

**Annual Report
on Director Compensation**

ANNUAL REPORT ON DIRECTOR COMPENSATION

1. INTRODUCTION

This report describes the compensation policy for the members of the Board of Directors of Zardoya Otis, S.A. (the “Company”), in compliance with the principle of transparent compensation and the obligation introduced by Law 2/2011 of March 4 on Sustainable Economy.

The report contains a description of the basic principles of the compensation policy that the Company applies to its directors also giving details of the different elements that comprise their compensation, based on the contents of the Company’s By-Laws and the Board of Directors Regulations.

The report has been prepared taking into account the content and the structure of the model attached as Exhibit 1 to the Draft Circular made public last year by the National Stock Market Commission.

2. THE COMPANY’S COMPENSATION POLICY FOR THE CURRENT YEAR

2.1. General principles and bases of the compensation policy

According to article 24 of the By-Laws and article 18 of the Board of Directors Regulations, the position of director of the Company will be remunerated.

Said article 24 of the By-Laws fixes global remuneration (the “By-Law stipulated compensation”) consisting of a share of 1.5% of the consolidated profit before tax. This amount can only be taken from the liquid profit (after tax) after the legal reserves and the reserves provided for in the By-Laws have been covered and a dividend of at least 10% of the paid-up share capital has been recognized in the shareholders’ favour.

This By-Law stipulated compensation will be distributed among its members in the manner freely determined by the Board of Directors, depending on (i) whether they sit on any Board committees or other bodies; (ii) whether they hold specific positions on the Board; (iii) their attendance of Board meetings; and/or (iv) their commitment to the service of the Company.

Furthermore, article 18 of the Board of Directors Regulations establishes the principles or criteria that should be taken into account when fixing the compensation of external directors. In particular, it states that this compensation will be the amount deemed necessary to remunerate the commitment, abilities and responsibility required by the position, although it must not be so high as to compromise their independence.

The director compensation policy has not changed in comparison with the preceding year, using solely the criteria established in the aforementioned articles 24 of the By-Laws and 18 of the Board of Directors Regulations.

Regarding the relative importance of the items of fixed compensation in comparison with the variable items, we must highlight the fact that, in 2012, the former represented 19% (15.6% in 2011) of the total and the Board of Directors does not foresee any changes in the decision-making process when deciding on the mix of the director compensation in forthcoming years.

2.2. Preparatory work and decision-making process for determining the compensation policy.

Article 3 of the Company's Board of Directors Regulations establishes, within the functions of the Board of Directors, the approval of director compensation. In particular, the Board of Directors must approve the compensation of the Company's executive director, who will receive an additional fixed sum for performing the executive functions.

The Company does not have a Compensation Commission and has not used the services of external advisors to determine its director compensation policy. Therefore, the Board of Directors itself, with the participation of all its members, is the body responsible for designing, approving and implementing its compensation policy.

The items of compensation applicable to the different types of director of the Company (executive, external proprietary, external independent and other external) are summarized below:

Applicable compensation items for the different types of director of the Company

Type	Number	Fixed compensation	Variable compensation	By-Law stipulated compensation	UTC long-term incentive plan
Executive director	1	YES	YES	N.A.	YES
External proprietary director	6	N.A.	N.A.	YES ¹	N.A.
External independent director	1	N.A.	N.A.	YES	N.A.
Other external director	1	N.A.	N.A.	YES	N.A.

2.3. Amount and nature of fixed components

2.3.1. Fixed compensation of Chief Executive Officer

As stated in point 2.2 above, only Mr. Pedro Sainz de Baranda y Riva and Mr. Bernardo Calleja Fernandez, both Company's Chief Executive Officers in 2012, received fixed remuneration for carrying out their executive duties. This fixed compensation does not include any guarantee or golden parachute clauses, notice periods, or no-compete, exclusivity, continuance or loyalty, or post-contractual no-compete covenants or agreements other than those established in the applicable Spanish labour legislation.

There is no extra compensation for holding the position of Chairman or belonging to Board committees or other bodies and no per diem expenses are distributed for attending Board meetings or meetings of the Nominating Commission or Audit

¹ Not all the external proprietary Directors receive the above mentioned By-Law stipulated compensation.

Committee. Notwithstanding, these circumstances will be taken into account when distributing the remuneration stipulated in the By-Laws, as stated in point 2.1 above.

2.3.2. UTC Recharge Agreement

In September 2010, a “Recharge Agreement” was signed with United Technologies Corporation (UTC), under which considers the possibility that certain Zardoya Otis executives who are also considered to be UTC Group executives because they hold important management responsibilities should benefit, depending on their performance and the attainment of joint objectives of Zardoya Otis, Otis and United Technologies Corporation (UTC), from the UTC long-term incentive plan, which includes UTC shares. The incentive plan allows Zardoya Otis to capture and retain highly-qualified members of management who provide important services to the Company and contribute to its success.

This Agreement is applicable to incentives awarded as from December 1, 2010 onwards.

In the case of the Company the effect of this Agreement for the directors represents in 2012, the amount of 63 thousand euros (58 thousand euros in 2011).

2.4. Amount and nature of the variable components

2.4.1. By-Law stipulated compensation

As stated above in point 2.1, article 24 of the By-Laws fix a compensation subject to certain quantitative limits, which is subsequently distributed by the Board of Directors among its members (with the exception of the Chief Executive Officer) on the basis of certain criteria.

In addition, we must highlight the fact that the Board of Directors adopted the following decisions at its meeting of July 19, 2012:

- (A) To limit the total amount of the remuneration stipulated in the By-Laws to 1,000,000 €.
- (B) To delegate the distribution of the remuneration stipulated in the By-Laws among the Company’s directors to the Chairman of the Board, applying the following criteria: on (i) whether they sit on any Board committees or other bodies; (ii) whether they hold specific positions on the Board; (iii) their attendance of Board meetings; or (iv) their commitment to the service of the Company; and
- (C) The payment of the first six months of 2012, for 500,000 € on account of the By-Law stipulated remuneration.

