the same with our databases and systems.

The Purchasing Department was also of vital importance in the acquisition, supply and distribution of the more than 2,000 smartphones with which the company has equipped its technicians. This was a large operation, not only for Zardoya OTIS, but also for its associated companies. The new tools have changed the form in which all our employees work with and relate to the customers.

Any supplier must undertake to comply with our Code of Conduct in writing.

Values and commitment

If anything defines OTIS, apart from its safety standards, it is its principles and values. To the traditional values of respect, integrity and trust, we have added excellence and innovation as pillars of progress for the company.

RESPECT	INTEGRITY	TRUST	EXCELLENCE	INNOVATION

In 2017, the company initiated new corporate ethics plan based on five points:

1. Leadership from management
2. Corporate policy and risk prevention
3. Fomenting the culture of ethics. This was undertaken on two fronts:
    - On-line courses for all employees
    - Training of subordinates by their superiors
4. Specific intranet
5. Established procedures whereby any employee may report an irregularity

The new Code of Ethics is more manageable, modern and accessible. Our workers have access to it from any device.

Leadership from management

OTIS's managers are the highest rung of the organization's corporate ladder. They must foster and be an example of the highest ethical standards. The analysis of compliance with the Code of Ethics in the company also forms part of their regular meetings.

The company foments recognition of the best practices in this area. Four of our workers were given awards for this reason at the events where the new Code of Ethics was presented.

The maxim "Your voice, our values" is OTIS's message to all those who form part of the company. Everyone is asked to take part in this challenge to seek constant improvement. Everyone has our communication channels at their disposal.

Corporate policy and risk prevention

In 2017, OTIS audited and reviewed, with the assistance of its legal advisors, all those structures and jobs in which conflicts of interest could arise. Most of them concerned personal or family relationships, inside the company or out, or within management itself. All of them were resolved with measures aimed to avoid potential conflicts and safeguard the professional and personal interests of our employees.

Another of the key elements in this field was the gift policy. In 2017, marketing management designed a complete plan that defined what OTIS allows or does not allow us to gift to our customers. It is of crucial importance for those to whom we make a gift in no case feel that the company is seeking anything in exchange. Furthermore, neither do we accept gifts from outside, particularly in the case of the people who work in the Purchasing Department.

Regarding the travel policy for third parties, even though some of them are of key importance for the sales activity, we have established new rules and procedures for approval. Every detail is placed on record to guarantee the total transparency of our relationship with the customer.

Even the donations that OTIS makes to charity or philanthropic entities now pass through the filter of our Code of Ethics.

Training

In the third quarter of 2017, our company had already reached 100% of its annual training goals.

We have created a tool, the "Knowledge Kit", that summarizes the main corporate policies and is available to everyone in our intranet.

Furthermore, those responsible for each department take part in the ethics training of their teams, which requires in-person attendance.

Communication

Through the ECO Informa tool, we were able to launch 26 communiqués to the whole company in 2017 and receive queries from anywhere in the country. Thus, we handled more than 80 queries in the course of the 12 months.

Procedures

OTIS has two channels to enable any employees who want to report possible irregularities to do so. One is international and the other is a national channel. Both guarantee the total confidentiality of the person making the report.

Corporate Social Responsibility

OTIS's corporate volunteering were the best display of the commitment of our human team in 2017.

We celebrated the 25th anniversary of our co-operation with the Special Olympics Foundation, which makes us feel specially proud.

Furthermore, we successfully organized the 3rd edition of our Charity Race. On this occasion, it was to collect funds for children's cancer research. We expected 700 participants and there were more than 1,200. This was only made possible by the spirit of solidarity of our people.

OTIS is a socially committed company and wants to be recognized as such. Social commitment is one of the great elements that unites our human team. In 2017, we received:

- Socially Responsible Company Prize
- Child Protection Prize
- Bequal Seal

We integrate differently-abled workers at both our head offices and our plants and work centres.


3

Management Report

Management Report of Zardoya Otis

(Consolidated financial statements 2017) (In millions of euros – emls)

Key Data at November 30

(Consolidated figures in millions of euros)

						% variance over prior year			
Annual results	**2017**	**2016**	**2015**	**2014**	**2013 (*)**	**17/16**	**16/15**	**15/14**	**14/13**
Profit before tax	**201.3**	207.8	210.0	220.2	218.9	**(3.1)**	(1.0)	(4.6)	0.6
Profit atributed to parent company	**152.7**	152.6	148.7	154.0	150.8	**0.1**	2.6	(3.4)	2.1
EBITDA	**220.8**	227.8	234.0	242.6	247.0	**(3.1)**	(2.7)	(3.5)	(1.8)
Cash-Flow	**163.9**	163.3	163.8	199.5	182.9	**0.3**	(0.3)	(17.9)	9.1
Gross dividends	**150.1**	147.7	144.1	147.2	147.7	**1.6**	2.4	(2.1)	(0.3)

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

Shareholders' Equity	**2017**	**2016**	**2015**	**2014**	**2013 (*)**	**17/16**	**16/15**	**15/14**	**14/13**
Capital and Reserves (**)	**430.1**	423.6	419.6	412.1	407.1	**1.5**	0.9	1.8	1.2

(*) Restated figures in application of NIC 19-R
(**) Includes treasury stock

Sales	**2017**	**2016**	**2015**	**2014**	**2013 (*)**	**17/16**	**16/15**	**15/14**	**14/13**
New sales	**48.8**	41.7	37.1	39.4	53.8	**16.8**	12.6	(6.0)	(26.8)
Service	**545.4**	534.4	539.9	546.9	579.9	**2.0**	(1.0)	(1.3)	(5.7)
Total Exports	**196.3**	179.2	163.3	160.5	133.4	**9.5**	9.7	1.7	20.4
Exports to Portugal and Morocco (*)	**(12.1)**	(9.4)	(8.1)	(7.9)	(7.9)	**29.2**	15.9	2.6	(0.1)
Net exports	**184.2**	169.9	155.3	152.7	125.5	**8.4**	9.4	1.7	21.7
Total	**778.3**	**746.0**	**732.2**	**739.0**	**759.2**	**4.3**	**1.9**	**(0.9)**	**(2.7)**

(*) Deducted because already included in consolidated sales.

New Sales	**2017**	**2016**	**2015**	**2014**	**2013 (*)**	**17/16**	**16/15**	**15/14**	**14/13**
Orders received	**197.2**	168.2	123.1	106.0	109.8	**17.3**	36.6	16.2	(3.4)
Backlog of unfilled orders	**139.3**	109.9	91.9	82.5	83.5	**26.8**	19.7	11.3	(1.1)
Service	**2017**	**2016**	**2015**	**2014**	**2013 (*)**	**17/16**	**16/15**	**15/14**	**14/13**
Units under maintenance	**285,840**	285,586	283,626	284,418	284,940	**0.1**	0.7	(0.3)	(0.2)
Maintenance centers	**375**	374	371	371	372	**0.0**	0.8	0.0	(0.3)
Manpower	**2017**	**2016**	**2015**	**2014**	**2013 (*)**	**17/16**	**16/15**	**15/14**	**14/13**
Total manpower	**5,233**	5,145	5,086	5,137	5,399	**1.7**	1.2	(1.0)	(4.9)

Stock Market Data at December 31 (Euros)

Share capital	2017	2016	2015	2014	2013
Shares written off					
Number of shares before share capital increase	**470,464,311**	452,369,530	434,970,702	418,241,060	385,241,499
Number of shares capital increase (Non-monetary contribution)					16,913,367
Splits	**-**	-	-	-	-
Capital increases (Bonus issues)	**-**	1x25	1x25	1x25	1x25
Number of shares at December 31	**470,464,311**	470,464,311	452,369,530	434,970,702	418,241,060
Par value	**0.10**	0.10	0.10	0.10	0.10
Share capital (millions)	**47.0**	47.0	45.2	43.5	41.8
Profit per share	**2017**	**2016**	**2015**	**2014**	**2013**
Profit after Tax	**0.325**	0.331	0.329	0.354	0.361
P.A.T. adjusted by capital increase	**0.325**	0.331	0.316	0.327	0.321
Adjusted P.A.T. variance (%)	**(1.9%)**	4.7%	(3.4%)	2.1%	(16.7%)
EBITDA per share	**0.469**	0.484	0.517	0.558	0.591
EBITDA adjusted by capital increase	**0.469**	0.484	0.497	0.516	0.525
Adjusted EBITDA variance (%)	**(3.1%)**	(2.7%)	(3.5%)	(1.8%)	(11.1%)
Dividend per share (*)	**2017**	**2016**	**2015**	**2014**	**2013**
Dividend per share	**0.319**	0.320	0.325	0.345	0.360
Dividend adjusted by capital increase	**0.319**	0.314	0.306	0.313	0.314
% variance adjusted dividend	**1.6%**	2.4%	(2.1%)	(0.3%)	(16.4%)
Paid in calendar year	**0.319**	0.314	0.319	0.338	0.353

(*) Calculated with dividends charged to the period and partial cash distribution of share premium, with number of shares at December 31

Price per share	2017	2016	2015	2014	2013
Price of 1 share	**9.12**	8.03	10.78	9.20	13.15
Price adjusted by share capital increase	**9.12**	8.03	10.37	8.51	11.69
% adjusted price variance	**13.6%**	(22.5%)	21.9%	(27.2%)	32.2%
Annual yield of one share (%) (*)	**2017**	**2016**	**2015**	**2014**	**2013**
Dividend	**4.0**	3.0	3.6	2.7	3.4
Market value	**13.6**	(22.5)	21.9	(27.2)	32.2
Total	**17.5**	**(19.5)**	**25.5**	**(24.6)**	**35.6**

(*) Calculated with dividends charged to the period and partial cash distribution of share premium, with number of shares at December 31

Trading	2017	2016	2015	2014	2013
Market capitalization (millions)	**4,291**	3,778	4,877	4,002	5,500
Trading fequency (%)	**100.0**	100.0	100.0	100.0	100.0
Effective value traded (millions)	**939**	818	1,094	1,494	691
Stock market ratios	**2017**	**2016**	**2015**	**2014**	**2013**
PER (price/net profit: number of times)	**28.1**	24.8	32.8	26.0	36.5
Pay-out % (dividends paid / net profit)	**98.25**	96.74	96.91	95.6	97.9
Variance of stock market indices	**2017**	**2016**	**2015**	**2014**	**2013**
Zardoya Otis, S.A.					
Market capitalization at 12/31 (Mill.€)	**4,291**	3,778	4,877	4,002	5,500
Market capitalization at 1/1/1990 (Mill.€) (Start of IBEX 35)	**331**	331	331	331	331
Variance market capitalization since 1/1/1990	**3,959**	3,446	4,545	3,670	5,168
% Variance market capitalization since 1/1/1990	**1,194.7%**	1,040.0%	1,371.6%	1,107.6%	1,559.6%
% inter-annual variance market capitalization	**13.6%**	(22.5%)	21.9%	(27.2%)	32.2%
IBEX 35					
IBEX 35 at 12/31	**10,044**	9,352	9,544	10,280	9,917
IBEX 35 at start (1/1/1990)	**3,000**	3,000	3,000	3,000	3,000
Variance IBEX-35 since 1/1/1990	**7,044**	6,352	6,544	7,280	6,917
% variance IBEX 35 since 1/1/1990	**234.8%**	211.7%	218.1%	242.7%	230.6%
% inter-annual variance IBEX 35	**7.4%**	(2.0%)	(7.2%)	3.7%	21.4%

Presentation of the Annual Financial Statements

The consolidated annual financial statements of the Zardoya Otis Group at November 30, 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations (IFRIC) adopted in the European Union and in force at said date.

Business evolution

Profit and loss

The EBITDA (operating profit + depreciation + amortization) obtained in 2017 was 220,8 million euros, 3.1% lower than the 227.8 million euros obtained in 2016.

The profit after tax at the end of the 2017 reporting period was 152.7 million euros, 0.1% higher than the 152.6 million euros in 2016.

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

The consolidated cash flow (net profit + depreciation + amortization) at the end of 2017 was 163.9 million euros (2016: 163.3 million of euros).

Sales

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

New Sales

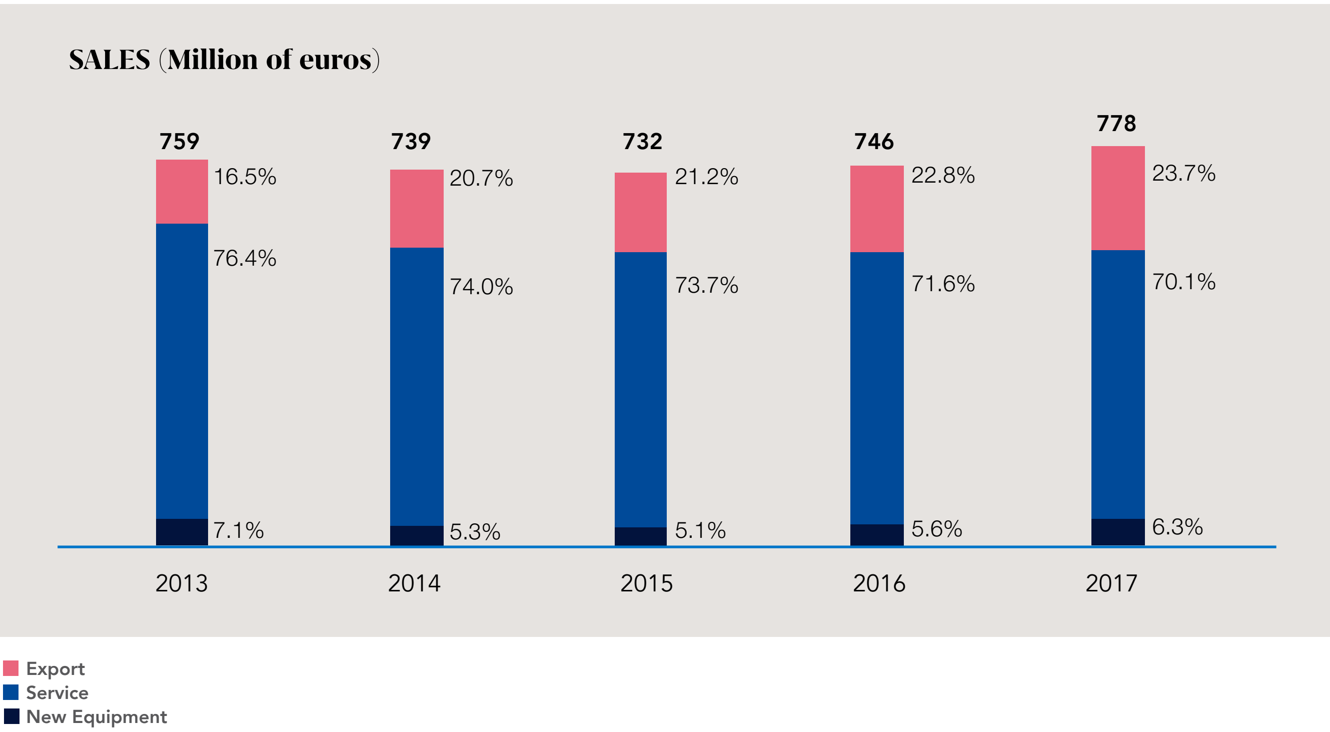
Work completed: the value of work completed in 2017 was 48.8 million euros, 16.8% higher than the 2016 figure.

In 2017, New Installation sales accounted for 6.3% of total sales (5.6% in 2016).

Orders received and backlog of unfilled orders

Orders received for Installations in 2017, for both new and existing buildings, totalled 197.2 million euros, representing an increase of 17.3% on 2016.

The **backlog of unfilled orders** was 139.3 million euros in 2017, which was an increase of 26.8% on the preceding annual period.



Service

Sales: consolidated Service sales totalled 545.4 million euros, showing an increase of 2.0% on the 2016 figure.

The Service activity accounted for 70.1% of the Group's total billing in 2017.

Units under maintenance

The number of units rose by 0.1% in 2017, totalling 285,840 units. Our service excellence has allowed us to keep the confidence our customers place in us.

Exports

Net consolidated Export sales were 184.2 million euros, 8.4% up on the 2016 figure.

Exports represented 23.7% of consolidated Group sales in 2017 (22.8% in 2016).

Employees

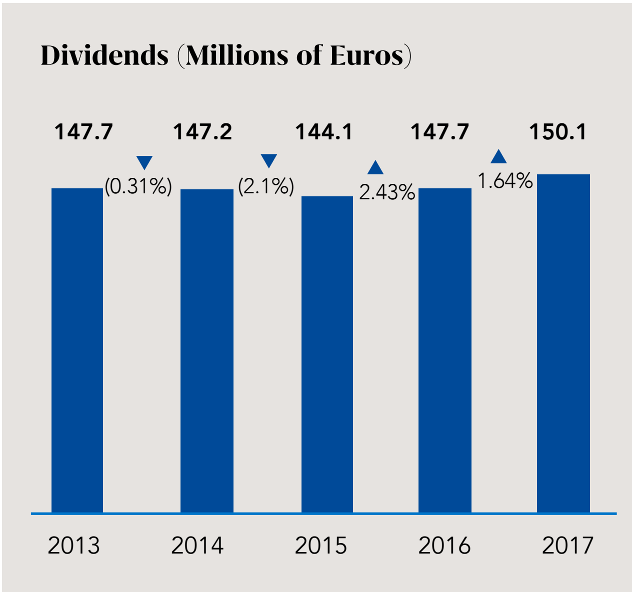
At the end of the 2017 reporting period, the Group employed 5,233 people, 1.7% more than at the end of the previous reporting period.

Dividends

The dividends and partial cash distribution of the share premium paid out in the 2017 calendar year were as follows:

At November 30, 2017, interim dividends charged to the period ended at said date had been declared for an amount of EThs 75 274 (EThs 73,819 in 2016). These interim dividends were paid for shares 1 to 470,464,311.

Additionally, a partial cash distribution of the share premium took place on July 10, 2017 for shares 1 to 452,369,530, for a gross amount of EThs 37 166. Treasury shares held at said dates were excluded.



