ZARDOYA OTIS. S,A,

Annual Report

2018

This report has been partially prepared using recycled paper

ZARDOYA OTIS. S,A,

Annual Report

2018

Compass Plus™
destination management
system keypad

1 **Letter from the Chairman** 6
Transforming and digitalizing our business

2 **Strategy** 16

3 **Corporate Identity** 20
Products 24
Operating Excellence 26
Portis 34
Otis Marine 35
Talent and teamwork 36

4 **Ethics and Corporate Social Responsibility** 38

5 **Management Report** 42

6 **Consolidated Annual Financing Statements** 64

Transforming and digitalizing our business

Bernardo Calleja Fernández
Chairman

Dear Shareholders:

It is a pleasure to welcome you to this, our annual meeting, on behalf of all the members of the Board of Directors. I would like to begin by thanking Mr Mario Abajo for his magnificent contribution to Zardoya Otis over more than 50 years. Mr Abajo began his professional career with Otis in 1968, performing functions with an increasing degree of responsibility. He was chairman of the Board of Zardoya Otis, S.A. from August 2009 until March 2019. Thank you, Mario.

I would now like to illustrate the environment in which we moved in 2018 with some figures:

The GDP of the three countries in which Zardoya Otis operates grew by over 2%. Unemployment rates dropped in Spain. We ended 2018 with 15.3%, a long way behind Portugal, which ended the year with 8.6%, and the European Union average, was 6.6% at the end of the year.

The construction sector grew, with 105 thousand new homes starting to be built in Spain, still a long way from, for example, the 515 thousand homes constructed 20 years ago.

Inflation remained low, slightly above 1%.

2018 was a year of great uncertainty in key countries in Europe, such as the United Kingdom, Italy and Turkey, among others.

From a demographic point of view, Spain has one of the longest life expectancies in the world. 18% of our population is over 65 and it is estimated that this figure will rise to 25% and 39% in 2019 and 2064, respectively. These figures support the need to facilitate mobility and accessibility in our cities.

For our company, 2018 was a year of contrasts. Growth in our new installations sales continued (16% up on the preceding year) and we showed moderate growth in the service area (1%), a very important activity for us, since it accounts for 70.2% of total group billing.

On the other side of the scales, we encountered a 3.8% drop in our exports and a heavy increase in the cost of materials, well into two-digit figures for some elements.

In this environment, we continued to seek and develop growth opportunities in different areas:

In the product area, we continued to expand our range. In 2018, we launched the Gen2 Home, an elevator for single-family homes, of which we are currently selling more than a thousand units per year. In 2019, we now have the first Gen2 Fit elevators. This equipment is designed for minimal spaces, with cars that can be for only one person, and has all the advantages of latest-generation Otis elevators: extreme safety, comfort, respect for the environment and energy regeneration.

Regarding exports, we are introducing our products into some countries on the African continent and making a special effort to introduce the Gen2 Home in central and northern European countries.

In the marine area, in December 2018, the Aidanova cruise ship made its first voyage equipped with 41 Otis elevators. This is an important milestone, since it is the first large cruise vessel in which we have participated. Currently, we are working on another three and have orders committed until 2023.

Last year, we said that we were seeking options to reinforce our position in the accessibility area. With the acquisition of LV3 in 2018, we attained one of our objectives: to enter a market with sustainable growth prospects.

We continued to grow in the door market with Portis. We ended 2018 with over thirty thousand doors under maintenance and total billing of 24.8 million euros. Portis sales and profits have increased continuously over the last five years.

Our confidence in the positive evolution of these markets is supported by a recent study carried out by Fundación Mutua de Propietarios, which indicates that 37% of buildings are not accessible from the street, 28% of existing

Mario Abajo García

elevators are not accessible from the entrance hall, 43% of existing elevators require improvements in their accessibility (this figure is 60% in buildings built prior to 1964) and, finally, according to the figures published by the National Institute of Statistics (INE), there are still 300,000 buildings in Spain with four or more floors that have no elevator.

At present, Zardoya Otis has the products and services necessary to meet the demand and we are working to also become leaders in these market niches.

Furthermore, the average age of the elevators under maintenance is more than 20 years and, in addition to obsolescence from a technical point of view, the vast majority of them do not include the safety measures set out in EN 81-20/50, which provides an opportunity for the replacement or modernization of existing equipment. (This standard is mandatory for new elevators installed from September 2017 onwards.)