2.4.2. Variable compensation

The variable compensation for the Chief Executive Officer is based on performance and the attainment of joint objectives of Zardoya Otis, Otis and United Technologies Corporation (UTC) and is calculated considering the operating profit and cash flow obtained each year. The variable compensation is payable the following year once approved the Annual Accounts by the Board of Directors.

2.4.3. *Other considerations*

- (A) Regarding the types of director who benefit from the variable compensations systems, please see Chart in point 2.2 above in relation to the compensation items applicable in accordance with the type of director.
- (B) The basis of the variable compensation system and the methods for assessing performance used by the Company to distribute it may be found in the aforementioned articles 24 of the By-Laws and 18 of the Board of Directors Regulations.
- (C) No periods of deferral or delay in payment of the compensation of the members of the Company's Board of Directors have been established.

2.5. Characteristics of long-term savings systems

The Company has made contributions to pension funds and plans for the Company's Chief Executive Officers, Mr. Pedro Sainz de Baranda y Riva and Mr. Bernardo Calleja Fernandez, for an amount of 81 thousand euros in 2012 (55 thousand euros in 2011).

2.6. Indemnities in the event that a director ceases to hold office

Director compensation does not include any guarantee or golden parachute clauses, notice periods, or no-compete, exclusivity, continuance or loyalty, or post-contractual no-compete covenants or agreements in the event that a director ceases to hold office as such.

2.7. Conditions of the senior management contracts for executive directors

The compensation awarded to the executive director does not include any guarantee or golden parachute clauses in the event of dismissal or continuance, notice periods or no-compete, exclusivity, continuance or loyalty, or post-contractual no-compete covenants or agreements, other than those established in the applicable Spanish labour legislation.

2.8. Supplementary compensation in consideration for services rendered other than those inherent to the position

With the exception of the Chief Executive Officer, only executive director of the Company, none of the other members of the Board of Directors have rendered other services to the Company. Please see point 2.2 above regarding the specific characteristics of this supplementary compensation received by the Chief Executive Officer.

2.9. Compensation in the form of advances, credits and guarantees

The Company has not awarded any compensation to the directors has not granted any credits or guarantees for its account.

2.10. Other compensation items

No other compensation items are settled by Group entities apart from as explained in above.

2.11. Company's actions in relation to the compensation system to reduce risk exposure and adapt it to long-term interests

The composition of the Board of Directors (67% of its members are proprietary directors) guarantees that the director compensation policy takes the results that should be obtained by the Company in the long term into account.

Thus, with the sole exception of the executive director, who receives additional fixed compensation for performing executive functions in the Company, the remuneration of the Board of Directors is variable in its entirety, based on the Company's results. Furthermore, the quantitative limits contained in the Company's By-Laws and Board of Directors Regulations help to necessarily link director compensation to the Company's best long-term interests.

In addition, the Group is studying the implementation of specific measures which:

- (A) ensure the limitation of the risk in relation to those categories of employees whose professional activities have a significant effect on the entity's risk profile.
- (B) allow the return of the variable results-based components to be claimed when such components have been settled on the basis of data that have later been manifestly shown to be inaccurate; and
- (C) avoid conflicts of interest (derived from the Group's internal control system).

3. COMPENSATION POLICY PLANNED FOR FUTURE YEARS

The Company's Board of Directors has not, to date, considered reviewing the compensation policy established in article 24 of the By-Laws and article 18 of the Board of Directors Regulations for forthcoming years.

In the opinion of the members of the Board, the compensation policy that exists is the most appropriate, taking into account current economic circumstances, combined with the principle of moderation that has always guided the compensation policy applied by the Company. In this respect, the Board of Directors' decision to limit the total amount of the By-Law stipulated remuneration to 1,000,000 euros is especially important, being the third consecutive year of limitation.

4. SUMMARY OF THE APPLICATION OF THE REMUNERATION POLICY IN 2012 AND DETAILS OF THE INDIVIDUAL REMUNERATION RECEIVED BY EACH DIRECTOR

4.1. Compensation accrued in the Company

The total amount of the compensation accrued during the year 2012 was 1,505 thousand euros (1,567 thousand euros in 2011).

Details of the compensation accrued by each one of the Company's directors, by item, are shown below:

Details of the individual compensation (in thousands of euros) received by each director.

	Fixed Compensation	By-Law Compensation	Compensation for participation in Board Committees	Other	Total
Abajo García, Mario	-	200	-	-	200
Euro Syms, S.A	-	50	-	-	50
Dejoux, Pierre	-	-	-	-	-
Harvey, Lindsay	-	-	-	-	-
Loizaga Viguri, Jose Maria	-	200	-	-	200
Messina, Angelo	-	-	-	-	-
Otis Elevatos Company	-	500	-	-	500
Sainz de Baranda y Riva, Pedro	224	-	-	94	318
Calleja Fernandez, Bernardo	136	-	-	51	187
Zardoya Arana, Francisco Javier	-	50	-	-	50

Breakdown of the compensation in cash (thousands of euros) in the years 2012 and 2011.

Compensation item	2012	2011
Fixed compensation	194	204
Variable compensation	166	250
By-Law stipulated compensation	1,000	1,000
Other	145	113
TOTAL	1,505	1,567

4.2. Compensation accrued by the Company's directors as directors of other Group companies

The members of the Board do not perceive any compensation by their membership of the boards of Directors of other companies of the Group.

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This annual compensation report was unanimously approved by the Company's Board of Directors at its meeting of February 26, 2013.