Date	Gross per share	Charged to	Shares entitled to dividend	Total paid
April 10	0.080 euros	1st interim, 2017	470,464,311	37,637,144.88
July 10	0.079 euros	Partial cash distribution of share premium	470,464,311	37,166,680.57
October 10	0.080 euros	2nd interim, 2017	470,464,311	37,637,144.88
January 10	0.080 euros	3rd interim, 2017	470,464,311	37,637,144.88
TOTAL SHAREHOLDERS´ REMUNERATION IN 2017				**150,078,115.21**

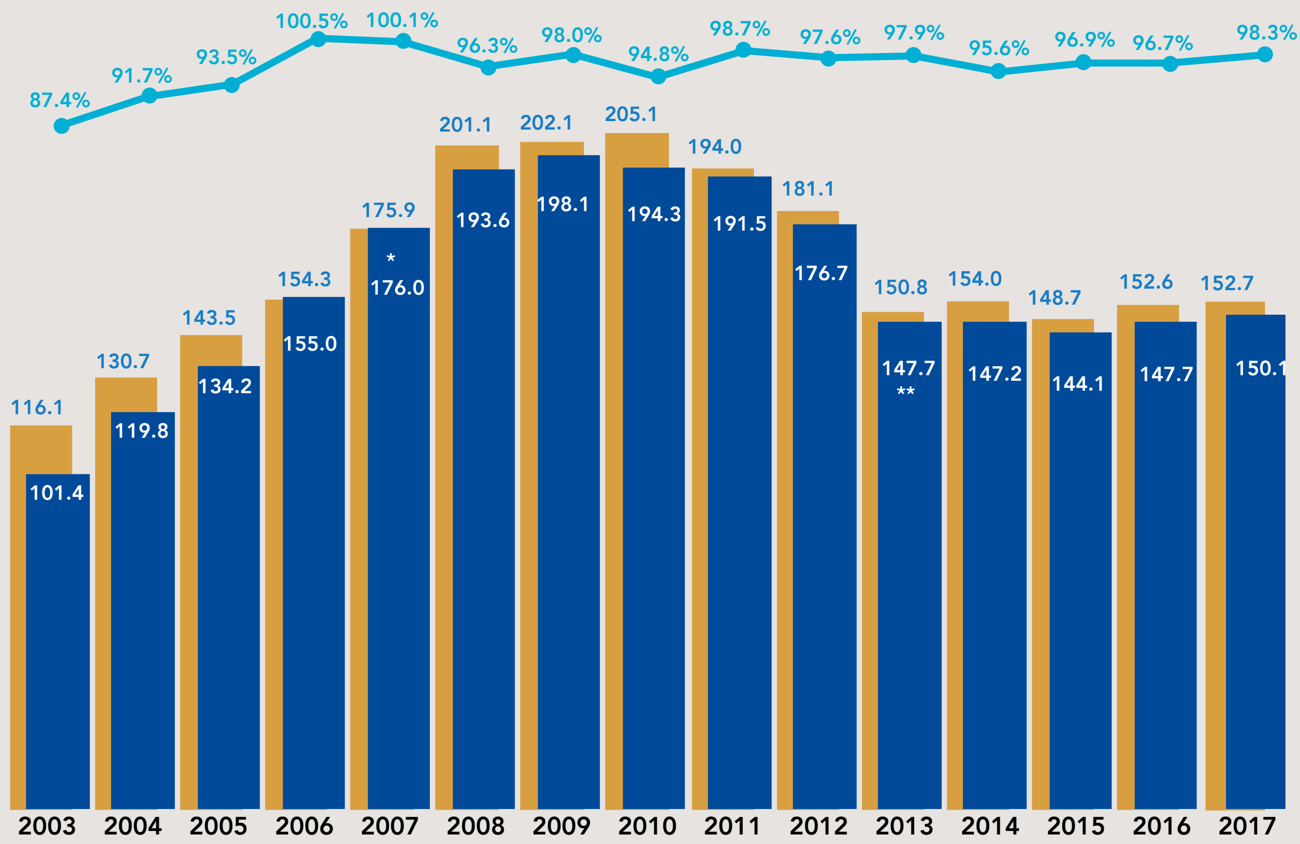
The total amount of the dividends (including the third interim dividend for the year, declared in December 2017 as an event after the end of the reporting period) and the partial cash distribution of the share issue premium in 2017 amounts to 150.1 Million Euros, which represents an increase of 1.6% compared to those paid in 2016 and together represents a pay-out of 98.25% of the consolidated result attributed to the parent company, Zardoya Otis, SA; thus continuing the policy followed by the Company to distribute a figure close to 100% pay-out.

Evolution of capital

Treasury stock

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

Profit after Tx vs. Dividends Paid in the calendar year (Pay-Out %)



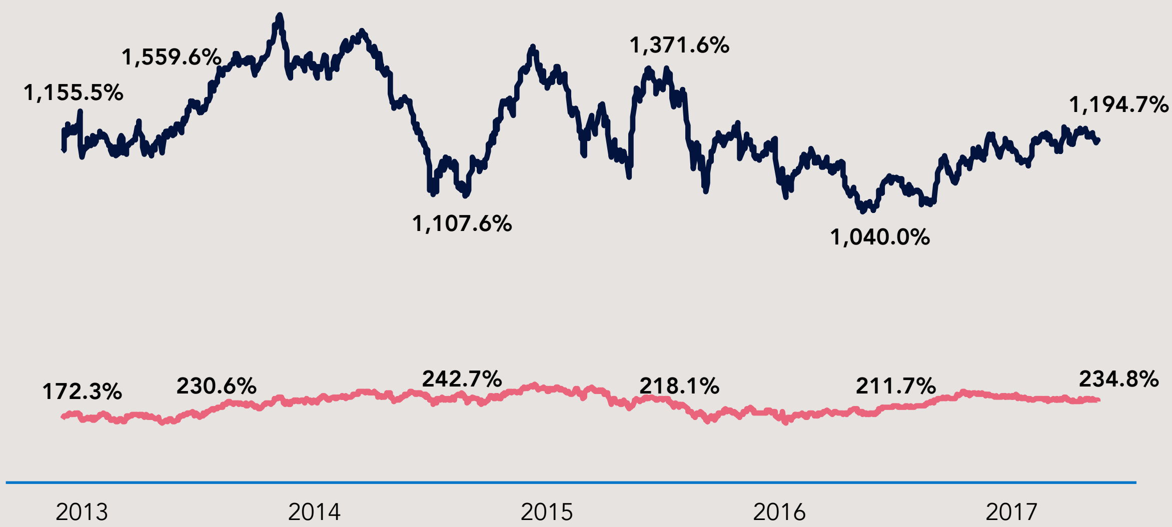
* Before Extraordinary Results
** Restated figures in application of NIC 19-R

Profit after tax
Dividends paid in the calendar year
Pay out

Evolution of Zardoya Otis on the Securities Markets

The quoted price at the end of 2017 was 9.12 euros per share, representing an increase of 13.6% on the adjusted value at the end of 2016, while the IBEX rose by 7.4%.

Stock Indexes - % of Variation
Base 100 = 1/1/1990 (Starting IBEX 35)



Zardoya Otis - % Market Value Variation
IBEX 35 Index - % Variation

Historical Stock Market Data

(In euros)

HISTORICAL STOCK MARKET DATA (Euros)

Year	Capital Increase and Splits	Shares price: Last Price	Shares price: Adjusted Price	Shares price: Variance %	P.E.R.	Pay-Out %	Market Capitalizat. (Mill.)
dic-74		37.68	**0.03**		14.3		13.3
dic-90		63.71	**0.74**	5.7	13.8	80.1	350.2
dic-91	1 x 5	61.30	**0.86**	15.5	14.0	75.5	404.4
dic-92		52.23	**0.73**	(14.8)	11.0	79.8	344.6
dic-93	1 x 10	81.74	**1.26**	72.2	17.0	80.8	593.1
dic-94	1 x 10	82.28	**1.40**	10.7	17.4	57.4	656.8
dic-95	1 x 10	79.63	**1.49**	6.5	17.0	98.4	699.2
dic-96	1 x 10	90.75	**1.86**	25.4	19.5	100.8	876.5
dic-97	1 x 10	106.68	**2.41**	29.3	22.0	80.8	1,133.4
dic-98	split 5 x 1 and 1 x 6	26.62	**3.51**	45.6	28.9	84.7	1,649.8
dic-99	split 2 x 1 and 1 x 10	9.77	**2.83**	(19.3)	21.2	89.9	1,332.1
dic-00	1 x 10	9.35	**2.98**	5.3	19.7	94.0	1,402.3
dic-01	1 x 10	10.42	**3.62**	21.5	20.7	90.8	1,703.6
dic-02	1 x 10	12.55	**4.77**	31.8	22.9	88.9	2,245.2
dic-03	1 x 10	16.50	**6.90**	44.6	28.0	87.4	3,247.1
dic-04	1 x 10	18.87	**8.68**	25.8	31.2	91.7	4,084.9
dic-05	1 x 10	21.40	**10.83**	24.7	35.5	93.5	5,095.8
dic-06	1 x 10	22.98	**12.79**	18.1	39.0	100.5	6,019.2
dic-07	1 x 10	19.37	**11.86**	(7.3)	31,7 (*)	100,1 (*)	5,581.0
dic-08	1 x 10	12.69	**8.55**	(27.9)	20.0	96.3	4,022.0
dic-09	1 x 20	13.61	**9.63**	12.6	22.4	98.0	4,529.2
dic-10	1 x 20	10.54	**7.83**	(18.7)	18.0	94.8	3,682.9
dic-11	1 x 20	10.60	**8.27**	5.6	20.0	98.7	3,889.1
dic-12	1 x 20	10.80	**8.84**	7.0	23.0	97.6	4,160.6
dic-13	1 x 25	13.15	**11.69**	32.2	36.5	97.9	5,499.9
dic-14	1 x 25	9.20	**8.51**	(27.2)	26.0	95.6	4,001.7
dic-15	1 x 25	10.78	**10.37**	21.9	32.8	96.9	4,876.5
dic-16	1 x 25	8.03	**8.03**	(22.5)	24.8	96.7	3,777.8
dic-17	-	9.12	**9.12**	13.6	28.1	98.3	4,290.6

(*) Without Extraordinary Result

Forecast evolution

In 2017, we increased our sales in 4.3% as a result of the slight recovery in both the general economy and the construction sector. The backlog of unfilled orders for New Installations increased by 17.3% while, in the Service area, sales rose by 2.0%.

At the end of 2017, New Installations sales accounted for 6.3% of total sales. We expect this relative weight to continue to grow in 2018. As in the preceding reporting period, the recovery continued in the construction sector in the Iberian and Moroccan markets.

General Description of the Group's Risk Policy

The Group' activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's global risk management program is focused on the uncertainty of the financial markets and tries to minimize any potential adverse effects on the Group's financial profitability.

Risk management is controlled by Group Management in accordance with policies approved by the parent company's Board of Directors. Management assesses and hedges financial risks in close collaboration with the operating units of the rest of the Group, in order to:

- Ensure that the most important risks are identified, assessed and managed.

- Ensure an appropriate operating segregation of risk management functions.

- Ensure that the risk exposure level accepted by the Group in its operations is in line with its risk profile.

In the 2017 Annual Financial Statements of Zardoya Otis, S.A. and Subsidiaries, the information concerning the following risks is presented:

a) Market risk:

(a) Exchange rate risk

(b) Price risk

(c) Cash flow interest rate risk and fair value risk

b) Credit risk

c) Liquidity risk

d) Capital risk

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

Zardoya Otis, S.A. has an Internal Audit Department, with systems and processes that are intended to evaluate, monitor, mitigate or reduce the Company's main risks by preventive measures and alerts of possible situations of risk. The Company has the risks that affect assets and liabilities covered by the appropriate insurance policies. Likewise, it has processes that ensure control of any risk that may stem from trading operations.

Conservative liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

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

Average Payment Period to Suppliers

In relation with the provider of Law 3/2004 and Law 15/2010 on measures to combat late payment in commercial operations, the Law 31/2014, of December 3, amended Law 15/2010 in relation to the information to be included in the report to request the average period of payment to suppliers. In this way, the average payment period in 2017 to suppliers is below 60 days. The Company has planned measures that are aimed at maintaining compliance with the law, among which are maintaining the adequacy of the average payment period for its operations with group companies and associated with the provisions of the regulations and compliance with the agreements and commercial relationships with external suppliers.

Research and development expenses

The Group parent follows the policy of recognizing research costs in profit and loss in the period in which they are incurred, in accordance with its accounting policies and criteria. At November 30, 2017, the income statement included expenses of ETHs 1,957 for this item (2016: ETHs 2,160).

Significant events at November 30, 2017

On March 7, 2017, Zardoya Otis, S.A. acquired 7.23% of shares in the subsidiary Electromecánica Hemen Elevadores, S.L. from non-controlling interests. This transaction meant that the percentage held by Zardoya Otis, S.A. in Hemen Elevadores, S.L. changed, rising from 92.77% to 100%.

On May 17, 2017, Zardoya Otis, S.A. acquired 2.19% of the shares in the subsidiary Acresa Cardellach, S.L. from non-controlling interests. This transaction meant a change in Zardoya Otis, S.A.'s holding in Acresa Cardellach, S.L., which rose from 94.57% to 96.76%.

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

Events after the reporting date

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

Annual Corporate Governance Report

The Annual Corporate Governance Report for 2017 forms part of this Management Report.

Said Report is published on the website of both the National Securities Market Commission (CNMV) and Zardoya Otis.

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Consolidated Annual Accounts 2017

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This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Audit report on the consolidated annual accounts issued by an independent auditor

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

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Zardoya Otis, S.A. (the parent company) and subsidiaries (the Group), consisting of the consolidated balance sheet at 30 November 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated annual accounts for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the Group's consolidated equity and financial position at 30 November 2017 and the consolidated results of its operations and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

Our audit has been carried out in accordance with prevailing Spanish auditing regulations. Our responsibilities under said regulations are described below under Responsibilities of the auditor in relation to the audit of the consolidated annual accounts.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, applicable to our audit of the consolidated annual accounts in Spain, as required by auditing regulations. In this respect, we have not provided any services other than audit services, nor have any situations or circumstances arisen that, in accordance with those regulations, might have undermined said independence.

We consider that the audit evidence obtained provides a sufficient and appropriate basis for our opinion.

Key audit matters

Key audit matters are those that, in our professional judgment, were of most significance in the audit of the consolidated annual accounts of the current period. These matters have been addressed in the context of our audit of the consolidated annual accounts as a whole and in the preparation of our opinion thereon, and we do not express a separate opinion on these matters.

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Zardoya Otis, S.A. and subsidiaries

Key audit matters	How the matter was addressed in the audit
Revenue recognition According to Note 22 to the accompanying consolidated annual accounts, the Group basically has three types of revenue from: a) provision of services, mainly contracts for the maintenance, modernisation and repair of elevators; b) installation and assembly; and c) exports. Note 2.20 indicates that revenues from maintenance contracts are recognised on a straight-line basis as they accrue. Revenue may be billed monthly, quarterly, half-yearly or annually depending on the terms of the contracts, advance payment being recognised, as applicable, to reflect accrual correctly. This type represents the most significant portion of the Group's revenue. According to Note 2.20, elevator installation and assembly revenue is recognised based on the estimated percentage of completion of the work. This area requires judgements and estimates. Specifically, management periodically re-estimates the margin, estimating costs yet to be incurred such that the project's final margin does not differ substantially from the margin at contract inception. Special attention is paid during the audit to the revenue recognition process to assure that the Group's consolidated revenue is duly supported. We consider the recognition of revenue as a result of transactions actually effected and within the period audited to be a key audit matter.	We describe, understand, assess and validate the relevant transactions and controls that support the revenue cycle, as well as the general IT controls and those of the entity's control environment. Additionally, substantive tests of detail are carried out on revenue recognised during the year, using sampling techniques for different transaction types. Specifically, these refer to: • Recognition of revenue from the installation and assembly of elevators, as well as modernisations and repairs, for which we test the periodic re-estimation of margins for a sample of projects. • Recognition of revenue from maintenance contracts, checking the contractual documentation, the proper recognition of revenue and invoice collection for a sample of transactions. We check a sample of transactions showing revenue not collected at the year end, through third-party confirmation or alternative audit procedures using the relevant documentary support. We also check that the revenue has been accounted for in the correct period. We perform a computer-assisted audit test designed to detect unusual items. For the items that affect revenue recognition, we have verified the supporting documents to verify that they are correctly recognised. We have checked the sufficiency of the information disclosed in the consolidated annual accounts. On the basis of our tests, our audit objectives have been fulfilled for this key matter.

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Zardoya Otis, S.A. and subsidiaries

Key audit matters	How the matter was addressed in the audit
Recovery of value of goodwill	
The Group records goodwill totalling €147 million, as described in Note 6 to the consolidated annual accounts. Management is required to assess goodwill impairment on an annual basis. The Group has identified three cash generating units (CGU) on a market and geographical basis to which goodwill is allocated. This goodwill is tested for impairment by means of a comparison between carrying value for consolidation purposes and recoverable value. Management uses the discounted cash flow valuation method for this purpose. Key assumptions include: the discount rate, the period envisaged and the growth rate used for the projection subsequent to the envisaged period. Other sensitive aspects that are included in the projections are the growth of the portfolio of maintenance contracts in the period envisaged and the Group's expense and cost structure. It is a key audit area due to the size of the item and management's judgements and estimates, which affect forecast flows.	When testing the analysis of the recovery of the value of goodwill, we draw on our knowledge to conclude on whether the valuation method and the key assumptions employed by management are suitable. In particular: • We verified that short-term revenue growth rates are consistent with recent years. • We confirm that long-term growth rates are consistent with long-term economic forecasts. • We check the reasonableness and consistency of future margins based on current and past performance. • We evaluate the reasonableness of the discount rate used to determine the present value of the CGUs considering, among other matters, the cost of capital for the Group and comparable organisations. • We verify the arithmetic calculations included in the valuation. • We verify the origin of the information used in the valuations, checking that the forecasts are approved by management. • We verify management's sensitivity analysis for discount rates and growth rates, evaluating in which other stress conditions impairment could arise. We have also checked the sufficiency of the information disclosed in the annual accounts. As a result of our tests, we consider that management's estimates sufficiently cover the amount recognised as goodwill.

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Zardoya Otis, S.A. and subsidiaries

Key audit matters	How the matter was addressed in the audit
Recovery of the value of intangible assets with finite useful lives	
The Group records intangible assets with finite useful lives totalling €178 million, as described in Note 6 to the consolidated annual accounts. This item basically includes amounts relating to the cost of elevator equipment maintenance contracts acquired as a portfolio of contracts or as part of a business combination. The item is made up of a variety of portfolios in terms of both geographic location and acquisition date. They are amortised on a straight-line basis over a period deemed to be equivalent to their estimated useful life (from 10 to 20 years, depending on the features of the maintenance contract portfolio). The amortisation charged is assessed regularly by analysing the useful life of the assets and, if applicable, impairment testing is performed where there are factors that indicate a possible loss of value. For this purpose, management takes into account the rate of cancellations and customer churn. It is a key audit area due to the size of the item and management's judgements and estimates, which affect forecast flows.	For the acquisitions of maintenance contract portfolios, we check the key supporting documents, such as contracts and purchase deeds, asset valuations at the time of purchase and other relevant documents. As regards possible impairment, amortisation and useful lives of the intangible assets: • We check that the evolution of net contract loss rates is consistent. • We verify the evolution of maintenance contract prices. • We assess the reasonableness of the relevant margins and profits. We have also checked the sufficiency of the information disclosed in the annual accounts. Our tests have revealed a solid basis supporting the useful lives and recoverable amounts of the assets.