In our traditional activity, we continued with our acquisition policy. In 2018, we integrated five companies, with investment of 14.8 million euros. After the annual reporting date, in December 2018, Zardoya Otis, S.A. acquired 100% of Otis Andorra from United Technologies Holding. This company generates revenue of approximately 1.4 million euros. In 2019, we are close to concluding several opportunities, some of which are, for the first time, in Morocco.

In 2018, we accelerated our digitalization plan. Our goal is to connect our customers and users, our technical assistance network, and the elevators we have under maintenance.

We have provided all our technical staff with latest-generation mobile devices and are monitoring 70,000 elevators. In 2019, we plan to connect a further 20,000 units.

These advances allow us to anticipate, identify and solve incidents even before our customers detect them. The availability time of the equipment connected and monitored is now over 99%.

We continually receive millions of data that allow us to define operating patterns and, in the case of any deviation, generate specific action plans for each elevator. The technology at our disposal is very promising but, at the same time, it is necessary to modernize the elevators installed.

In the social area, we have promoted and supported initiatives together with our employees. We have now been cooperating with Special Olympics for 26 years and organizing activities in which we act as volunteers. For the fourth year running, we organized the charity race, where we obtained 1,600 entries, donating the proceeds for a socially-useful purpose.

Furthermore, we cooperate with entities of recognized prestige in special equality, diversity and social inclusion programs. In this respect, we are aware that our sector is especially delicate in respect of gender diversity and, therefore, in 2018, we increased the number of women who work at Zardoya Otis, reaching a total of 608 employees. 13% of these women are engineers and university graduates.

Finally, continuing with our commitment to mobility, accessibility and the elimination of architectural barriers, in the second quarter of 2019, we will launch the first edition of “Zardoya Otis recognitions for a world without barriers””. We thus wish to emphasize the value of the extraordinary work of people and organizations that help to build a society without obstacles

1. Key data as of November 30, 2018

PROFIT AND LOSS

Consolidated profit attributable to shareholders (after taxes and non-controlling interests) was 145.7 million euros, 4.6% down on 2017.

Total consolidated sales for 2017 were 784.4 million euros, representing an increase of 0.8%.

The drop in exports and the rise in the cost of materials, together with the investments in digitalization and the recruitment and training of new assembly technicians, affected our profit. The two last points are, however, crucial to support the future growth of Zardoya Otis.

New installations

Work completed. The amount was 56.5 million euros, 16.0% higher than the figure obtained in 2016,. Attention should be drawn to the fact that this item had already increased by 16.8% in the preceding year

Service

Total service billing was 550.7 million euros in the period, 1% higher than the 2017 figure.

In 2018, we reached a new annual record of 288,467 units, an increase of 0.9% on 2017.

Exports

Net consolidated export sales were 177.2 million of euros, 3.8% lower than in 2017.

In 2018, exports represented 22.6% of the Group’s consolidated sales (23.7% in 2017).

The residential building activity dropped in some of the countries to which we export, as was the case of Turkey.

ORDERS RECEIVED AND BACKLOG OF UNFILLED ORDERS

Orders received. These totalled 189.1 million euros, 4% lower than in 2017. We should remember that, in 2017, we received a one-off large order for cruise ship elevators in the marine sector.

Backlog of unfilled orders. In the second half of 2018, the backlog of unfilled orders rose by 2.8% in comparison with the same period of 2017, which had already increased by 26.7% in comparison with the preceding year. This is the reason why we increased our assembly workforce in 2018.

2. Securities market data at December 31, 2018

PROFIT PER SHARE

The profit per share was 0.310 euros in 2018.

DIVIDENDS

In line with our profits, we paid 4 quarterly dividends, 3 of which were charged to the profit for the period, while one was charged to reserves. This represented payment of €0.320 per share, for a total amount of 150.5 million euros, 0.3% higher than the amount paid in 2017. We continued with the tradition of allocating practically 100% of the profit to dividend payments.

STOCK MARKET PRICE

In mid-October 2018, the company's quoted price was affected by a general fall in the securities markets, with particular impact on companies with medium and low capitalization. At the end of 2018, the price was 6.21 euros per share, a drop of 31.9%. The value has been recovering and, at the end of the first quarter of 2019, had reached €7.35, representing an increase of 24.6%.