Other information: Consolidated Directors' Report

The other information only relates to the consolidated directors' report for 2017, the preparation of which is the responsibility of the parent company's administrators and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated Directors' Report. Our responsibility for the consolidated directors' report, in accordance with the requirements of accounting legislation, consists of evaluating and reporting on the consistency of the consolidated directors' report with the consolidated annual accounts based on the knowledge of the company obtained in the performance of the audit of said consolidated accounts, without including any information other than that obtained as evidence during the audit. Likewise, our responsibility is to evaluate and report on whether the content and presentation of the consolidated directors' report comply with applicable regulations. If we conclude that there are material misstatements on the basis of our work, we are required to report them.

On the basis of the work performed, as described in the preceding paragraph, the information contained in the consolidated directors' report is consistent with that of the consolidated annual accounts for 2017 and its content and presentation comply with application legalisation.

Zardoya Otis, S.A. and subsidiaries

Responsibility of the directors and the audit committee in relation to the consolidated annual accounts

The directors of the parent company are responsible for drawing up and signing the accompanying consolidated annual accounts such that they present fairly the Group's consolidated equity, financial situation and results in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for the internal control which they consider necessary to enable the preparation of consolidated annual accounts free from material misstatements, due to fraud or error.

In the preparation of the consolidated annual accounts, the parent company's directors are responsible for assessing the Group's capacity to continue as a going concern, disclosing, as appropriate, any going concern-related issues and applying the going-concern accounting principle, unless the directors intend to wind up the Group or discontinue its operations, or unless no other realistic alternative exists.

The parent company's audit committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

Auditors' responsibilities in relation to the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance that the consolidated annual accounts as a whole are free from material misstatement due to fraud or error, and to issue an audit report containing our opinion.

Reasonable assurance is a high degree of assurance but does not guarantee that an audit conducted in accordance with current Spanish auditing regulations will always detect a material misstatement when such exists. Misstatements may be due to fraud or error and are regarded as material if, individually or in aggregate, it may reasonably be foreseen that they will influence the business decisions taken by users on the basis of the consolidated annual accounts.

As part of an audit conducted in accordance with prevailing Spanish audit regulations, we apply our professional judgement and maintain an attitude of professional scepticism throughout the audit. In addition:

- We identify and assess the risks of material misstatement in the consolidated annual accounts due to fraud or error; we design and apply audit procedures to respond to those risks and obtain sufficient and adequate audit evidence to provide a basis for our opinion. The risk of not detecting material misstatement due to fraud is higher than in the case of a material misstatement due to error, as fraud may involve collusion, falsification, deliberate omissions, intentionally erroneous statements or the circumvention of internal control.

- We obtain knowledge of internal control mechanisms relevant for the audit in order to design the audit procedures which are appropriate depending on the circumstances, and not with the intention of expressing an opinion on the efficiency of the Group's internal control system.

- We assess whether the accounting policies applied are adequate and the reasonableness of the accounting estimates and the relevant information disclosed by the parent company's directors.

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Zardoya Otis, S.A. and subsidiaries

- We conclude as to whether the utilisation by the parent company's directors of the going concern principle is appropriate and, basing ourselves on the audit evidence obtained, we conclude as to whether there is or not any material uncertainty in relation to the events or conditions that could generate significant doubts as to the Group's capacity to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our audit report to the corresponding information disclosed in the consolidated annual accounts or, if those disclosures are unsuitable, to express a modified opinion. Our conclusions are based on audit evidence obtained up to the date of our audit report. However, future events or conditions could cause the Group to cease to be a going concern.

- We evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosed information, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that succeeds in expressing a true and fair view.

- We obtain sufficient and adequate evidence in relation to the financial information of the companies or the business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for managing, overseeing and performing the group audit. We are solely responsible for our audit opinion.

We liaise with the parent company's audit committee in relation to, among other matters, the planned scope and timing of the audit and the significant audit findings, as well as any major internal control weakness that we identify in the course of our audit.

We also provide the parent company's audit committee with a statement to the effect that we have complied with applicable ethical requirements, including those of independence, and we have notified the Audit Committee of any issues that could reasonably pose a threat to our independence and, if appropriate, the relevant safeguards.

Among the matters notified to the parent company's audit committee, we determine those that have been of the greatest significance in the audit of the consolidated annual accounts for the current period and which therefore are key audit matters.

We describe these matters in our audit report unless legal or regulatory provisions prohibit the public disclosure of the matter concerned.

Information on other legal and regulatory requirements

Additional report for the parent company's audit committee

The opinion expressed in this report is consistent with the content of our additional report for the parent company's audit committee dated 20 February 2018.

Term of engagement

We were appointed auditors of the Group for a one-year period at the annual general meeting of shareholders held on 24 May 2017.

We were previously appointed under resolutions adopted by general shareholders' meetings for a period of three years and have been auditing the annual accounts uninterruptedly since the year ended 30 November 1990.

Zardoya Otis, S.A. and subsidiaries

Services provided

Non-auditing services provided to the Group are disclosed in Note 37.b to the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original Spanish version signed by
Rafael Pérez Guerra (20738)

27 March 2018

ZARDOYA OTIS S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT NOVEMBER 30, 2017 AND 2016
(Thousands of euros - ETHs)

	2017	2016
ASSETS		
Noncurrent assets		
Property, plant & equipment (Note 5)	60 093	60 601
Intangible assets (Note 6)	177 749	185 459
Goodwill (Note 6)	146 551	145 444
Financial investments (Note 7)	718	728
Deferred tax assets (Note 18)	23 994	23 205
Other noncurrent assets (Notes 7 & 19)	8 125	7 379
	417 230	**422 816**
Current assets		
Inventories (Note 9)	33 658	30 545
Financial receivables (Note 7)	224	1 409
Trade and other receivables (Notes 7 & 8)	201 405	192 436
Cash and cash equivalents (Notes 7 & 10)	60 854	62 344
	296 141	**286 734**
Total assets	**713 371**	**709 550**

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

ZARDOYA OTIS S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT NOVEMBER 30, 2017 AND 2016
(Thousands of euros - ETHs)

	2017	2016
EQUITY		
Share capital (Note 11)	47 046	47 046
Share Premium	306	37 472
Legal reserve (Note 13)	9 785	9 409
Reserves in subsidiaries & other reserves (Note 14)	295 448	250 838
Retained earnings (Note 15)	152 744	152 626
Interim dividends paid (Note 29)	(75 274)	(73 819)
Foreign exchange differences	(489)	(5)
Non-controlling interests (Notes 2 & 15)	11 426	14 009
Total equity	**440 992**	**437 576**
LIABILITIES		
Noncurrent liabilities		
Other payables (Notes 7 & 16)	2 648	3 850
Provisions for other liabilities and expenses (Note 21)	10 084	8 370
Deferred tax liabilities (Note 18)	24 263	26 792
	36 995	**39 012**
Current liabilities		
Trade and other payables (Notes 7,16)	216 544	216 429
Current tax liabilities (Note 17)	7 856	3 072
Borrowings (Notes 7,20)	323	324
Provisions for other liabilities and expenses (Note 21)	10 661	13 137
	235 384	**232 962**
Total liabilities	**272 379**	**271 974**
Total equity and liabilities	**713 371**	**709 550**

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

ZARDOYA OTIS S.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2017 AND 2016
(Thousands of euros - ETHs)

		2017	2016
	Sales (Note 22)	778 282	746 041
	Other revenue	1 448	2 656
	Raw materials and consumables used (Note 24)	(257 376)	(228 121)
	Employee benefit expense (Note 23)	(246 532)	(241 373)
	Amortization, depreciation and impairment losses(Note 5 & 6)	(19 942)	(21 647)
	Other net expenses (Note 25)	(54 992)	(51 399)
	Operating profit	**200 888**	**206 157**
	Financial income (Note 26)	621	768
	Financial costs (Note 26)	(394)	(173)
	Net foreign exchange differences (Note 26)	70	28
	Other gains and losses	**129**	**1 050**
	Profit before tax	**201 314**	**207 830**
	Income tax expense (Note 27)	(47 827)	(54 385)
	Profit for period	**153 487**	**153 445**
	Profit from continuing operations after tax (Note 15)	**153 487**	**153 445**
	Attributable to:		
	Shareholders of the Company (Note 15)	152 744	152 626
	Non-controlling interests (Note 15)	743	819
	Earnings per share for the profit on continuing operations attributable to the shareholders of the Company in the period (euros per share) (Note 28)		
	- Basic	0.32	0.33
	- Diluted	0.32	0.33

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

ZARDOYA OTIS S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIODS ENDED NOVEMBER 30, 2017 AND 2016
(Thousands of euros - ETHs)

	2017	2016
Profit for the period (Note 15)	**153 487**	**153 445**
Other comprehensive income:		
Items that can be transferred to profit and loss		
Exchange rate differences	(485)	(56)
Items that will not be reclassified to profit and loss		
Actuarial gain or (loss)	3 013	(341)
Other comprehensive income for the period, net of taxes		
Total comprehensive income for the year, net of taxes	**156 015**	**153 048**
Attributable to:		
– Shareholders of parent company	155 272	152 229
– Non-controlling interests	743	819

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

ZARDOYA OTIS S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIODS ENDED NOVEMBER 30, 2017 AND 2016
(Thousands of euros - ETHs)

	Attributable to shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Legal reserve	Treasury stock	Accumulated foreign exchange differences	Reserves in consolidated companies and other reserves	Accumulated gains		
Balance at November 30, 2015	**45 237**	**73 615**	**9 047**	**(92)**	**51**	**196 467**	**93 763**	**15 714**	**433 802**
Comprehensive profit for the period (Note 15)					(56)		152 285	819	153 048
Distribution of profit 2015 (Note 15)			362			41 167	(150 878)		(109 349)
Dividend relating to 2015 (Note 29)							109 349		109 349
Capital increase (Note 11)	1 809					(1 809)			-
Other equity transactions (Note 12)				(5 293)					(5 293)
Other equity transactions (Note 12)				491		135			626
Business combinations				4 894		(226)			4 668
Dividend 2016 (Note 29)							(110 008)		(110 008)
Partial monetary distribution of share premium (Note 29)		(36 143)							(36 143)
Transactions with non-controlling interests (Notes 2, 6)						(598)		(1 344)	(1 942)
Other movements								(1 181)	(1 181)
Balance at November 30, 2016	**47 046**	**37 472**	**9 409**	**-**	**(5)**	**235 134**	**94 511**	**14 009**	**437 576**
Comprehensive profit for the period (Note 15)					(485)		155 755	743	156 013
Distribution of profit 2016 (Note 15)			376			40 452	(152 285)		(111 457)
Dividend relating to 2016 (Note 29)							111 457		111 457
Dividend 2016 (Note 29)							(112 911)		(112 911)
Partial cash distribution of share premium (Note 29)		(37 166)							(37 166)
Transactions with non-controlling interests (Notes 2, 6)						806		(2 250)	(1 444)
Other movements								(1 076)	(1 076)
Balance at November 30, 2017	**47 046**	**306**	**9 785**	**-**	**(490)**	**276 392**	**96 527**	**11 426**	**440 992**

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

ZARDOYA OTIS S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIODS ENDED NOVEMBER 30, 2017 AND 2016
(Thousands of euros - ETHs)

	2017	2016
Net profit	**152 744**	**152 626**
Adjustments to profit:		
Amortization/depreciation/provisions (Notes 5,6,8)	17 865	19 017
Taxes (Note 27)	47 827	54 385
Other losses and gains (Note 26)	297	(485)
Gains/(losses) on sales of fixed assets	127	1 050
Tax paid in period (Note 27)	(42 677)	(56 276)
Change in working capital	(13 055)	(7 816)
Profit attributable to non-controlling interests (Note 15)	743	819
Cash flows from operating activities (Note 30)	**163 871**	**163 320**
Investment in property, plant & equipment/intangible assets(Notes 5 & 6)	(4 086)	(9 853)
Acquisition of subsidiaries (Notes 6 & 33)	(9 469)	(7 515)
Acquisition of other financial assets	-	-
Cash from business combinations (Note 33)	163	3 095
Cash receipts from asset disposal (Nota 5)	-	1 250
Cash flows from investing activities	**(13 392)**	**(13 023)**
Dividends paid (Note 29)	(150 077)	(146 151)
Acquisition of treasury stock (Note12)	-	(5 293)
Treasury stock sales (Nota12)	-	626
Bank borrowings (Received/Paid) (Note 20)	(1)	(11)
Payment for acquisition of non-controlling interests	(1 891)	(2 677)
Cash flow from financing activities	**(151 969)**	**(153 506)**
Variation in cash and cash equivalents	**(1 490)**	**(3 209)**
Cash and cash equivalents at the beginning of the period (Note 10)	62 344	65 553
Cash and cash equivalents at the end of the period (Note 10)	60 854	62 344

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE PERIODS 2017 AND 2016
(Thousands of euros – ETHs)

1. General information

The main business activity of Zardoya Otis S.A. (the Company) and its subsidiaries (together, the Group) is the manufacturing and installation of elevators, the provision of the related maintenance service and the export of equipment for installation abroad. The Group has manufacturing plants in Madrid and San Sebastian and a Modernization Centre in Vigo (Pontevedra).

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

United Technologies Holding S.A., incorporated in France, holds an interest in the Group of 50.01% of the Company's shares. The Company is part of the UTC Group, incorporated in the United States of America (Notes 11 and 34). The Company is listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges.

These Consolidated Annual Financial Statements were approved by the Board of Directors on February 20, 2018 and are pending the approval of the Annual General Shareholders' Meeting. Nevertheless, Management considers that the above mentioned financial statements will be approved as presented.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented.

2.1 Bases of presentation

The Consolidated Financial Statements of the Group as of November 30, 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) adopted for application in the European Union and in force at that date.

The Group's Consolidated Annual Financial Statements at November 30, 2017 include the figures for the preceding year to allow a comparison to be made. Likewise, they have been prepared up under the going concern principle. They will be formulated by the Board of Directors on February 20, 2018. The Consolidated Annual Financial Statements for 2016 were approved at the General Shareholders' Meeting of May 24, 2017.

The Consolidated Annual Financial Statements have been prepared using the historical cost method, modified by recognition criteria for available-for-sale assets. Assets and liabilities (including derivative instruments) at fair value through profit and loss.

The preparation of consolidated annual financial statements under IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Group's accounting policies.

The accounting estimates, in consequence, can be different to the final result of the circumstances evaluated. Both judgements and estimates are constantly reviewed and are based principally on historical experience and expectations of future events deemed reasonable.

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

(a) Contracts in progress

Contracts in progress are measured at the cost incurred plus the expected profit margin, based on the percentage of completion of the contract, in proportion to the difference between the total estimated cost and the contract price agreed upon with the customers. Said margin is reviewed in accordance with the actual progress of the work and the costs still to be incurred, by means of periodic re-estimation, so that the margin of profit or loss that will result at the end of the contracts will not differ substantially from the margins applied while the contracts were in progress. (Note 2.13.b and 2.20.a).

(b) Employee benefit expenses

The liability recognized in the statement of financial position in respect of defined-benefit pension plans is the present value of the defined-benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined-benefit obligation is calculated annually by independent actuaries using the projected unit credit method. (Note 2.18)

(c) Estimated impairment loss on goodwill and other intangible assets

The Group tests goodwill and units under maintenance for impairment annually, in accordance with the accounting policy described in Note 2.6. The recoverable amounts of the cash-generating units are determined on the basis of calculating the value in use. These calculations require the use of estimates.

(d) Deferred taxes

Deferred tax is calculated on the basis of the temporary differences that arise between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates that have been or are about to be approved at the end of the reporting period and are expected to apply when the related deferred tax asset is realized or deferred tax liability is settled. Deferred tax assets are recognized to the extent that it is likely that future taxable income will be available against which to offset the temporary differences and are reviewed in accordance with any legal changes or circumstances that may affect their recoverability (Note 2.17).

2.2 Consolidation principles

Subsidiaries are all companies in which the Group has the power to govern the financial and operating policies, which, in the latter case, implies a shareholding of more than half the voting rights. When assessing whether the Group controls another entity, the existence of any potential voting rights that are exercisable or convertible is considered. Subsidiaries are fully consolidated from the date on which control is transferred to the Group unless the information provided by the company is not sufficiently reliable and its effect on the consolidated accounts is not material. They are de-consolidated from the date that control ceases.

The Annual Consolidated Financial Statements have been prepared applying the full integration method to the accounting records of Zardoya Otis, S.A. and its subsidiary companies, by including all the items on the statement of financial position and profit and loss items arising from the accounting records. Certain reclassifications deemed advisable have been made in order to improve the presentation of the Consolidated Financial Statements and the related non-controlling interests.

Non-controlling interests in the profit or loss and equity of subsidiaries are shown separately in the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of financial position, respectively.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration for the acquisition of a subsidiary is the fair value of the assets transferred, liabilities incurred and shares in the equity issued by the Group at the acquisition date. The consideration transferred also includes the fair value of any asset or liability that comes from an acquisition agreement. Identifiable assets acquired and identifiable liabilities and contingent liabilities accepted in a business combination are measured initially at their acquisition-date fair values. For each business combination, the Group may elect to recognize any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share in the net identifiable assets of the acquiree. Goodwill is measured as the amount by which the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree exceeds the acquisition-date net amounts of the identifiable assets acquired and the identifiable liabilities assumed. If this amount is lower than the fair value of the net assets of the acquiree, the difference is recognized as a gain directly in profit and loss The costs related to acquisitions are recognized as expenses in the period incurred.

Transactions between Group companies and balances and unrealized gains on transactions between Group entities are eliminated. Likewise, unrealized losses are also eliminated.

(a) Subsidiaries

The list of subsidiaries and information thereon is as follows:

Company and registered office	Activity	2017 %	2017 Carrying amount (EThs)	2016 %	2016 Carrying amount (EThs))	Parent company
Ascensores Ingar, S.A. (Granada)	Installation of elevators	100%	14 306	100%	14 306	Zardoya Otis S.A.
(+) Cruxent-Edelma, S.L. (Barcelona)	Installation & Service of Elevators	100%	26 505	100%	26 504	Zardoya Otis S.A.
(+) Ascensores Serra, S.A. (Gerona)	Installation & Service of Elevators	75%	605	75%	605	Zardoya Otis S.A.
(+) Mototracción Eléctrica Latierro, S.A. (Vitoria)	Manufacturing elevator engines	-	-	100%	4 073	Zardoya Otis S.A.
(+) Puertas Automáticas Portis, S.L. (Madrid)	Installation and Service of Automatic Doors	100%	18 977	100%	18 977	Zardoya Otis S.A.
(+) Otis Elevadores, Lda. (Portugal)	Installation & Service of Elevators	100%	31 658	100%	31 658	Zardoya Otis S.A.
Masel Otis Elevadores de Madeira, Lda. (Portugal)	Installation & Service of Elevators	60%	2 104	60%	2 104	Otis Elevadores, Lda.
(+) Ascensores Pertor, S.L. (Valencia)	Installation & Service of Elevators	94,13%	17 393	94,13%	17 393	Zardoya Otis S.A.
(+) Acresa Cardellach, S.L. (Barcelona)	Installation & Service of Elevators	96,76%	19 515	94,57%	18 025	Zardoya Otis S.A.
Zardoya Otis (Gibraltar) Limited. (Gibraltar)	Installation & Service of Elevators	100%	-	100%	-	Zardoya Otis S.A.
(+) Conservación de Aparatos Elevadores Express, S.L. (Madrid)	Installation & Service of Elevators	100%	1 771	100%	1 771	Zardoya Otis S.A.
(+) Otis Maroc, S.A. (Morocco)	Installation & Service of Elevators	100%	19 966	100%	19 966	Zardoya Otis S.A.
Ascensores Aspe S.A (Balearic Islands)	Installation & Service of Elevators	100%	9 122	100%	9 122	Zardoya Otis S.A.
(+) Montes Tallón, S.A (Alicante).	Installation and Service of Elevators	52%	10 823	52%	10 823	Zardoya Otis, S.A.
(+) Ascensores Enor S.A. (Pontevedra)	Installation & Service of Elevators and Automatic Doors	100%	117 100	100%	117 100	Zardoya Otis, S.A.
(+) Electromecanica del Noroeste S.A (Pontevedra)	Installation & Service of Elevators	100%	16 525	100%	16 525	Zardoya Otis, S.A.
(+) Enor Elevacao e Equipamentos Industriales Lda (Portugal)	Installation & Service of Elevators	100%	19 916	100%	19 916	Otis Elevadores, Lda. (Portugal)
Electromecánica Hemen Elevadores, S.L.. (Vitoria)	Installation & Service of Elevators	100%	10 790	92,77%	9 888	Zardoya Otis, S.A.

Companies acquired by the CGU Spain (Puertollano, Sevilla, Malaga, Castellon, Madrid)	Installation & Service of Elevators	100%	11 054	-	18 737 -	Companies belonging to the CGU Spain (**)
Companies acquired by the CGU Spain (Sevilla y Malaga)	Installation & Service of Elevators	100%	3 514	-	-	Companies belonging to the CGU Spain (**)
Companies acquired by the CGU Portugal	Installation & Service of Elevators	100%	2 688	-	-	Companies belonging to the CGU Portugal (**)

(+) Companies audited by PwC in 2017
(*) Merged with Zardoya Otis, S.A. (period 2017)
(**)Companies acquired by Group entities belonging to the CGUs Spain and Portugal which are expected to be merged in forthcoming years
Note: the carrying amount corresponds to the carrying amount of the investment in the Company holding the interest.

The following transactions and changes to the Group took place in 2016:

On February 25, 2016, the subsidiary Otis Elevadores, Lda. Increased its capital through a non-monetary contribution whereby Zardoya Otis, S.A. contributed its shareholding in Enor – Elevacao e Equipamentos Industriales, Lda. This transaction did not affect the consolidation perimeter, since the Group kept the same percentage interest.

On March 22, 2016, the Board of Directors of Zardoya Otis, S.A. and the Administrator of Admotion, S.L.U. (Admotion) approved a merger project. At the end of 2016, the company Admotion was dissolved but not liquidated and the totality of its equity was transferred to Zardoya Otis, S.A., the absorbing company, which held 100% of its shares.

Also on March 22, 2016, the Board of Directors of Zardoya Otis, S.A. and the Administrator of Ascensores Eguren, S.A.U. (Eguren) approved a merger project. At the end of the 2016 period, Eguren was dissolved but not liquidated and the totality of its equity was transferred to Zardoya Otis, S.A., the absorbing company, which held 100% of its shares.

At the date of approval of this annual financial statements, the companies belonging to the CGU Zardoya Otis Group (Spain) have acquired companies engaged in elevator maintenance and repair in Spain. This information is included in Note 33 of these annual financial statements.

As stated in Note 11, the General Shareholders' Meeting held on May 19, 2016 passed a resolution to increase the share capital through bonus issue charged to available reserves. To execute this resolution, 18,094,781 shares were issued for a value of 1,809,478.10 euros. The increase took place from July 14, 2016 to July 29, 2016, inclusive.

On June 16, 2016, Zardoya Otis, S.A. acquired 4.66% of the shares of Puertas Automáticas Portis, S.L. from non-controlling interests. This transaction led to a change in the percentage held by Zardoya Otis, S.A. in Puertas Automáticas Portis, S.A., which rose from 95.36% to 100%.

Transactions with non-controlling interests are included in the financial statements and are treated in accordance with Group policy thereon, with no impact on the consolidated profit for the period.

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

The following transactions and changes to the consolidated Group took place in 2017:

On March 7, 2017, Zardoya Otis, S.A. acquired 7.23% of shares in the subsidiary Electromecánica Hemen Elevadores, S.L. from non-controlling interests. This transaction meant that the percentage held by Zardoya Otis, S.A. in Hemen Elevadores, S.L. changed, rising from 92.77% to 100%.

On May 17, 2017, Zardoya Otis, S.A. acquired 2.19% of the shares in the subsidiary Acresa Cardellach, S.L. from non-controlling interests. This transaction meant a change in Zardoya Otis, S.A.'s holding in Acresa Cardellach, S.L., which rose from 94.57% to 96.76%.

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

Companies belonging to the CGU Zardoya Otis Group (Spain) and the CGU Zardoya Otis (Portugal) acquired companies engaged in elevator maintenance and repair. This information is included in Note 6.

In 2017, the companies Elevación y Servicio I.M. 2000 S.L, Ascensores Puertollano S.L and Montajes Stelokotu S.L, acquired in 2016 and belonging to the CGU Zardoya Otis (Spain), prepared a merger project with other Group companies. In the course of the period, they were dissolved without liquidation and the entirety of their respective equities was transferred to the absorbing company.

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

(b) Transactions and non-controlling interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases of non-controlling interests, the difference between any consideration paid and the relevant share acquired in the carrying amount of the net assets of the subsidiary is deducted from the equity. Gains or losses on sales of minority interests are also recorded in equity. The disposal of minority interests and the difference between the consideration received and the related proportion of minority interests are also recognized in equity.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that differ from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that differ from those of segments operating in other economic environments. Each of the defined segments is allocated the costs that it has incurred directly. Each of the defined segments has its own functional structure. Common or shared costs are allocated based on the time or degree of usage of the resources. Information on operating segments is reported in accordance with the management information produced on a monthly basis, which is reviewed by Management regularly and by the Board of Directors at each of its meetings.

2.4 Foreign currency translation

(a) Functional and reporting currency

The Consolidated Annual Financial Statements are presented in thousands of euros. The euro is the Group's functional and reporting currency.

The items included in the financial statements of each one of the Group companies are measured using the currency of the principal economic environment in which the company operates ("the functional currency"). The Consolidated Financial Statements are presented in thousands of euros, which is the Group's reporting currency.

(b) Transactions and balances

Foreign currency transactions are translated into euros using the exchange rates prevailing at the dates of the transactions. Foreign currency losses and gains resulting from settlement of these transactions and conversion of monetary assets and liabilities denominated in foreign currencies at year-end rates are recognized in profit and loss. Exchange rate gains and losses relating to loans and cash and cash equivalents are shown in the income statement under "financial income and expenses".

(c) Group companies

Gains and losses and the financial situation of Group companies (none of which has the currency of a hyperinflationary economy) with a functional currency other than the currency in which the financial statements are presented are translated into the latter as follows:

i) The assets and liabilities of each statement of financial position presented are translated at the closing exchange rate on the reporting date.
ii) The income and expenses of each income statement are translated at the average exchange rates (unless this average is not a fair reflection of the accumulated effect of the rates existing on the transaction dates, in which case the income and expenses are converted at the transaction date),
iii) All exchange rate differences are recognized as a separate component in other comprehensive income.

Upon consolidation, the exchange differences that arise on the translation of a net investment in foreign companies are taken to the shareholders' equity. When sold, these exchange differences are recognized in profit or loss as part of the loss or gain on the sale.

Adjustments to goodwill and fair value that arise on the acquisition of a foreign company are treated as assets and liabilities of the foreign company and are translated at the exchange rate on the reporting date.

2.5 Property, plant and equipment

The land and buildings comprise the Group Company's production centers. All property, plant and equipment is stated at cost less accumulated depreciation and impairment, with the exception of land which is not depreciated.

Historical cost includes expenses that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit and loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or remeasured amounts to their residual values over their estimated useful lives, as follows:

Buildings	33 years
Machinery	4, 8, 10 & 13 years
Vehicles	5 & 6 years
Furniture, fittings and equipment	4, 10 &13 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable value.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and included in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserves are transferred to reserves for retained earnings.

The value of property, plant and equipment as of November 30, 2017 includes the effect of the revaluation carried out under Spanish legislation in the year 1996 following Royal Decree 7/1996 dated June 7, which gave rise to a net value increase of EThs 4 056 in the Company's property, plant and equipment. The total amount of the restatement was shown in the accounts, as provided for in Royal Decree-Law 7/1996, as an increase in the value of the restated assets, with its balancing item in the revaluation reserve account, net of the applicable taxes, for an amount of EThs 3 934.

At November 30, 2017, the aforementioned restatement had an impact of EThs 269 (EThs 288 in 2016) on the net carrying amount of property, plant and equipment. Consequently, the effect of this restatement on the provision for the year 2017 is EThs 19 (EThs 19 in 2016).

This restatement was carried out only in the parent company, Zardoya Otis SA. For the purposes of the first implementation of IFRS, it was considered as acquisition cost, with no further remeasurements under IFRS.

2.6 Intangible assets

(a) Maintenance contracts and other related intangible assets

The amounts relate principally to the cost of taking over elevator maintenance contract portfolios acquired either directly as a portfolio of contracts or as a consequence of a business combination. Amortization is carried out using the straight-line method, considering the estimated useful lives (10 to 20 years depending on the characteristics of the portfolio). Impairment tests are conducted regularly whenever events or changes in circumstances indicate any possible impairment.

Trademarks and other related assets resulting from portfolio acquisitions are shown at historical cost. They have a defined useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method.

(b) Goodwill

Goodwill represents the amount by which the acquisition cost exceeds the fair value of the Group's holding in the identifiable net assets of the subsidiary acquired at the acquisition date. Goodwill relating to acquisitions of subsidiaries is included in the intangible assets. Goodwill recognized separately is submitted to annual impairment tests and is measured at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on the sale of a company include the carrying amount of the goodwill associated to the company sold.

Goodwill is assigned to the cash-generating units for the purposes of testing for impairment. It is assigned to the cash-generating units that are expected to benefit from the business combination upon which the goodwill arises.

(c) Research and development expenses

Research expenditures are recognized as expenses when incurred and are not recognized as an asset. Development costs previously recognized as an expense are not recognized as an asset in a later reporting period.

2.7 Impairment losses on non-financial assets

Assets with an indefinite useful life are not amortized and are tested annually for impairment. Amortizable assets are reviewed to identify, if applicable, impairment when any event or change in circumstances indicates that the carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount of the asset exceeds its recoverable value. The recoverable value is the higher or either the fair value of the asset less costs to sell or its value in use. To measure impairment losses on these assets, they are grouped at the lowest level with identifiable separate cash flows (CGUs). The possible reversal of impairment losses on non-financial assets other than goodwill that have suffered impairment is reviewed at each reporting date.

2.8 Financial assets

2.8.1 Classification

Financial assets include shareholdings in companies other than subsidiaries and associates, financial assets held for investment purposes and investments held until maturity. Financial assets are recorded at their fair value, including additional direct costs. Permanent impairment is provided for as a direct reduction in the asset account.

The Group classifies its investments in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date. Guarantee and other deposits are measured at the amounts deposited.

a) Financial assets at fair value through profit and loss

Financial assets held at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of being sold in the short term. Derivatives are also classified as held for trading unless designated as hedges. Assets in this category are classified as current assets if expected to be liquidated within twelve months. Otherwise, they are classified as noncurrent.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities longer than 12 months after the reporting date. These are classified as noncurrent assets. Loans and receivables are included in trade and other receivables on the statement of financial position and recorded at amortized cost using the effective interest method.

Financial assets are derecognised when all the risks and rewards of asset ownership are substantially transferred. In the specific case of accounts receivable it is understood that this occurs in general when the insolvency and default risks have been transferred and the amount is financed directly to the customer by the financial institution.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets placed in this category or not classified in any other category. They are included as noncurrent assets unless Management intends to dispose of the investment in the 12 months following the reporting date.

2.8.2 Recognition and measurement

Acquisitions and disposals of investments are recognized on the trading date, i.e. the date on which the Group makes the commitment to acquire or sell the asset. Investments are initially recognized at their fair value plus transaction costs. Financial assets are derecognized when the rights to receive cash flows from them have expired or been transferred and the Group has substantially transferred all the risks and rewards of ownership thereof. When securities classified as available for sale are sold or incur impairment losses, the accumulated adjustments to the fair value are recognized in profit or loss as losses or gains on the securities.

2.9 Offsetting financial instruments

Financial assets and financial liabilities are offset against each other and presented at the net amount on the statement of financial position when there is a legal right to offset the amounts recognized and the Group intends to liquidate the net amount or to realize the asset and settle the liability simultaneously.

2.10 Impairment losses on financial assets

Assets at amortized cost

The Group assesses financial assets or groups of financial assets for indicators of impairment at each reporting date. A financial asset or group of financial assets is impaired and suffers an impairment loss when there is objective evidence of impairment, as a result of one or more events that have occurred after the initial recognition of the financial asset, and the event causing the impairment affects the estimated future cash flows of the financial asset or group of financial assets, provided that this effect can be reliably estimated.

Other criteria that the Group uses to determine whether there is objective evidence of impairment include: significant financial difficulties of the issuer or counterparty; breach of contract, such as a default or delinquency in interest or principal payments; the probability that the borrower will enter bankruptcy or financial re-organization; the disappearance of an active market for that financial asset in question; or other observable information that indicates that there is a measurable decrease in the estimated future cash flows, even if the decrease cannot yet be identified with individual financial assets belonging to the Group, including if, in a future period, the amount of the impairment loss decreases and the decrease can be objectively attributed to an event that has occurred after the impairment was recognized, the reversal of the previously-recognized impairment loss will recognized in consolidated profit and loss.

2.11 Derivative financial instruments and hedging activity

The Group occasionally maintains commitments in foreign currency of insignificant value originated by the acquisition of equipment to be installed in special projects. These cases are hedged by forward contracts the impact of which is included in profit and loss as financial costs, in accordance with the accrual method.

Derivatives are initially recognized at their fair value on the date on which the derivative contract is signed. After initial recognition, they are remeasured at fair value.

2.12 Inventories

Inventories are measured at the lower of their net realizable value or average cost of acquisition or production. Finished goods and work in progress include costs directly attributable to the products in question as appropriate to their period of production.

The net realizable value is the estimated selling price in the ordinary course of business less the applicable variable selling costs.

When the net realizable value of the inventories is lower than their costs, the relevant adjustments to their value will be made and recognized in profit and loss. If the circumstances that caused the value adjustment cease to exist, the adjustment is reversed and recognized as revenue in profit and loss.

2.13 Trade and other receivables

(a) Trade receivables

Trade receivables are recognized initially at fair value, and subsequently at their amortized cost in accordance with the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due in accordance with the original terms of the receivables. The amount of the provision is recognized in profit and loss.

(b) Contracts in progress

Contracts in progress are valued at the cost incurred plus the expected profit margin, based on the percentage of completion of the contract, in proportion to the difference between the total estimated cost and the contract price agreed with the customer.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which cost incurred plus recognized profit (less recognized losses) exceed progress billing and, as a liability, the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses). Progress billings not yet paid by customers and amounts withheld are included within trade and other receivables.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term, highly-liquid investments with original maturities of three months or less and cash placements maturing at 30 days, in accordance with the contract for the provision of financial services signed with United Technologies Treasury Center and United Technologies Corporation (the parent company of Otis Elevator Company) for the provision of services and optimization of the placement of cash surpluses, forward contracts and other services. Bank overdrafts are classified as borrowings in the current liabilities.

2.15 Share capital, share premium and treasury stock

- Share capital and share premium

Ordinary shares are classified as equity. Incremental costs directly attributable to issuing new shares or options are shown in equity as a deduction, net of taxes, from the revenue obtained.

The share premium corresponds to reserves freely available for distribution.

As a general rule and unless there's a more reliable measurement, the fair value of the equity instruments or financial liabilities issued as consideration in a business combination is their quoted price, if such instruments are listed on an active market.

- Treasury stock

When shares of the Group parent are acquired, the consideration paid, including any directly attributable incremental cost, is deducted from equity until the shares are written off, reissued or sold. When the shares are sold or reissued subsequently, any amount received, net of any directly attributable incremental cost of the transaction, is recognized in equity.

2.16 Trade payables

Trade payables are payment obligations for goods or services that have been acquired from vendors in the ordinary course of operations. Payables are classified as current liabilities if payment is due at one year or less (or matures in the normal operating cycle, if longer). Otherwise, they are shown as noncurrent liabilities.

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

2.17 Current and deferred taxes

The consolidated income statement for the period includes the corporate income tax expense, which is calculated considering the corporate income tax accrued during the year and the effect of deferral of the differences arising between the taxable income and the book profit before tax that will reverse in future years, together with the tax credits and allowances applied by Group companies. Deferred tax is calculated on the basis of the temporary differences that arise between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates that have been or are about to be approved at the reporting date and are expected to apply when the related deferred tax asset is realized or deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is likely that future tax profit will be available to offset the temporary difference.