3. Business evolution in the first quarter of 2019

SALES

Total consolidated sales for the first quarter of 2019 were 194.4 million euros, showing a 3.4% increase on those obtained in the first quarter of 2018.

Consolidated Service sales totalled 139.2 million, with an increase of 1.9% on those obtained in the first quarter of 2018.

Net consolidated Export sales were 40.6 million euros, 6.6% higher than the figure for the first quarter of 2018.

PROFIT AND LOSS

EBITDA in the first quarter of 2019 was 48.4 million euros, 3.3% down on the 2018 figure. The drop in the first quarter of 2018 had been 6.9%.

Profit after tax was 32.6 million euros, 3.0% lower than the 33.7 million euros obtained in the same period of 2018.

We are continuing with our digitalization process, which had an impact on the figures for the first quarter of 2019. This effect was not present in the first quarter of 2018.

To support the growth in our new installations activity, in the second half of 2018, we began to hire new employees for the assembly area. This investment in human capital is crucial to assure our quality and safety standards.

ORDERS RECEIVED AND BACKLOG OF UNFILLED ORDERS

Orders received for Installations in the first quarter, including both new and existing buildings, were 50.5 million euros, representing an increase on 19.8% on the same period of 2018. In the first quarter of 2018, an increase of 20.9% on the preceding year had already been recorded, meaning the upward trend noted since said period has been consolidated.

The backlog of unfilled orders in the first quarter of 2019 was 148.7 million euros, an increase of 17.4% on the same period of 2018.

This growth in the orders received for installations anticipates subsequent growth in our units under maintenance and future results.

UNITS UNDER MAINTENANCE

We ended the first quarter of 2019 with 290,335 units under maintenance (a new record), representing growth of 1.5% on the units under maintenance in the first quarter of 2018.

DIVIDENDS

On March 20, 2019, Zardoya Otis, S.A. declared the first interim dividend charged to the profit for 2019, 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 July 10, 2019.

4. Corporate governance

For years, Zardoya Otis has been working to incorporate the best national and international corporate governance procedures and practices into its internal regulations and normal practices.

In this respect, even though there have been no significant changes or reforms of legislation since the last General Shareholders' Meeting, we should highlight the fact that, during the year, we made an in-depth analysis of the methodology, responsibilities and functions assigned to the Audit Committee. This study was made in order to find out the degree to which our practices were in line with the recommendations made by the National Securities Market Commission (CNMV) in Technical Guide 3/2017 on Audit Committees in Public-Interest Entities, published on June 27, 2017. As a result of this work, on October 9, 2018, the Board of Directors approved new Regulations of the Audit Committee, which may be consulted on our corporate website and are intended to incorporate the recommendations included in the Guide into the company's practices, bringing the functions and responsibilities already set out in the Regulations of the Board of Directors in respect of the Audit Committee even closer, if this is possible, to the recommendations provided for said Committee by the CNMV through the Guide.

The national Securities Market Commission recently approved a new Guide for Nominating and Compensation Commissions and we wish to carry out the same analysis work in this respect, in order to evaluate the inclusion of some of the new features in the normal practice of said Commission. We hope to be able to inform you on the development and materialization of this work at the next General Shareholders' Meeting.

At any event, as always, Zardoya Otis will closely monitor any changes that may occur in this area.

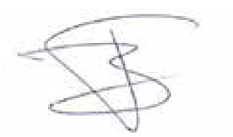
5. Other significant information

A motion is put to this Ordinary General Shareholders' Meeting for the ratification or re-election of several of our directors. In order to cover the vacancy left by the resignation of Mr Mario Abajo, the members of the Board have agreed to propose to the meeting the appointment of Ms Eva Castillo Sanz as an independent director. At present, she is on the Board of Directors of Bankia and the Board of Trustees of the Comillas-ICAI Foundation and the Entreculturas Foundation. She has been a board member of Telefónica, S.A., Visa Europe Limited and Old Mutual Plc. Until December 2009, she was responsible for Merrill Lynch's private banking for EMA, also forming part of the global executive committee. We are convinced that Eva's extensive experience and brilliant track record will reinforce our Board of Directors considerably.