Deferred tax assets and deferred tax liabilities are offset when, and only when, there is a legally-recognized right to offset the current tax assets against the current tax liabilities and when the deferred tax assets and the deferred tax liabilities derive from corporate income tax levied by the same tax authority and they refer either to the same company or taxpayer or to different companies or taxpayers that intend to settle their current tax assets and liabilities for the net amount.

When there is a change in the tax rates, the deferred tax assets and liabilities are re-estimated. These amounts are charged to profit and loss or other comprehensive income, depending on the account to which the original amount was charged or credited.

2.18 Employee benefits

(a) Welfare commitments

In accordance with Royal Decree 1588/1999, whereby the Regulations on Pension Commitments between companies and employees were approved and which provided that pension commitments acquired by companies must be externalized and arranged through a group life insurance policy or pension plan or both, and the amendment introduced by Law 14/2000 concerning the transitional period for the formalization or adaptation of said policies and/or plans, on November 7, 2002 and November 14, 2002, respectively, the Company signed, with two insurance companies, the framework agreements regulating the technical, economic and legal conditions of the group insurance policies in order to arrange the pension commitments acquired by the company with its current and retired employees. In December 2011, Zardoya Otis, S.A. made the last payment for the financing of the agreement signed.

The liability recognized in the statement of financial position in respect of the defined-benefit pension plans is the present value of the defined-benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses recognized in the consolidated comprehensive income statement and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is calculated by discounting the estimated future cash outflows using the interest rate on high-quality corporate bonds denominated in the same currency as that in which the benefits will be paid and maturing at similar terms as the obligation.

There is also a defined-contribution plan the annual premium of which is included as employee expenses. Once the contributions have been paid, the Group holds no additional payment obligations. Contributions are recognized as employee expenses annually.

As stated in Note 34, there are benefits for certain Company executives that depend on their performance and the attainment of joint objectives of Zardoya Otis, Otis and United Technologies Corporation (UTC), based on the UTC long-term incentive plan, which includes UTC share-based compensation schemes. The cost is included under the employee benefit expense heading, generating a credit account with UTC Group companies (presented as other provisions in the statement of financial position).

(b) Severance payments

The Group recognizes these benefits when it has made a demonstrable commitment in accordance with a detailed formal plan with no possibility of withdrawal. Benefits that will not be paid in the twelve months following the reporting date are discounted back to their present value.

2.19 Provisions

Provisions are recognized when the Group has a legal or constructive current obligation as the result of past events, it is likely that an outflow of resources will be necessary to settle the obligation and the amount can be estimated reliably.

Provisions are measured as the present value of the payments that are expected to be necessary to settle the obligation using a before-tax rate that reflects the present market's estimates of the time value of money and the specific risks of the obligation. Adjustments to the provision to update it are recognized as financial expenses when accrued.

Provisions maturing at one year or less with an insignificant financial effect are not discounted.

When it is expected that part of the payment necessary to settle a provision will be reimbursed by a third party, the reimbursement is recognized as an independent asset, provided that it is almost certain to be received.

Possible obligations arising as a consequence of past events the materialization of which depends on whether, irrespective of the Group's wishes, one or more future events occur, are considered contingent liabilities. These contingent liabilities are not accounted for, although details thereof are presented in the Notes.

2.20 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after sales within the Group have been eliminated. Revenue is recognized as follows:

(a) Revenue from installation and assembly contracts

Revenue from elevator installation and assembly is recognized based on the estimated percentage of completion. Periodic corrections are made to the estimates so that the margin of profit or loss that will result at the end of the contracts will not differ substantially from the margins applied while the contracts were in progress.

(b) Revenue from maintenance contracts

Revenue from maintenance contracts is apportioned on a straight-line basis as it is earned. Invoicing may be on a monthly, quarterly, six monthly or annual basis depending on the terms laid down in the agreements signed with the customers. The necessary entries are made to recognize advance invoicing.

(c) Interest revenue

Interest income is recognized using the effective interest rate method.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability on the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.22 Borrowings

Borrowings are initially recognized at fair value net of any transaction costs incurred. Subsequently, they are measured at their amortized cost and any differences between the funds obtained (net of the costs necessary to obtain them) and the repayment value is recognized in profit and loss over the life of the debt, applying the effective interest rate method.

Commissions paid on the granting of credit lines are recognized as transaction costs of the loan to the extent that it is probable that any or all of the lines will be used. In these cases, the commissions are deferred until the line is used. To the extent that there is no evidence that the line is likely to be used, the commission is capitalized as an advance payment for liquidity services and is amortized over the period for which the credit line is available.

Borrowings are classified as current liabilities unless the Group has the unconditional right to defer settlement for at least twelve months after the reporting date.

2.23 Leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit and loss on a straight-line basis over the period of the lease.

2.24 Earnings per share

Basic earnings per share are calculated by dividing:

- The profit attributable to Company shareholders, excluding any cost of servicing the equity other than ordinary shares;
- Between the weighted average number of ordinary shares in issue during the period, adjusted by the incentives issued on ordinary shares during the period, excluding treasury stock.

For the diluted earnings per share, the figures used to determine the basic earnings per share are adjusted to take the following into account:

- The effect after tax of interest gains and other financial costs associated to ordinary shares with potential diluting effects, and
- The weighted average number of ordinary shares that would have been in issue if all the ordinary shares with potential diluting effects had been converted.

2.25 New Standards and IFRIC Interpretations

The IASB has approved and published certain accounting standards, amendments to existing ones and interpretations that came into force in the reporting period:

a.- Standards that came into force in the period:

The Group has been applying these rules to transactions since December 1, 2016, with no significant effect on the Group's financial statements.

IFRS 2 "Share-Based Payments": Definition of "vesting conditions".

IFRS 3 "Business Combinations": Accounting for a contingent consideration in a business combination.

IFRS 8 "Operating Segments": Disclosure in relation to the aggregation of operating segments and reconciliation of all the assets assigned to the segments reported with the entity's assets.

IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets": Proportionate restatement of accumulated depreciation when the revaluation model is used.

IAS 24 "Related Party Disclosures": Entities that provide the services of key management personnel as related parties.

IAS 19 (Amendment) "Defined Benefit Plans: Employee Contributions": The current amendment also distinguishes between contributions linked to service only in the period in which they arise and those linked to service in more than one period.

IFRS 11 (Amendment) "Accounting for acquisitions of interests in joint operations": Requires the acquirer of an interest in a joint operation that constitutes a business to apply the principles on business combination accounting under IFRS

IAS 16 (Amendment) and IAS 38 (Amendment) "Clarification of Acceptable Methods of Depreciation and Amortization": This amendment clarifies that revenue-based methods are not appropriate for calculating the depreciation or amortization of an asset because the revenue generated by activity that includes the use of an asset usually represents factors other than the consumption of the economic benefits embodies in the asset. This amendment will come into force for annual periods commencing on or after January 1, 2016 and will apply prospectively.

Improvement Project, Cycle 2012 – 2014: The amendments affect IFRS 5, IFRS 7, IAS 19 and IAS 34 and will apply to annual periods commencing on or after January 1, 2016. The main amendments refer to:

IFRS 5, "Non-current Assets Held for Sale and. Discontinued Operations": Changes in disposal methods.

IFRS 7, "Financial Instruments: Disclosures": Continuing involvement in servicing contracts.

IAS 19, "Employee Benefits": Determination of the discount rate for post-employment obligations.

IAS 34, "Interim Financial Reporting": Disclosure of information elsewhere in the interim financial report.

IAS 1 (Amendment) "Disclosure Initiative": The amendments clarify that companies should use professional judgement to determine where and in what order the information in the financial statements is presented. The amendments to IAS 1 are mandatory for annual periods starting on or after January 1, 2016.

IAS 27 (Amendment) "Equity Method in Separate Financial Statements": An entity that elects to change to the equity method will apply the amendments for annual periods commencing on or after January 1, 2016 in accordance with IAS 8 "Accounting Policies: Changes in Accounting Estimates and Errors". Earlier adoption is permitted.

The Group has been applying these rules to transactions since December 1, 2016, with no significant effect on the Group's financial statements.

b.- Standards that are mandatory for reporting periods commencing on or after January 1, 2017 that the Group has not adopted early and which are not expected to have any significant effects on the financial statements in the period in which they are adopted:

IFRS 15 "Revenue from Contracts with Customers": In May 2014, the IASB and the FASB jointly issued a converged Standard in relation to the recognition of revenue from contracts with customers. Under this Standard, revenue is recognized when a customer acquires control of the good or service sold, i.e. when it has both the capacity to both direct the use of and obtain the benefits from the good or service. This IFRS includes new guidance to determine whether revenue should be recognized over time or at the specific moment. IFRS 15 has broad reporting requirements concerning both revenue recognized and revenue expected to be recognized in the future in relation to existing contracts. Likewise, it requires quantitative and qualitative reporting on the significant judgements made by Management when determining the revenue to be recognized and on possible changes in these judgements. IFRS 15 will apply to annual periods commencing on or after January 1, 2018. The Group is evaluating the possible effects of applying this Standard and has not identified, for the time being, any significant impacts on the financial statements in the period in which it is adopted. The main impacts if this Standard had been applied at the end of 2017 are shown below:

	2017	**2017 (*)**
Total equity	440 992	440 827

(*) Including the impacts of the early adoption of IFRS 15 "Revenue from Contracts with Customers" in 2017.

IFRS 9 "Financial Instruments": This refers to the classification, measurement and recognition of financial assets and liabilities. The full version of IFRS 9 was published in July 2014 and replaces the guidance contained in IAS 39 on the classification and measurement of financial instruments. IFRS 9 maintains, but simplifies, the mixed measurement model and establishes three main measurement categories for financial assets: amortized cost, fair value through changes in profit and loss and fair value through changes in other comprehensive income. The classification depends on the entity's business model and the characteristics of the financial asset's contractual cash flows.

c.- Standards that have not yet come into force by the European Union and which we have not identified yet significant effects in the financial statements in the period in which they are adopted.

IFRS 16 "Leases": In January 2016, the IASB published a new Standard on leases, which replaces IAS 17 "Leases", as the result of a joint project with the FASB. The IASB and FASB have reached the same conclusions in many areas related to accounting for a lease, the requirement, as a general rule, to include leases in the statement of financial position and the measurement of lease liabilities. The IASB and FASB also agreed not to include substantial changes to accounting by the lessor, maintaining requirements similar to those of the legislation that was previously in force. There continue to be differences between the IASB and the FASB regarding recognition and presentation of lease-related expenses in the income statement and the statement of cash flows. The Group is evaluating the possible effects of applying this Standard and has not identified any significant impacts on the results in the period in which it is adopted.

IAS 12 (Amendment) "Recognition of Deferred Tax Assets for Unrealized Losses": This amendment clarifies how to recognize deferred tax assets related to debt instruments measured at fair value. Decreases is the carrying amount below the cost of a fixed-rate debt instrument held at fair value, where the tax base is cost, give rise to deductible temporary differences.

The amendment will apply for annual periods commencing on or after January 1, 2017.

IAS 7 (Amendment) "Disclosure Initiative – Amendments to IAS 7": This narrow-scope amendment includes a requirement for additional disclosures in the financial statements to allow users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendment will apply to annual periods commencing on or after January 1, 2017, although early adoption is permitted.

Additionally, during 2017 transitional guidance was published on interpretations of international standards that have not yet come into force and that the Group has not adopted early.

3. Financial risk management

Financial risk factors

The Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's global risk management program is focused on the uncertainty of the financial markets and trying to minimize the potential negative effects on the Group's financial profitability.

Risk management is controlled by Group Management in accordance with policies approved by the parent company's Board of Directors. Management assesses and hedges financial risks in close collaboration with the Group's operating units, in order to:

- Ensure that the most important risks are identified, assessed and managed.
- Ensure an appropriate operating segregation of the risk management functions.
- Ensure that the risk exposure level accepted by the Group in its operations is in line with its risk profile.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is occasionally exposed to foreign exchange risk arising from transactions in US dollars. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. However, these transactions are not significant and the effect of a change in the interest rate would not have a material effect on the Group's financial statements at November 30, 2017.

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

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

In relation to export and import trading transactions, the Group is exposed to exchange rate risk, which is not significant. At November 30, 2017, there were balances payable in foreign currencies other than the euro for a value equivalent to EThs 879 (EThs 754 in 2016).

(ii) Price risk

The Group has only limited exposure to commodity price risk.

Additionally, Group companies do not hold investments in companies outside the Group and, therefore, the Group is not exposed to securities price risk.

(b) Credit risk

The Group has no significant concentrations of risk with customers and there are no significant old credit balances (Note 8). The Group has policies in place to ensure that installation sales are made to customers with appropriate credit histories and, in addition, regular debt-monitoring procedures are conducted by the departments involved in debt collection

To minimize credit risk, the Group has risk management policies in place to limit the amount of risk with any one financial institution. The credit risk arises from cash and cash equivalents, financial instruments, deposits with financial institutions, debt available for sale and accounts receivable. The banks and financial institutions with which the Group works are of recognized prestige and hold high credit ratings.

The amounts of trade receivables are shown in the statement of financial position net of the provision for impairment. At November 30, 2017, said provision was EThs 89 041 (EThs 94 659 in 2016) (Note 8). The Company estimates the provision in accordance with the age of the debt and experience in earlier years, in line with the previous segregation of the customer portfolio and the current economic environment. The analysis of financial assets aged over six months but not deemed to be totally impaired at November 30, 2017 and 2016 is as follows:

	2017	**2016**
Between 6 months & 1 year	11 817	11 968
Between 1 & 2 years	8 055	9 646
More than 2 years	-	-
EThs	19 872	21 614

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

As stated in Note 10, at November 30, 2017 and 2016, the Group held short-term deposits with financial institutions of EThs 16 034 and EThs 26 695, respectively, As stated above these deposits are placed with prestigious financial institutions in Spain and Portugal.

c) Liquidity risk

Conservative liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

At November 30, 2017, cash and cash equivalents represented EThs 60 854 (EThs 62 344 in 2016), including amounts held as cash, in banks and as current deposits with financial institutions.

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

	2017	2016
Cash at beginning of period	**62 344**	**65 553**
Cash flows from operating activities	163 871	163 320
Cash flows from investing activities	(13 392)	(13 023)
Cash flows from financial activities	(151 969)	(153 506)
Cash at end of period	**60 854**	**62 344**

(d) Cash flow and fair value interest rate risk

As the Group does not hold important remunerated assets, income and cash flows from operating activities are substantially independent of changes in market interest rates.

The Group does not use financial derivatives to hedge rate risks derived from its activity..

The Group's interest rate risks arise on noncurrent borrowings indexed to variable interest rates. The variable interest rate applied to the loans from financial institutions is subject to the fluctuations of the Euribor.

As stated in Note 20, at the 2017 and 2016 reporting dates, the Group did not hold any borrowings at a fixed interest rate.

(e) Capital risk management

The Group's objectives in relation to capital management are to safeguard its capacity to continue as a going concern, to have the capacity to fund its internal growth or external growth through acquisitions, to obtain adequate yields for the shareholders and to maintain an optimal capital structure that includes equity, the generation of its own cash from the business in each reporting period and, as far as necessary, borrowings at the lowest cost possible.

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

	2017	2016
Borrowings (current and noncurrent)	323	324
Other current & noncurrent financial liabilities	7 675	13 709
Cash and cash equivalents	(60 854)	(62 344)
Net financial debt	(52 856)	(48 311)
Equity	440 992	437 576
Leverage (*)	**-0,14**	**-0,12**

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

At November 30, 2017, this net debt represented -0.2756 of EBITDA (2016: -0.2121) (Ebitda: operating profit + depreciation + amortization.

4. Segment reporting

Zardoya Otis has determined achieving Service Excellence as its main goal. From this standpoint, the objective is to satisfy vertical transport users throughout the full cycle of the product, starting with the design and manufacture of elevators, integrating the technological advances that have made the Group the market leader, applied not only to new, but also to existing buildings, and including their maintenance and replacement. In consequence, installation (and replacement) and maintenance of elevators are not considered separate segments but complementary products and services of the same nature, with an integrated production cycle, addressed to the same type of customers and with a single distribution network, that represent a single business segment for the Group, managed as such and subject to similar risks and opportunities. Therefore, geographical differentiation has been identified as the primary segment, considering the markets of Spain and Portugal and also Morocco / North Africa, as they have independent supervision, as stated in IFRS 8.

As stated in Note 2.3, the distinction between segments relates to the structure of the management information that is produced on a monthly basis, regularly reviewed and used as a basis for decision-making by Management and the Board of Directors.

2017	Sales	Operating profit	Assets Total	Assets Amortization/ depreciation charge	Assets Noncurrent investments in assets	Liabilities
Zardoya Otis Group – Spain	712 565	179 906	599 977	19 028	10 165	225 155
Otis Elevadores Group and Enor - Portugal	60 651	20 673	72 929	814	2 889	26 233
Otis Maroc – Morocco	17 157	1 849	40 465	100	351	20 991
Elimination intra-group transactions	(12 091)	(1 540)	-	-	-	-
Consolidated	778 282	200 888	713 371	19 942	13 405	272 379

2016	Sales	Operating profit	Assets Total	Assets Amortization/ depreciation charge	Assets Noncurrent investments in assets	Liabilities
Zardoya Otis Group – Spain	681 802	184 426	593 886	20 981	26 996	222 630
Otis Elevadores Group and Enor - Portugal	56 708	21 061	71 003	575	212	27 286
Otis Maroc – Morocco	16 888	1 381	44 661	91	111	22 058
Elimination intra-group transactions	(9 357)	(711)	-	-	-	-
Consolidated	746 041	206 157	709 550	21 647	27 319	271 974

Additionally separate information on the parent company is shown below:

2017	Sales	Operating profit	%	Fixed assets acquired
Zardoya Otis S.A. (aggregate of 99 branches)	590 223	154 155	25,93	5 903
Spanish Group companies - Elevators (15 companies)	155 731	25 751	16,54	4 262
Otis Elevadores Group and Enor Elevadores– Portugal	60 651	20 673	34,09	2 889
Otis Maroc – Morocco	17 157	1 849	10,78	351
Group total	823 762	202 428	24,43	13 405
Eliminations – intra-group transactions	(45 480)	(1 540)	-	-
Consolidated	778 282	200 888	25,67	13 405

2016	Sales	Operating profit	%	Fixed assets acquired
Zardoya Otis S.A. (aggregate of 99 branches)	570 357	153 773	26,96	8 091
Spanish Group companies - Elevators (16 companies)	164 392	30 653	18,64	18 905
Otis Elevadores Group and Enor Elevadores– Portugal	56 708	21 061	37,14	212
Otis Maroc – Morocco	16 888	1 381	8,18	111
Group total	808 345	206 868	25,59	27 319
Eliminations – intra-group transactions	(62 304)	(711)	-	-
Consolidated	746 041	206 157	27,63	27 319

5. Property, plant and equipment

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

	Land & Buildings	Machinery	Furniture, fittings & equipment	Total
As of November 30, 2015				
Cost	59 549	43 400	73 734	176 683
Accumulated depreciation	(15 452)	(36 011)	(64 384)	(115 846)
Impairment loss	-	-	-	-
Net carrying amount	**44 097**	**7 389**	**9 351**	**60 837**
2016				
Business combinations (Note 33)	-	-	116	116
Increases	3 838	1 580	1 255	6 673
Decreases	(242)	(2 028)	(1 697)	(3 967)
Depreciation charge	(1 732)	(2 737)	(2 149)	(6 618)
Eliminations from depreciation	141	1 766	1 653	3 560
Impairment losses recognized in period	-	-	-	-
Impairment losses reversed	-	-	-	-
Other movements	-	-	-	-
	2 005	(1 419)	(822)	(236)
As of November 30, 2016				
Cost	63 145	42 952	73 408	179 505
Accumulated depreciation	(17 043)	(36 982)	(64 880)	(118 904)
Impairment loss	-	-	-	-
Net carrying amount	**46 102**	**5 970**	**8 528**	**60 601**
2017				
Business combinations (Note 33)	-	-	59	59
Increases	58	1 544	2 909	4 511
Decreases	(1 336)	(14 309)	(8 128)	(23 773)
Depreciation charge	(922)	(1 870)	(1 861)	(4 653)
Eliminations from depreciation	1 336	14 309	7 866	23 511
Impairment losses recognized in period	-	-	-	-
Impairment losses reversed	-	-	-	-
Other movements	720	-	(882)	(162)
As of November 30, 2017	(144)	(326)	(37)	(507)
Cost				
Accumulated depreciation	61 867	30 187	68 248	160 302
Impairment loss	(15 909)	(24 543)	(59 757)	(100 209)
Net carrying amount	-	-	-	-
Cost	**45 958**	**5 644**	**8 491**	**60 093**

The property, plant and equipment figures include assets in progress for a total value of ETHs 714 in 2017 and ETHs 138 in 2016.

The principal property, plant and equipment consists of buildings and installations related to the Leganés plant (2008) for ETHs 24 130 (ETHs 23 345 in 2016) and those acquired in 2013, which relate to the value of the land and building located in the Valladares Technical and Logistical Park (Vigo), where the industrial building, the production facilities and the offices of the subsidiaries Ascensores Enor, S.A. and Electromecánica del Noroeste, S.A. are located. These facilities were inaugurated in 2009, At the reporting date, their carrying amount was ETHs 13 248 (ETHs 13 833 in 2016).

At November 30, 2017 and 2016, the following items of property, plant and equipment had been fully depreciated:

	Thousands of euros	
	2017	**2016**
Land and buildings	5 476	4 763
Vehicles and machinery	29 786	29 413
Furniture, fittings and equipment	29 042	39 380
ETHs	64 725	73 556

Of the total property, plant and equipment net of depreciation, the value of which is ETHs 60 093, a total of ETHs 449 is in Portugal and a total of ETHs 549 in Morocco (ETHs 323 and ETHs 297, respectively, in 2016). There is no other property, plant and equipment outside Spanish territory.

It is the Group's policy to take out all the insurance policies deemed necessary to cover any possible risks which could affect, among other things, property, plant and equipment. At November 30, 2017 and 2016 none of the Group’s financial liabilities were secured by property, plant and equipment and, therefore, all the property, plant and equipment were free of any charges.

6. Intangible assets

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

EThs	Maintenance contracts	Goodwill	Other	Total
As of November 30, 2015				
Cost	303 771	147 150	13 968	464 889
Accumulated amortization	(123 436)	-	(7 972)	(131 408)
Impairment loss	-	(8 054)	-	(8 054)
Net carrying amount	**180 335**	**139 096**	**5 996**	**325 427**
2016				
Increases	802	-	1 738	2 540
Business combinations (Note 33)	11 642	6 348	-	17 990
Decreases	(145)	-	-	(145)
Amortization charge	(13 303)	-	(1 726)	(15 029)
Eliminations from amortization	121	-	-	121
	(883)	6 348	12	5 477
As of November 30, 2016				
Cost	316 070	153 498	15 706	485 274
Accumulated amortization	(136 619)	-	(9 698)	(146 317)
Impairment loss	-	(8 054)	-	(8 054)
Net carrying amount	**179 451**	**145 444**	**6 008**	**330 903**
2017				
Increases	60	-	1 979	2 039
Business combinations (Note 33)	5 689	1 107	-	6 796
Decreases	(250)	-	-	(250)
Amortization charge	(13 331)	-	(1 974)	(15 305)
Eliminations from amortization	114	-	-	114
	(7 718)	1 107	5	(6 606)
As of November 30, 2017				
Cost	321 571	154 605	17 685	493 861
Accumulated amortization	(149 836)	-	(11 672)	(161 507)
Impairment loss	-	(8 054)	-	(8 054)
Net carrying amount	**171 735**	**146 551**	**6 013**	**324 300**

It is a common Group practice, when there are operating reasons that justify it, to take advantage of business combinations synergies through the legal integration by merger or liquidation of the entity acquired into the CGU to which it belongs. In this regard, since Group business constitutes a single integrated production process, it is considered a CGU inasmuch as it is the smallest identifiable group of assets that generates independent cash inflows.

As may be seen in Note 2.2, in 2017 and 2016, several transactions were carried out with non-controlling interests and mergers took place between Group companies, with effects on Group decision-making and management. In this respect, the Group's cash generation and both financial and operational decision-making falls into three CGUs: Zardoya Otis Spain Group, Zardoya Otis Portugal Group and Zardoya Otis Morocco Group. The CGUs are aligned with the financial, operating and strategic information that is used as a basis for decision-making by the Management and Directors of the Group parent.

At November 30, 2017 and 2016, goodwill with an indefinite useful life was assigned to the Group's cash generating units (CGUs) as follows:

	2017	2016
Zardoya Otis Group (Spain)	117 764	116 657
Zardoya Otis Group (Portugal)	13 168	13 168
Zardoya Otis Group (Morocco)	15 619	15 619
EThs	**146 551**	**145 444**

At November 30, 2017 and 2016, maintenance contracts with defined useful lives were assigned to the Group's cash generating units (CGUs) as follows:

	2017	2016
Zardoya Otis Group (Spain)	164 184	173 360
Zardoya Otis Group (Portugal)	7 284	5 305
Zardoya Otis Group (Morocco)	267	786
EThs	**171 735**	**179 451**

In 2017 and 2016, the Group carried out business combinations described in Note 33.

For significant business combinations, the Group requires an external company of recognized prestige to verify the fair value of the net assets acquired. The recoverable amount at the time of the business combination for each CGU is determined by using cash-flow projections of financial budgets approved by Management for a maximum 15-year period, based on past performance and market development expectations.

Maintenance contracts are measured applying the free discounted cash flow method, adjusted by the customer cancellation and turnover rate according to the information and statistics held by Group Management and on the basis of the verification of the existence and current validity of the contracts.

To calculate the discount rate, the Group uses the long term bond rate, growth expectations, the CGU's effective tax rate and the Group's cost of debt. The perpetuity rate is in line with the rate used by similar industries in the countries in which the Group operates. Information on the assumptions used at the date the business combinations took place for each Cash Generating Unit are as follows:

	Period of years budgeted	Perpetuity rate	*Discount rate (acquisition date)*
Zardoya Otis Group (Spain)	5 to 15	2.0 %	From 7.5% to 9,7%
Zardoya Otis Group (Portugal)	5 to 15	2.0 %	9,72 %
Zardoya Otis Group (Morocco)	15	2.0 %	8.2 %

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

The goodwill included in the net value of the assets of each CGU is tested for impairment, consisting of a comparison between the carrying amount for consolidation purposes and the recoverable value (value in use) applying the key assumptions: period considered, discount rate and growth rate employed for the projection beyond the period considered.

For impairment testing in 2017, a maximum annual growth rate of 2.9% (2.9% in 2016) was used and the perpetuity rate was 2% (2% in 2016). The discount rate applied was 6.01% (2016: 6.50%) for the Spain CGU, 8.39% (2016: 8.82%) for the Portugal CGU and 8.13% (2016: 9.25%) for the Morocco CGU.

Apart from the discount rate, the most sensitive aspects included in the projections used, which are based on the forecasts of the international Group, sector forecasts and historical experience, are service revenue, growth in the contracts on the portfolio from the expected synergies of the business combinations and adequate maintenance of the Group's expense and cost structure.

In 2017 and 2016, the values in use of the assets of the CGUs, calculated in accordance with the aforementioned model, were, in all cases, higher than the net carrying amounts recognized in these Consolidated Annual Financial Statements. Therefore, no impairment has been recognized. Likewise, it is considered that any possible reasonable variations that may be undergone by the key assumptions upon which the determination of the recoverable amounts of the CGUs was based would not change the conclusions drawn on the measurement of the assets.

Regarding the aforementioned sensibility analysis, the following table shows the analysis of to the CGU Zardoya Otis Group Morocco, since this was the only CGU the goodwill of which was suffered impairment in the period 2016 and, therefore, would be the best adjusted.

Period 2017: (Millions of euros)

	Growth				
Discount rate	**1.00%**	**1.50%**	**2.00%**	**2.50%**	**3.00%**
11.00%	21.8	22.6	23.6	24.6	25.8
10.34%	23.4	24.4	25.5	26.8	28.2
8.13%	31.1	33.0	35.2	37.8	40.8
8.00%	31.7	33.7	36.0	38.7	41.9

Regarding CGUs Zardoya Otis Spain Group and Portugal, their values in use significantly exceed the consolidated carrying amount of each one of them. Even if the assumptions considered (discount rate, projected period growth and perpetuity growth rate) were to change significantly, the value in use would still be higher than their respective consolidated carrying amounts.

In 2017, the trade and other payables heading included an obligation of EThs 12 535 (2016: 12 855) related to the share purchase agreement signed in 2011 with the sellers of Montes Tallón. This obligation is updated, since the risks and rewards associated to ownership of 48% of the shares of Monte Tallón are still held by no-controlling interests. To determine the price of these shares, the same criteria as applied in the initial purchase will be used, basically, maintenance contracts and equity value. In this respect, in 2017, the change in liabilities was recognized in the consolidated income statement as financial income of EThs 320 (EThs 463 in 2016).

As stated in Note 2.2, in 2017, the non-controlling interest in the company Electromecánica Hemen Elevadores, S.L. was acquired. Payment of this acquisition was applied against the obligation of EThs 956 that was recognized at the end of 2016 in relation to the purchase and sale agreement for these shares, which stated, in respect of the non-controlling interest, that the sellers could ask Zardoya Otis, S.A. to purchase them at any time in the following five years.

As stated in the accounting policies in the Notes to the Consolidated Annual Financial Statements for 2017 and 2016 in relation to transactions and non-controlling interests, the Group applies the policy of considering transactions with non-controlling interests as transactions with holders of instruments in the Group's capital. For acquisitions of non-controlling interests, the difference between the price paid and the related proportion of the carrying amount of the subsidiary's net assets is deducted from the equity. For this reason, the obligation was recognized against reserves in consolidated companies and other reserves.

The principal assets, at carrying amount in the individual financial reporting, contributed to the consolidation by each one of the CGUs to which goodwill has been assigned are as follows:

EThs period 2017	Zardoya Otis Group Spain	Zardoya Otis Group Portugal	Zardoya Otis Group Morocco	Total
Maintenance contracts	164 184	7 284	267	171 735
Goodwill	117 764	13 168	15 619	146 551
Other intangible assets	6 014	-	-	6 014
Property, plant & equipment	59 095	449	549	60 093
Other noncurrent assets	31 899	938	-	32 837
Current assets	221 021	51 090	24 030	296 141
Total assets	**599 977**	**72 929**	**40 465**	**713 371**
Noncurrent liabilities	35 448	1 388	159	36 995
Current liabilities	189 707	24 845	20 832	235 384
Total liabilities	**225 155**	**26 233**	**20 991**	**272 379**
Net assets	**374 822**	**46 696**	**19 474**	**440 992**

EThs period 2016	Zardoya Otis Group Spain	Zardoya Otis Group Portugal	Zardoya Otis Group Morocco	Total
Maintenance contracts	173 360	5 305	786	179 451
Goodwill	116 657	13 168	15 619	145 444
Other intangible assets	6 008	-	-	6 008
Property, plant & equipment	59 981	323	297	60 601
Other noncurrent assets	30 272	1 040	-	31 312
Current assets	207 608	51 167	27 959	286 734
Total assets	**593 886**	**71 003**	**44 661**	**709 550**
Noncurrent liabilities	38 149	697	166	39 012
Current liabilities	184 481	26 589	21 892	232 962
Total liabilities	**222 630**	**27 286**	**22 058**	**271 974**
Net assets	**371 256**	**43 717**	**22 603**	**437 576**

7. Financial assets and liabilities by category

	Loans & receivables & other	Assets held at fair value through profit and loss	Hedging derivatives	Available for sale	Total
November 30, 2017					
Noncurrent assets in statement of financial position					
Loans and receivables (Note 8)	8 125	-	-	-	8 125
Other	718	-	-	-	718
Total	**8 843**	**-**	**-**	**-**	**8 843**
November 30, 2017					
Current assets in statement of financial position					
Trade and other receivables (Note 8)	187 396	-	-	-	187 396
Other	224	-	-	-	224
Cash and cash equivalents (Note 10)	60 854	-	-	-	60 854
Total	**248 474**	**-**	**-**	**-**	**248 474**

	Loans & receivables & other	Assets held at fair value through profit and loss	Hedging derivatives	Available for sale	Total
November 30, 2016					
Noncurrent assets in statement of financial position					
Loans and receivables (Note 8)	7 379	-	-	-	7 379
Other	728	-	-	-	728
Total	**8 107**	**-**	**-**	**-**	**8 107**
November 30, 2016					
Current assets in statement of financial position					
Trade and other receivables (Note 8)	180 867	-	-	-	180 867
Other	1 409	-	-	-	1 409
Cash and cash equivalents (Note 10)	62 344	-	-	-	62 344
Total	**244 620**	**-**	**-**	**-**	**244 620**

	Liabilities held at fair value through profit and loss	Hedging derivatives	Other financial liabilities at amortized cost	Total
November 30, 2017				
Noncurrent liabilities in statement of financial position				
Borrowings from financial institutions (Note 20)	-	-	-	-
Trade and other payables	-	-	-	-
Other debts through acquisitions (Note 16)	-	-	2 648	2 648
Total	**-**	**-**	**2 648**	**2 648**

November 30, 2017				
Current liabilities in statement of financial position				
Borrowings from financial institutions (Note 20)	-	-	323	323
Trade and other payables (Note 16)	-	-	188 124	188 124
Other debts through acquisitions (Note 16)	-	-	5 027	5 027
Total	**-**	**-**	**193 474**	**193 474**

	Liabilities held at fair value through profit and loss	**Hedging derivatives**	**Other financial liabilities at amortized cost**	**Total**
November 30, 2016				
Noncurrent liabilities in statement of financial position				
Borrowings from financial institutions (Note 20)	-	-	-	-
Trade and other payables	-	-	-	-
Other debts through acquisitions (Note 16)	-	-	3 850	3 850
Total	**-**	**-**	**3 850**	**3 850**
November 30, 2016				
Current liabilities in statement of financial position				
Borrowings from financial institutions (Note 20)	-	-	324	324
Trade and other payables (Note 16)	-	-	181 904	181 904
Other debts through acquisitions (Note 16)	-	-	10 422	10 422
Total	**-**	**-**	**192 650**	**192 650**

8. Trade and other receivables

		2017	**2016**
Trade receivables		204 113	210 747
Less: Provision for impairment of receivables		(89 041)	(94 659)
Trade receivables– Net		115 072	116 088
Amount due from customers for contract work		27 115	14 678
Other receivables (Note 17)		8 193	7 407
Public authorities		14 008	11 569
Prepayments		695	2 043
Receivables from related parties (Note 34)		36 322	40 651
Total	EThs	201 405	192 436

The total amount of the costs incurred at the reporting date was EThs 90 165 (2016: EThs 62 514). This amount includes recognized profits (less recognized losses) on all contracts in progress for EThs 5 344 (2016: EThs 4 571). Amounts due from customers for contract work are shown as the net of the cost incurred at the end of the reporting period and the advance payments received from the customers, for an amount of EThs 63 050 (EThs 47 836 in 2016). At November 30, 2017, the trade receivables balance showed an amount of EThs 2 797 (2016: EThs 2 470) related to amounts withheld by customers in accordance with the conditions of their contracts.

Movement on the provision for the impairment of receivables was as follows:

		2017	2016
Beginning of period		94 659	98 295
Provision made		2 044	857
Business combinations		-	288
Applications		(4 121)	(3 488)
Provision's cancelled		(3 542)	(1 293)
	EThs	89 040	94 659

The provisions and applications are including on the income statement under the heading of "Other expenses, net". The net provision provided in the period 2017 was -0.27% of Group sales (2016: -0.35%).

To provide further detail, the following is a summary of unimpaired receivables overdue by more and less than 6 months but not impaired:

2017

Thousands of euros	Total	Impaired	Net	Not yet due	Due
Less than 6 months	117 430	(21 818)	95 612	52 152	43 460
Between 6 months and 1 year	14 418	(2 601)	11 817	-	11 817
Between 1 and 2 years	29 049	(21 406)	7 643	-	7 643
More than 2 years	3 917	(3 917)	-	-	-
In litigation	39 299	(39 299)	-	-	-
Total	204 113	(89 041)	115 072	52 152	62 920

2016

Thousands of euros	Total	Impaired	Net	Not yet due	Due but not impaired
Less than 6 months	111 811	(17 298)	94 513	55 964	38 549
Between 6 months and 1 year	13 252	(1 285)	11 967	-	11 967
Between 1 and 2 years	34 917	(25 309)	9 608	-	9 608
More than 2 years	10 053	(10 053)	-	-	-
In litigation	40 714	(40 714)	-	-	-
Total	210 747	(94 659)	116 088	55 964	60 124

For 2017 and 2016, the carrying amount of trade and other payables does not differ significantly from their fair value.