In addition, at the end of 2018, UTC (our majority shareholder) informed us of its intention of dividing the corporation into three independent companies: Aerospace (UTC), Air-conditioning (Carrier) and Elevators and Mobility (OTIS). The target announced is for the division to be made during the first half of 2020. With the information available at present, we do not expect the change to affect Zardoya Otis's operations.

And I conclude by expressing the deep gratitude of the Board and myself to our customers, our employees and everyone who works or collaborates with the group, and, of course, to our shareholders.

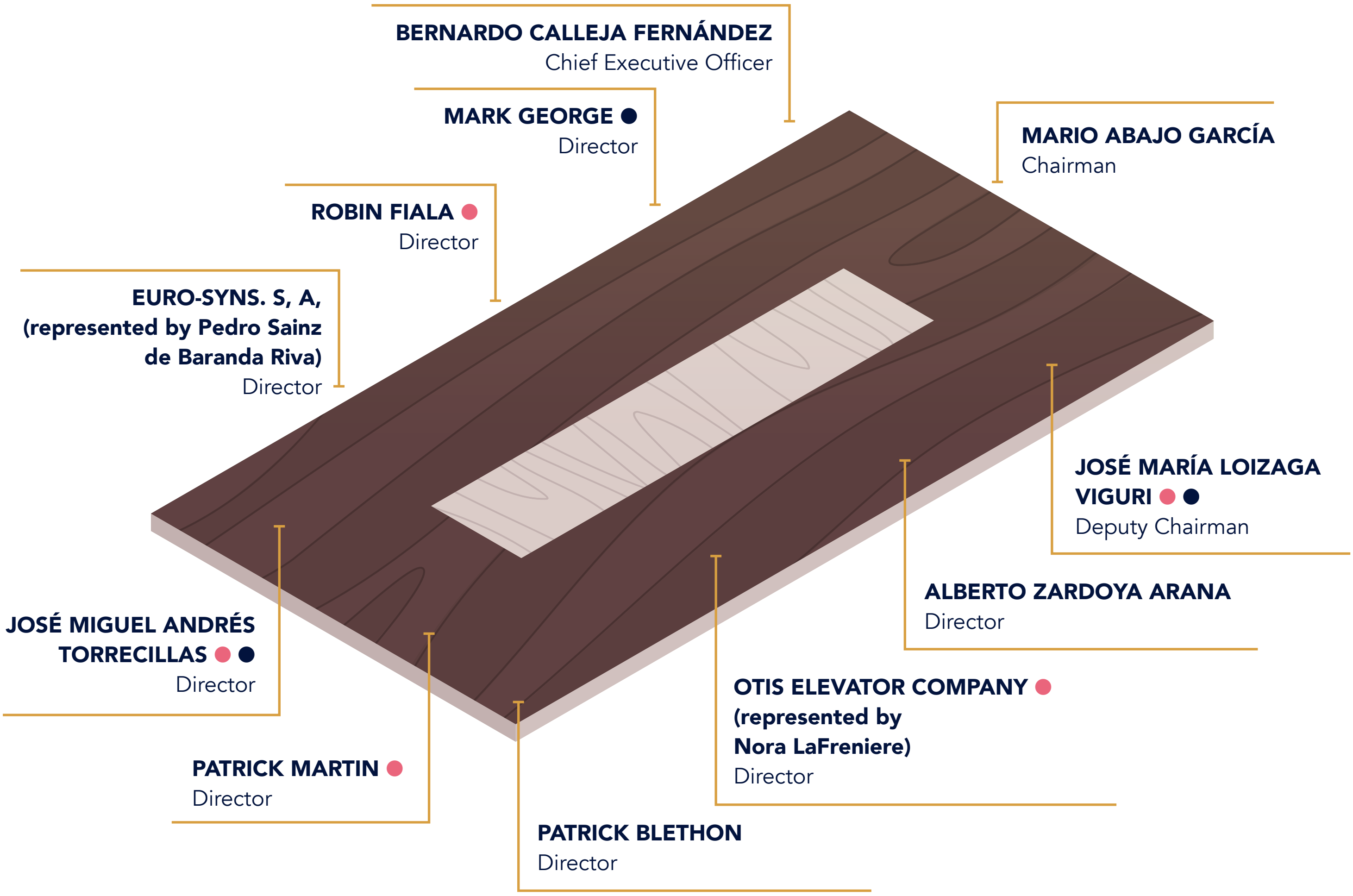
Kind regards



Bernardo Calleja

Composition of the Board of Directors

December 31, 2018



● Nominating and Compensation Commission (Chairman: José María Loizaga Viguri)
● Audit Committee (Chairman: José Miguel Andrés Torrecillas)