Additionally, other noncurrent assets includes long-term promissory notes received from customers with maturity dates at more than one year for a total amount of EThs 3 984 (EThs 4 706 in 2016). The breakdown by years until maturity is as follows:

	2017	2016
Two years	3 440	4 003
Three years	442	659
More than three years	102	44
EThs	3 984	4 706

9. Inventories

	2017	2016
Raw materials and consumables for production	29 125	25 615
Work in progress	4 533	4 930
EThs	33 658	30 545

10. Cash and cash equivalents

	2017	2016
Cash and banks	44 820	35 649
Current deposits with financial institutions	16 034	26 695
EThs	60 854	62 344

The effective interest rate on current deposits with financial institutions varied from 0,02% and 0.05% (2016: from 0.10% to 0.65%) and the maturity of these deposits is less than 3 months. Unlike preceding years, at November 30, 2017 and 2016, the Group did not hold any deposits with Group companies.

Cash and borrowings include:

	2017	2016
Cash and cash equivalents	60 854	62 344
Borrowings: utilization of bank credit (Note 20)	155	155

The Group holds committed credit lines for an amount sufficient to maintain flexibility in funding. Notwithstanding, these lines are only used occasionally. At the 2017 reporting date, total current borrowings balance include EThs 155 (2016: EThs 155) relating to other non-bank credits granted to the Group and to the interest calculated on acquisitions.

11. Capital

	No. Shares	Ordinary shares	Total
At November 30, 2015	452,369,530	452,369,530	452,369,530
Capital increase June	18,094,781	18,094,781	18,094,781
At November 30, 2016	470,464,311	470,464,311	470,464,311
Capital increase July	-	-	-
At November 30, 2017	470,464,311	470,464,311	470,464,311

The share issue carried out in 2016 was a bonus issue charged to voluntary reserves.

	Shares		% interest	
Owner	2017	2016	2017	2016
United Technologies Holdings, S.A.	235,279,377	235,279,377	50.01	50.01
Euro-Syns, S.A.	54,392,423	53,802,775	11.56	11.44
Other non-controlling interests	180,792,511	181,382,159	38.43	38.55
Treasury shares	0.00	0.00	0.00	0.00
	470,464,311	470,464,311	100.00	100.00

No other individual shareholder holds an interest of more than 10% in the capital of the parent company of the Group.

All the shares of the Group parent are of the same class and have the same voting rights.

The incremental costs directly attributable to the issuance of new shares are presented in equity as a deduction, net of taxes, from the income obtained.

2016:

At the General Shareholders' Meeting held on May 19, 2016, the following resolutions, among others, were adopted:

Bonus issue charged to freely-available reserves, in the proportion of one new share for every twenty-five old shares in issue, for an amount of 1,809,478.10 euros, by means of the issue of 18,094,781 shares. When this capital increase had been completed, the share capital rose to 47,046,431.10 euros, represented by 470,464,311 shares with a par value of 0.10 euros each. The increase was carried out between July 14, 2016 and July 29, 2016, inclusive. The new shares were listed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, effective September 19, 2016.

12. Treasury stock

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

13. Legal reserve

The legal reserve has been set aside in accordance with article 274 of the Capital Companies Law, which states that, in all cases, an amount equal to 10 percent of the profit for the year will be allocated to this reserve until a figure equal to at least 20 percent of the share capital is reached.

Unless it exceeds the aforementioned threshold, the legal reserve can only be used to offset losses, in the event that there are not sufficient other reserves available for this purpose.

Details of the legal reserve by company at November 30, 2017 and 2016 are as follows:

		2017	2016
Parent company of Group			
Zardoya Otis S.A.	EThs	9 785	9 409
Subsidiaries			
Ascensores Eguren, S.A. (*)		-	-
Ascensores Ingar, S.A.		13	13
Ascensores Serra, S.A.		48	48
Cruxent-Edelma, S.L.		24	24
Mototracción Eléctrica Latierro, S.A. (*)		-	63
Grupo Otis Elevadores (Portugal)		420	420
Puertas Automáticas Portis, S.L.		68	68
Ascensores Pertor, S.L.		10	10
Conservación de Aparatos Elevadores Express, S.L.		354	354
Acresa Cardellach, S.L.		2 162	2 162
Zardoya Otis (Gibraltar) Limited		0	0
Otis Maroc, S.A.		10	10
Ascensores Aspe S.A.		41	41
Montes Tallón, S.A.		19	19
Ascensores Enor S.A.		601	601
Electromecánica del Noroeste S.A.		204	204
Enor Elevacao e Equipamentos Industriales Lda		50	50
Electromecánica Hemen Elevadores, S.L.		1	1
Companies acquired in 2016 (in process of merger)		12	38
Companies acquired in 2017 (in process of merger)		1	-

14. Reserves in consolidated companies, other reserves and non-controlling interests

EThs	Consolidated companies	Other reserves	Total
As of November 30, 2015	**84 901**	**111 566**	**196 467**
Profit 2015	41 521	39 642	81 163
Dividends paid in the period	(39 998)	-	(39 998)
Capital increase	-	(1 809)	(1 809)
Other movements	(689)	-	(689)
As of November 30, 2016	**85 735**	**149 399**	**235 134**
Profit 2016	41 622	41 197	82 819
Dividends paid in the period	(39 352)	-	(39 352)
Capital increase	-	-	-
Other movements	806	-	806
As of November 30, 2017	**88 811**	**190 596**	**279 407**

Details by company of reserves in consolidated companies and other reserves as of November 30, 2017 and 2016 are as follows:

Company	2017	2016
Zardoya Otis S.A.	212 954	160 753
Ascensores Ingar, S.A.	(6 262)	(5 834)
Ascensores Serra, S.A.	1 166	1 167
Cruxent-Edelma, S.L.	(12 129)	(12 498)
Mototracción Eléctrica Latierro, S.A. (*)	-	2 543
Grupo Otis Elevadores (Portugal)	37 376	36 997
Puertas Automáticas Portis, S.L.	6 469	7 219
Zardoya Otis (Gibraltar) Limited	34	7
Ascensores Pertor, S.L.	6 441	7 376
Conservación de Aparatos Elevadores Express, S.L.	17 893	17 183
Acresa Cardellach, S.L.	26 041	26 287
Ascensores Aspe S.A. (subsidiary of Eguren S.A.)	(2 888)	(1 688)
Otis Maroc, S.A.	4 502	4 493
Montes Tallón S.A.	(3 027)	(2 632)
Electromecánica Hemen Elevadores, S.L.	1 048	97
Companies acquired in 2016	97	-
Enor companies	(349)	3 623
IFRS adjustments	(9 959)	(9 959)
	279 407	235 134

Details of non-controlling interests by company as of November 30, 2017 ad 2016 are as follows:

Company	Non-controlling interests 2017	Non-controlling interests 2016	Dividends paid 2017	Dividends paid 2016
Ascensores Serra, S.A.	836	815	466	502
Ascensores Pertor, S.L.	1 151	1 217	195	175
Acresa Cardellach, S.L.	1 355	2 276	96	140
Montes Tallón S.L.	6 790	7 266	-	-
Electromecánica Hemen Elevadores, S.L.	-	1 232	-	44
Masel Otis Elevadores de Madeira, Lda	1 294	1 203	319	320
EThs	11 426	14 009	1 076	1 181

15. Profit for the period

The contribution of each consolidated company to the net consolidated profit, including the portion relating to non-controlling interests, is as follows:

Company EThs	2017 Consolidated profit	2017 Attributable to non-controlling interests	2016 Consolidated profit	2016 Attributable to non-controlling interests
Zardoya Otis S.A.	117 481	-	118 965	-
Ascensores Ingar, S.A.	425	-	(428)	-
Ascensores Serra, S.A.	1 460	487	1 398	466
Cruxent-Edelma, S.L.	1 643	-	1 834	-
Mototracción Eléctrica Latierro, S.A.	-	-	500	-

Grupo Otis Elevadores (Portugal)	14 831	410	15 214	326
Puertas Automáticas Portis, S.L.	2 515	-	2 340	-
Zardoya Otis (Gibraltar) Limited	32	-	27	-
Ascensores Pertor, S.L.	2 105	131	2 192	137
Conservación de Aparatos Elevadores Express, S.L.	2 843	-	3 044	-
Acresa Cardellach, S.L.	2 804	94	3 195	184
Otis Maroc, S.A.	1 404	-	925	-
Ascensores Aspe S.A.	413	-	560	-
Montes Tallón, S.A.	(526)	(379)	(395)	(321)
Enor	3 792	-	2 813	-
Electromecánica y Ascensores Hemen	360	-	345	27
Acquisitions 2016 & 2017 (in process of merger)	451	-	97	
EThs	**152 744**	**743**	**152 626**	**819**

The proposed distribution of 2017 profit of the parent company that will be submitted for approval at the Annual General Shareholders' Meeting, together with the 2016 profit distribution approved, is as follows:

		2017	**2016**
Available for distribution			
Profit for the period		152 289	154 836
	EThs	152 289	154 836
Distribution			
Legal reserve		377	376
Reserve for goodwill		-	1 806
Other reserves		39 001	41 197
Dividends		112 911	111 457
	EThs	152 289	154 836

(*) Distribution of the 2016 profit approved by the General Shareholders' Meeting of Zardoya Otis, S.A. on May 24, 2017.

16. Trade and other payables

	2017	**2016**
Trade payables	34 160	28 094
Payables to related parties (Note 34)	10 318	9 677
Other payables	13 776	15 958
Goods received but not invoiced	8 572	10 261
Notes payable	146	305
Amounts due to customers on work in progress (Note 8)	43 815	40 300
Maintenance billing in advance	24 272	25 989
Acquisition commitments (Note 7)	5 027	10 422
Other payables to public authorities (Note 17)	23 393	24 103
Outstanding employee remuneration	27 184	29 103
Other	25 881	22 217
EThs	216 544	216 429

The amounts payable to related companies are partly in foreign currency and there are no other significant amounts payable in foreign currency. Since the amounts are current and are not significant, no hedges have been deemed necessary. The heading "Related companies" includes balances denominated in foreign currencies other than euros, the equivalent value of which in euros is EThs 879 (2016: EThs 754).

At November 30, 2017 and 2016, there were commitments for costs incurred in work for which, although it had been completed, charges from third parties had not yet been received. This item is shown under the heading "Other payables".

The heading "Other" includes mainly the liabilities mentioned in Note 6 above for a value of EThs 12 535 (2016: EThs 13 811).

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

2017

	Current	2019	2020/21	Noncurrent
Acquisitions 2016 & earlier	3 235	875	254	1 129
Acquisitions 2017	1 792	1 264	255	1 519
	5 027	2 139	509	2 648

2016

	Current	2018	2019/20	Noncurrent
Acquisitions 2015 & earlier	4 138	817	105	922
Acquisitions 2016	6 284	2 463	465	2 928
	10 422	3 280	570	3 850

Summary of the 2017 debt:

	Current	Noncurrent
Acquisitions until 2017		
Acquisitions CGU Spain	4 635	1 946
Acquisitions CGU Portugal	392	702
Acquisitions CGU Morocco	-	-
	5 027	**2 648**

Summary of the 2016 debt

	Current	Noncurrent
Acquisitions until 2016		
Acquisitions CGU Spain	10 422	3 850
Acquisitions CGU Portugal	-	-
Acquisitions CGU Morocco	-	-
	10 422	**3 850**

Company acquisition agreements in force at November 30, 2017 and 2016 bear interest charges only on the portions relating to contingent liabilities secured by withholding part of the price payable. The amount is not significant.

Forecast payments are classified as current in accordance with the payment conditions fixed in each contract. Those classified as noncurrent are measured at amortized cost and the differences are recognized in profit and loss over the term of the debt, applying the effective interest rate method.

a) Information on delays in payments to suppliers. Third Additional Provision "Reporting duties" of Law 15/2010 of July 5.

In accordance with Law 15/2010 of July 5, the Group reports that, in the 2017 reporting period, total payments of EThs 363 766 were made to supplies (2016: EThs 334 419), complying with the aforementioned legislation.

	2017	2016
	Days	**Days**
Average payment period to suppliers	55	50
Ratio of transactions paid	55	51
Ratio of transactions outstanding	50	46
	Euros	**Euros**
Total payments made	363 766	334 419
Total payments outstanding	34.160	28.094

17. Public Treasury

		2017	2016
Debit balances			
Social security		46	26
Withholding tax on investment income		361	170
Public Treasury, VAT payable		387	492
Public Treasury, input VAT		5 779	5 593
Prior years taxes		7 436	5 288
	EThs	14 008	11 569
Credit balances			
Provision for corporate income tax		50 533	56 597
Payments on account of corporate income tax		(42 677)	(53 525)
	EThs	7 856	3 072
Public Treasury, withholdings operated		3 091	3 007
Public Treasury, VAT due		2 320	1 006
Public Treasury, output VAT		7 636	9 382
Social Security		10 346	10 708
	EThs	23 393	24 103

18. Deferred taxes

	2017	2016
Deferred tax assets		
to be recovered after more than 12 months	23 395	22 580

to be recovered within 12 months	599	625
EThs	23 994	23 205
Deferred tax liabilities		
to be recovered after more than 12 months	22 712	25 289
to be recovered within 12 months	1 551	1 503
EThs	24 263	26 792

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

Deferred tax assets	Welfare commitments	Amortization intangible assets	Other	Total
As of November 30, 2015	11 579	6 165	4 834	22 578
P&L impact	(547)	(722)	1 894	625
Change in statutory rate	-	-	-	-
Business combinations	-	-	2	2
As of November 30, 2016	11 032	5 443	6 730	23 205
P&L impact	5	783	1	789
Change in statutory rate	-	-	-	-
Business combinations	-	-	-	-
As of November 30, 2017	11 937	6 226	6 731	23 994

Deferred tax liabilities	Welfare commitments	Amortization intangible assets	Other	Total
As of November 30, 2015	-	25 416	-	25 516
P&L impact	-	(1 535)	-	(1 535)
Change in statutory rate	-	-	-	-
Business combinations (Note 33)	-	2 911	-	2 911
As of November 30, 2016	-	26 792	-	26 792
P&L impact	-	(3 951)	-	(3 951)
Change in statutory rate	-	-	-	-
Business combinations (Note 33)	-	1 422	-	1 422
As of November 30, 2017	-	24 263	-	24 263

Deferred tax is calculated on the basis of the temporary differences that arise between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates that have been or are about to be approved at the reporting date and are expected to apply when the related deferred tax asset is realized or deferred tax liability is settled.

19. Welfare commitments

Post-employment commitments held with Group employees, consisting of the payment of social security benefit complements, other retirement benefits and life insurance premiums, are met through group insurance policies and are classified as defined-benefit plans.
The liability recognized in the statement of financial position for the defined-benefit plans is the present value of the obligation at the reporting date less the fair value of the assets attached to the plan. The defined benefit obligation is calculated annually, once the salary adjustment process has concluded in October, by independent actuaries, using the projected unit credit method. The consolidated income statement shows an expense of ETHs 1 978 (2016: ETHs 1 378) for this item as an employee benefit expense.

In 2014, the Group adopted IAS 19 and applied it retrospectively. The impact of the application of this Standard included recognition of actuarial gains in the statement of comprehensive income.

	2017	2016
Obligations (Asset) on consolidated statement of financial position		
Current employees	(4 141)	(2 673)
	(4 141)	(2 673)

The amounts recognized in the statement of financial position were measured as follows:

	2017	2016
Present value of the obligations financed	38 920	39 843
Fair value of plan assets	(43 061)	(42 516)
Liability (Asset) in statement of financial position	(4 141)	(2 673)

The evolution of the present value of the defined-benefit obligation and the fair value of plan assets was as follows:

	Obligation recognized	Plan assets
As of November 30, 2015	36 058	(40 630)
Service cost	1 975	-
Interest cost	830	-
Return on plan assets	-	(961)
Payments to beneficiaries	(903)	903
Contributions	-	(220)
Actuarial losses / gains	2 632	(2 290)
Settlements	(749)	251
As of November 30, 2016	39 843	(42 516)

Service cost	2 233	-
Interest cost	679	-
Return on plan assets	-	(732)
Payments to beneficiaries	(805)	805
Contributions	-	(433)
Actuarial losses / gains	(2 712)	(301)
Settlements	(317)	116
As of November 30, 2017	38 920	(43 061)

The principal actuarial assumptions used were as follows:

	2017	**2016**
The discount rate varies, depending on the length of the obligation, between	1.52%-1.58%	1,30%-2.75%
Mortality tables	PERMF 2000P	PERMF 2000P
Wage increase	2.15%	2.75%
Estimated average early retirement age	65 to 67 years	65 to 67 years

The amounts recognized in profit and loss were as follows:

	2017	**2016**
Current service cost	2 233	1 975
Interest cost	679	829
Expected return on plan assets	(732)	(961)
Settlements	(201)	(465)
Actuarial (gains) / losses	-	-
Total included in employee benefit expenses (income) (Note 23)	**1 978**	**1 378**

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

The amounts of the present value of obligations for defined benefits and the fair value of plan assets for the 2017 reporting period and the preceding four annual periods are as follows:

	2017	2016	2015	2014
Present value of obligations financed	38 920	39 843	36 058	39 640
Fair value of plan assets	(43 061)	(42 516)	(40 630)	(41 674)

The Group's best estimate of the contributions to be paid in the year ending November 30, 2018 is EThs 2 005 (2017: EThs 2 233).

The actuarial gains and losses shown in the statement of recognized income and expenses, recognized in equity for an actuarial gain of EThs 3 013 (actuarial loss of EThs 342 in 2016), relate principally to the effects of experience with the group on which the calculation was based and are the sum of an actuarial loss of EThs 243 (2016: actuarial loss of EThs 335); and an actuarial gain of 3 023 EThs (2016: actuarial gain of EThs 184), attributable to deviations in wages, which were lower than expected, and persons who no longer belong to the plan, which reduced or increased the obligation; as well as EThs 233 (2016: EThs 34) related to changes in the rates of and returns on the funds.

Additionally, there is a defined-contribution plan, the annual cost of which is included under the heading "Employee benefit expenses" for an amount of EThs 649 (EThs 608 in 2016).

20. Borrowings

At November 30, 2017 and 2016, the carrying amount of current borrowings from financial institutions was equal to their fair value, since the impact of applying a discount was not significant.

2017:

	Current	2017	2018	Noncurrent
Borrowings from financial institutions	155	-	-	-
Other	168			
EThs	323	-	-	-

2016:

	Current	2017	2018	Noncurrent
Borrowings from financial institutions	155	-	-	-
Other	169			
EThs	324	-	-	-

At November, 30 2017 financial assets of ETHs 33 831 (ETHs 24 895 in 2016) (collection rights from customers) that had been derecognized because the risks of default and delinquency had been transferred.

21. Provision for other liabilities and expenses

	2017	2016
Noncurrent		
Other commitments with employees	10 084	8 370
Current		
Litigations: customer transactions	133	46
Guarantees	9 827	12 699
Chamber of Commerce and other taxes	701	392
ETHs	10 661	13 137

The provision for guarantees covers principally free service commitments derived from the signature of contracts by Group companies, usually with a term of less than one year. Risks provided for relate to litigations and other identified risks inherent to the Group's activity.

The following table shows the movement on the provisions:

	Other noncurrent commitments wiith employees and other	Litigations: customer transactions	Guarantees	Other
As of November 30, 2015	**7 220**	**1 319**	**12 215**	**657**
Provisions/(reversals) in income statement	1 150	(1 273)	484	(265)
Amounts used				
Other	-	-	-	-
As of November 30, 2016	**8 370**	**46**	**12 699**	**392**
Provisions/(reversals) in income statement	1 714	87	(2 872)	309
Amounts used				
Other	-	-	-	-
As of November 30, 2017	**10 084**	**133**	**9 827**	**701**

22. Revenue

		2017	2016
Services provided		544 674	533 683
Revenue from construction contracts		48 754	41 728
Exports		184 167	169 867
Other sales		687	763
Total revenue	ETHs	778 282	746 041

23. Employee benefit expenses

		2017	2016
Wages and salaries		178 558	175 979
Social security and other		65 996	64 016
Employee benefit commitments		1 978	1 378
	EThs	246 532	241 373

Social security and other includes severance payments to employees of EThs 2 974 in 2017 (2016: EThs 5 544).

As from the 2011 reporting period, a long-term UTC incentive plan has also been included for certain Zardoya Otis executives who are likewise considered as UTC Group executives. This plan includes UTC share-based payments (Note 34). The expense recognized for this item in 2017 was EThs 660 (2016: EThs 789).

24. Raw materials and consumables used

		2017	2016
Materials and subcomponents for installations and services		305 866	295 553
Elimination of intra-group transactions		(45 480)	(60 537)
Purchase discounts		-	-
Change in inventories		(3 010)	(6 895)
	EThs	257 376	228 121

25. Other net expenses

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

		2017	2016
Leases		18 027	17 896
Repairs and maintenance		2 472	2 318
Insurance premiums		194	627
Advertising and publicity		2 425	2 468
Transport		12 236	9 555
Supplies and other services		16 709	14 355
Independent professionals		2 843	3 263
Subcontracting		1 355	1 625
Other		808	1 922
Impairment of receivables (Note 8)		(2 077)	(2 630)
	EThs	54 991	51 399

26. Net financial expenses and income

	2017	2016
Interest expense:		
– Loans from financial institutions	(394)	(173)
	(394)	(173)
Interest income:		
– Bank deposits	621	768

– Other		-	-
		621	768
Net foreign exchange gains / (losses)		70	28
	EThs	297	623

27. Income tax

		2017	2016
Profit before tax		201 314	207 830
Permanent differences:		1 704	521
Profit from foreign companies		(22 610)	(22 574)
Other differences			
Prior period temporary differences in respect of which the relevant deferred tax asset was not recognized		(15 804)	(11 851)
Temporary differences arising in the period in respect of which the relevant deferred tax asset has not been recognized		-	-
Adjusted profit before tax		164 604	173 926
Temporary differences arising in the period in respect of which the relevant deferred tax asset is recognized		(3 155)	6 045
Taxable income		161 449	179 971
Gross tax payable		40 362	50 392
Tax credits		(514)	(2 115)
Other differences and tax assessment raised		2 013	-
Net corporate income tax expense, foreign companies		5 966	6 108
Change in statutory rate			-
Corporate income tax expense	EThs	**47 827**	**54 385**

The deferred tax asset accumulated at November 30, 2017 was EThs 23 994 (EThs 23 205 in 2016). This deferred tax asset came basically from temporary differences relating to welfare commitments, bad debt provision, delayed sales costs and other provisions that will reverse in future years. Furthermore, there are deferred tax liabilities of EThs 24 263 (EThs 26 792 in 2016 relating to differences generated by goodwill.

Deductible temporary differences relate principally to welfare commitments of EThs 11 037 (2016: 11 032), which are expected to be offset as follows:

Period 2018: EThs 708
Period 2019: EThs 629
Period 2020: EThs 525
Period 2021: EThs 508
Period 2022: EThs 552

Period 2023: ETHs 474
Period 2024: ETHs 433
Other: ETHs 7 645

At the reporting date, ETHs 42 677 (ETHs 53 525 in 2016) had been paid on account of the final corporate income tax payable. Corporate income tax expense included ETHs 4 740 of revenue from deferred taxes (ETHs 2 160 of revenue from deferred taxes in 2016). (Note 18)

The effective tax rate for Otis Elevadores, Lda. (Portugal) is 26.66 % and that of Otis Maroc, S.A., 23.00% (26.69% and 33.00% in 2016, respectively), while corporate income tax expense for 2017 was ETHs 5 542 and ETHs 423, respectively (ETHs 5 658 and 450 in 2016).

In relation to Zardoya Otis, S.A., the Company was notified that the Tax Agency would commence inspections in relation to corporate income tax, value-added tax and personal income tax for the accounting periods 2011, 2012, 2013, 2014 and 2015. In 2017, these inspections concluded with no impact on the profit for the period and the periods up to November 30, 2015 were closed for inspection purposes

For the Spanish subsidiaries and for Otis Maroc, S.A., the Otis Elevadores (Portugal) Group and Enor Portugal, the last four tax periods are still open to inspection.

As a consequence of, among other items, possible different interpretations of current tax legislation, additional liabilities could arise as the result of an inspection. However, the directors consider that, to the best of their knowledge should any such liabilities arise, they would not have a significant effect on the Consolidated Annual Financial Statements.

28. Earnings per share

Basic earnings per share are calculated, in accordance with IAS 33, by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue in the year, excluding treasury shares acquired by the Company. Apart from the capital increase in the periods, no event that could dilute the earnings per share has occurred..

	2017	2016
Profit attributable to equity holders of the Company	152 747	152 626
Weighted average number of ordinary shares in issue during the year	470 464 311	459.909.022
Weighted average number of treasury shares	-	(83 460)
Basic earnings per share	0,32	0,33

29. Dividends per share and partial cash distribution of share premium

In 2016 and 2017, three quarterly dividends were paid and there was a partial cash distribution of the share premium, as follows:

1st Dividend 0.080 euros gross per share, charged to the year 2016. Declared on March 30, 2016 and paid out on April 11, 2016. Shares: 452,369,530 (Treasury stock: 11,547 shares). Total = 36,189,562.41 euros	36 189
Partial distribution of share premium 0.080 euros gross per share. Declared on May 20, 2016 and paid out on July 11, 2016. Shares: 452,369,530 (Treasury stock: 587,874 shares). Total = 36,189,562.41 euros	36 189

2nd Dividend 0.080 euros gross per share, charged to the year 2016. Declared on September 22, 2016 and paid out on October 10, 2016. Shares: 470,464,311 (Treasury stock: 79,066 shares). Total = 37,637,144.88 euros	37 637
Dividend at end of period	110 015
3rd Dividend 0.080 euros gross per share, charged to the year 2016. Declared on December 14, 2016 and paid out on January 10, 2017. Shares: 470,464,311 (Treasury stock: 0 shares). Total = 37,637,144.88 euros	37 637
TOTAL 2016	147 652
1st Dividend 0.080 euros gross per share, charged to the year 2017. Declared on March 21, 2017 and paid out on April 10, 2017. Shares: 470,464,311 (Treasury stock: 0 shares). Total = 37,637,144.88 euros	37 637
Partial distribution of share premium 0.079 euros gross per share. Declared on May 24, 2017 and paid out on July 10, 2017. Shares: 470,464,311 (Treasury stock: 0 shares). Total = 37,166,680.57 euros	37 166
2nd Dividend .080 euros gross per share, charged to the year 2017. Declared on September 18, 2017 and paid out on October 10, 2017. Shares: 470,464,311 (Treasury stock: 0 shares). Total = 37,637,144.88 euros	37 637
Dividend at end of period	112 440
3rd Dividend 0.080 euros gross per share, charged to the year 2017. Declared on December 12, 2016 and paid out on January 10, 2018. Shares: 470,464,311 (Treasury stock: 0 shares). Total = 37,637,144.88 euros	37 637
TOTAL 2017	150 077

In relation to the interim dividends distributed by Zardoya Otis, S.A. in the year 2017, the existence of sufficient liquidty for their distribution was verified, in accordance with the Capital Companies Law, art. 277:

	Dividend:		
	1st February	2nd August	3rd November
Gross profit since December 1, 2016	52 463	149 842	192 062
Estimate of corporate income tax payable	(9 414)	(28 515)	(39 773)
Available net profit	43 049	121 327	152 289
Amount distributed previously	-	37 637	75 274
Amount proposed and distributed	37 637	37 637	37 637
Liquidity in cash	18 266	46 406	20 518
Temporary financial investments	-	-	-
Current trade bills receivable	21 474	20 384	23 687
Current loans	14 807	6 971	12 846
Net liquidity	54 546	73 761	57 051

30. Cash generated by operations

The following is a breakdown by item of the cash flow from operations included in the consolidated statement of cash flows:

	2017	2016
Profit before tax	201 314	207 011
– Depreciation of property, plant and equipment (Note 5)	4 653	6 596
– Amortization of intangible assets (Note 6)	15 305	15 050
– (Profit)/loss on disposals of property, plant and equipment	127	1 050
– Increase/(reduction) in retirement benefit obligations	1 468	1 900
– Interest paid (Note 26)	(394)	(173)
– Interest received (Note 26)	621	768
– Losses/(gains) on foreign currency conversion in operating activities (Note 26)	(70)	28
Changes in working capital (excluding the effects of the acquisition and foreign exchange differences upon consolidation):		
– Inventories	(2 810)	(6 894)
– Trade and other receivables	(11 568)	(1 298)
– Financial assets at fair value through Profit and loss		
– Trade and other payables	3 052	(4 472)
Tax payment for the period	(47 827)	(56 276)
Cash generated by operations	**163 871**	**163 320**

31. Contingencies

The Group has contingent liabilities in respect of bank guarantees and other matters arising in the ordinary course of business. It is not foreseen that any material liabilities will arise from the contingent liabilities. The Group has given guarantees in the ordinary course of business amounting to EThs 15 833 (2016: EThs 14 919).

As the result of a disciplinary procedure initiated by the National Commission on Competition (CNC), now the National Commission on Markets and Competition (CNMC), against several companies in the elevator industry, a fine of EThs 2 845 was imposed on Zardoya Otis, S.A. in September 2013. A bond was deposited in order to appeal against the administrative decision before the Contentious-Administrative Chamber of the National Court, which duly delivered judgment. An appeal against said judgment has been filed before the Supreme Court, which has given it leave to go ahead. The bond will remain in force until the Supreme Court hands down its judgment.

32. Commitments

Asset purchase commitments

Investments committed at the end of the reporting period but not made at said date were as follows:

EThs	2017	2016
Property, plant and equipment	975	335

At the reporting date, there were purchase commitments for property, plant and equipment of EThs 975 (EThs 335 in 2016), of which EThs 714 (EThs 138 in 2016) had been paid in advance.

Lease commitments

The Group leases commercial premises, offices and warehouses under lease contracts for which different conditions have been agreed. Furthermore, there are other operating lease commitments, principally concerning vehicles. The estimated annual cost of the totality of the commitments assumed under said lease agreements is:

	2017	2016
Premises leased	3 566	3 464
Other	6 006	5 867

33. Business combinations

2017:

Companies belonging to the CGU Zardoya Otis Group (Spain and Portugal) acquired, for EThs 6 202, 100% of the shares in the companies Liftime- Elevadores Unipessoal (January 1, 2017), Lda and Joaquim Férias e Filhos- Elevadores Unipessoal, Lda (January 1, 2017), Sistemas Automáticos de Elevación SL (April 21 2017) and Liftsur Elevadores SL (July 27, 2017), all of which are engaged in elevator repair and maintenance in Portugal and Spain.

Details of the assets and liabilities included are as follows:

Cash and cash equivalents	164
Property, plant & equipment	59
Intangible assets	5.689
Receivables	732
Inventories	80
Deferred tax assets	-
Payables	746
Deferred tax liabilities	1.422

A difference of ETHs 1 107 arose as goodwill.

2016:

Companies belonging to the CGU Zardoya Otis Group (Spain) acquired, for EThs 18 737, 100% of the shares in the companies Elevación y Servicios IM 2000, S.L. (February 25, 2016), Ascensores Puertollano, S.L. (March 14, 2016), Ascensores Stelokotu, S.L. (July 5, 2016), Elevadores Castalia, S.A. (July 21 2016) and M. CASAS S.A (September 6, 2016), all of which are engaged in elevator repair and maintenance in Portugal and Spain.

Details of the assets and liabilities included are as follows:

Cash and cash equivalents	3 096
Property, plant & equipment	116
Intangible assets	11 642
Receivables	1 335
Inventories	36
Deferred tax assets	3
Payables	929
Deferred tax liabilities	2 911

A difference of EThs 6 348 arose as goodwill.

During the periods 2017 and 2016, the Group carried out transactions with non-controlling interests, which are explained in Note 2.2.

34. Related-party transactions

At November 30, 2017, United Technologies Holdings S.A. (incorporated in France) held 50.01% of the parent company, Zardoya Otis, S.A. The ultimate Group parent is United Technologies Corporation (incorporated in the United States), the parent company of United Technologies Holdings, S.A.

The following transactions were carried out with related parties:

EThs	**2017**	**2016**
Transactions with Otis Elevator Co		
Royalties	(18 407)	(17 949)
Charge-back of costs relating to the R&D Center	3 899	3 374
Payables	(512)	(460)
Transactions with Otis Group company, sales and purchases of goods and services		
Sales and expenses invoiced	170 542	165 914
Purchases and expenses borne	(49 884)	(35 737)
Receivables	36 322	40 651
Payables	(9 806)	(9 217)

The Group considers all the trading and non-trading transactions carried out by any Group company with shareholders, directors or associated companies to be related transactions.

The Company periodically requests the opinion of an expert of recognized prestige concerning the pricing policy established for the transactions with other Otis Group entities, in order for it to be reviewed by the Audit Committee.

The Group has been party to a technical assistance agreement, “Intellectual Property License Agreement”, with Otis Elevator Company since 1999. This agreement allows the Company to use the trademarks and have access to Research & Development activities and global product development. The cost of this agreement is a royalty of between 2.1% and 3.5% of sales to end, excluding intra-group sales.

Additionally, in September 2010, a “Recharge Agreement” was signed with United Technologies Corporation (UTC), which concerned the possibility that certain Zardoya Otis, S.A. executives who were also considered to be UTC Group executives, since they held important management responsibilities should benefit, depending on their performance and the attainment of joint objectives of Zardoya Otis, Otis and United Technologies Corporation (UTC), from the UTC long-term incentive plan, which includes UTC share-based compensation schemes. The Agreement is applicable to incentives assigned as from December 1, 2010. The cost, approved by the Audit Committee, is included in employee benefit expenses, generating a credit account with UTC Group companies (shown as other provisions in the statement of financial position). The expense originated by this item is included under the employee benefit expense heading. For 2017, the expense was EThs 660 (EThs 789 in 2016), relating to the fair value of the accumulated assets to which it is indexed, which was EThs 4 554 (EThs 4 146 in 2016).

The global remuneration for all items accrued during the year by the members of the Board of Directors was EThs 2 084 (1 676 in 2016) and consisted of the following items:

	2017	**2016**
Fixed compensation	281	249
Variable compensation	230	100
Bylaw stipulated items	1 200	1 200
Other long-term benefits	306	70
Pension plan contributions	67	57
TOTAL	**2 084**	**1 676**

At the 2017 and 2016 reporting dates, the Company had not granted any advances or credits to the members of the Board of Directors.

Additionally, the overall compensation for all items accrued by the members of Group senior management (non-directors) was EThs 865 (EThs 626 in 2016), as reported in Sections C.1.15 and C.1.16 of the 2017 Annual Corporate Governance Report.

Conflicts of interest of the directors

Complying with the duty to avoid situations where there is a conflict with the Company’s interests, the directors who held office on the Board of Directors during the period met the obligations set forth in article 228 of the Revised Text of the Capital Companies Law. Likewise, both they and persons related to them refrained from entering into the situations of conflict of interest provided for in article 229 of said Law, except in cases where the relevant authorization had been obtained.

35. Environmental information

At November 30 2017, the Group was not aware of any contingency, risk or litigation in progress related to the protection and improvement of the environment. Therefore, the Company has not recognized any provision in the statement of financial position at November 30, 2017 for environmental actions.

The Group has approved a Corporate Environmental Policy Manual that stipulates the principal procedures and actions to be followed in plants, offices, transport, Installation and Service.

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

Control, recycling and reduction of highly contaminating waste (oils).
Control and reduction of recyclable waste (packaging).
Control and reduction of emissions into the air due to industrial and combustion processes.
Control and reduction of water and energy consumption.

The Madrid-Leganés plant was designed to minimize energy consumption by including the installation of photovoltaic panels on the roof, the carrying amount of which is ETHs 4 153, with accumulated depreciation of ETHs 1 742 at the reporting date.

In addition, in 2017, expenses for the removal or recycling of waste were recognized for a value of ETHs 23 (2016: ETHs 38).

36. Events after the reporting date

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

37. Other information

a) Number of Group employees by category (average – reporting date)

	Men	Women	2017
Managers	67	9	76
Administration/workshop/field supervisors	471	32	503
Engineers, university graduates and other experts	219	58	277
Administrative and technical personnel	517	447	964
Other workers	3 386	27	3 413
	4 660	573	5 233

	Men	Women	2016
Managers	67	8	75
Administration/workshop/field supervisors	492	30	522
Engineers, university graduates and	246	63	309

other experts			
Administrative and technical personnel	488	427	915
Other workers	3 298	26	3 324
	4 591	554	5 145

The average number of persons with a disability rating of 33% or more employed by the Group in the reporting periods was 53 (42 men and 11 women) in 2017 and 28 (23 men and 5 women).

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

The amount of the fees accrued by PricewaterhouseCoopers Auditores, S.L., which audited the Zardoya Otis Group, for the year 2017, was EThs 315 (EThs 317 in 2016, including the fees paid for the process audit required to comply with the rules for the main shareholder. Likewise, fees accrued during the year by other companies in the PwC network as a result of audit services to foreign subsidiaries were EThs 42 (EThs 45 in 2016).

Likewise, the fees accrued in the year by PricewaterhouseCoopers Auditores, S.L. due to other services rendered to the Company were EThs 52 (2016: EThs 94), while those accrued by other companies that use the PwC brand name were EThs 13 (2016: EThs 67).

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