The composition of the Board of Directors and its committees is provided as of the reporting date (November 30, 2018). As of the date of printing of this document, the Board of Directors is formed by Bernardo Calleja (Chairman and CEO), José María Loizaga (Deputy Chairman), José Miguel Andrés, Euro-Syns, S.A. (represented by Pedro Sainz de Baranda), Alberto Zardoya, Otis Elevator Company (represented by Nora LaFreniere), Mark George, Robin Fiala, Patrick Blethon and Patrick Martin.

Profit and loss

784.4 M€
Revenue

145.7 M€
Profit

288,467
Units under maintenance

150.5 M€
Dividends

Human team

5,476
Employees

17,884
Training actions

16.3
Years of service with the company

153,941
Hours of training

R&D&i

14
Patents

10,504
Elevators dispatched

Recognitions

bequal

6ª Edición PREMIOS INTRAMA Diversidad y Género

top EMPLOYER SPAIN 2018 CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

Premios Empresa Social

Customer service

3.2 M
Calls attended

105
Contact Center employees

98.41%
Satisfied customers

97.22%
Calls attended on first attempt

Communication

YOUTUBE

703
Subscribers

46,000
Views

TWITTER

6,481
Followers

600
Tweets

LINKEDIN

5,507
Followers

FACEBOOK

659
Followers

INSTAGRAM

506
Followers

205,000
Website visits

4.2 M
Customer impacts

Strategy

Zardoya OTIS directs its operations towards the following strategic focuses:

People first

Safety

Accessibility

Innovation

Digitalization

Growth


H
H

Strategy

We are convinced that our activity should focus on people. The people who form our group are those who enable the customers to feel satisfied and also those who allow millions of users to feel safe and comfortable when using Otis equipment. Our company employees are our principal capital, the foundations of the success of this project. People who look out for other people. People who work to enhance the lives of other people: our customers, the users of our products and society in general.

This way of working, with people as our main focus, explains and supports Zardoya Otis's investment and research efforts to achieve a more accessible world, constantly introducing innovations and using digitalized processes.

Architectural barriers are present in all cities and towns and, everywhere,, there are groups who find it difficult to get around. We are talking about people with physical, sensorial or intellectual disabilities, elderly people or people who carry out such everyday activities as pushing a baby stroller or doing the shopping. For all of them, steps, uneven ground or doors that only open manually become impassable barriers. Zardoya Otis is aware of this situation and, therefore, part of its research and investment efforts have, for many years, been devoted to creating audio-visual solutions and devices to eliminate this kind of barrier. Elevators for single-family homes, stair lifts, automated access doors or moving platforms are just some of the solutions that change the lives of many people and make it possible for them to move around autonomously and freely.

In line with the foregoing is our unequivocal bet on the digitalization of the service. This technological advance allows our customers and users to enjoy a more efficient and swift maintenance service, with an unprecedented level of quality and an increase in the availability time of the elevator. Furthermore, the units we maintain are permanently connected with each other and with the customers, allowing efficiency to increase.

Connectivity means, therefore, customers who are more loyal and satisfied. Innovation thinking of people.

The complex, demanding and extremely competitive world in which we work requires us to devote very considerable effort to constant innovation, research and personalized service processes that are in line with a time in which the technological vanguard prevails. And the driver of this activity, which will allow us to continue to meet the challenges that our increasingly demanding customers require, is concentrated at our R&D&I center in Leganés, Madrid.

In summary, the way we do things is focused on the following concept: people who work and move safely and comfortably in spaces free of architectural barriers thanks to new vertical transport units which, furthermore, are connected with each other and provide accurate information to employees and users, increasing the efficacy and quality of Zardoya Otis's service by personalizing it.

We are increasing the efficacy and quality of Zardoya Otis's service by personalizing it

Corporate identity

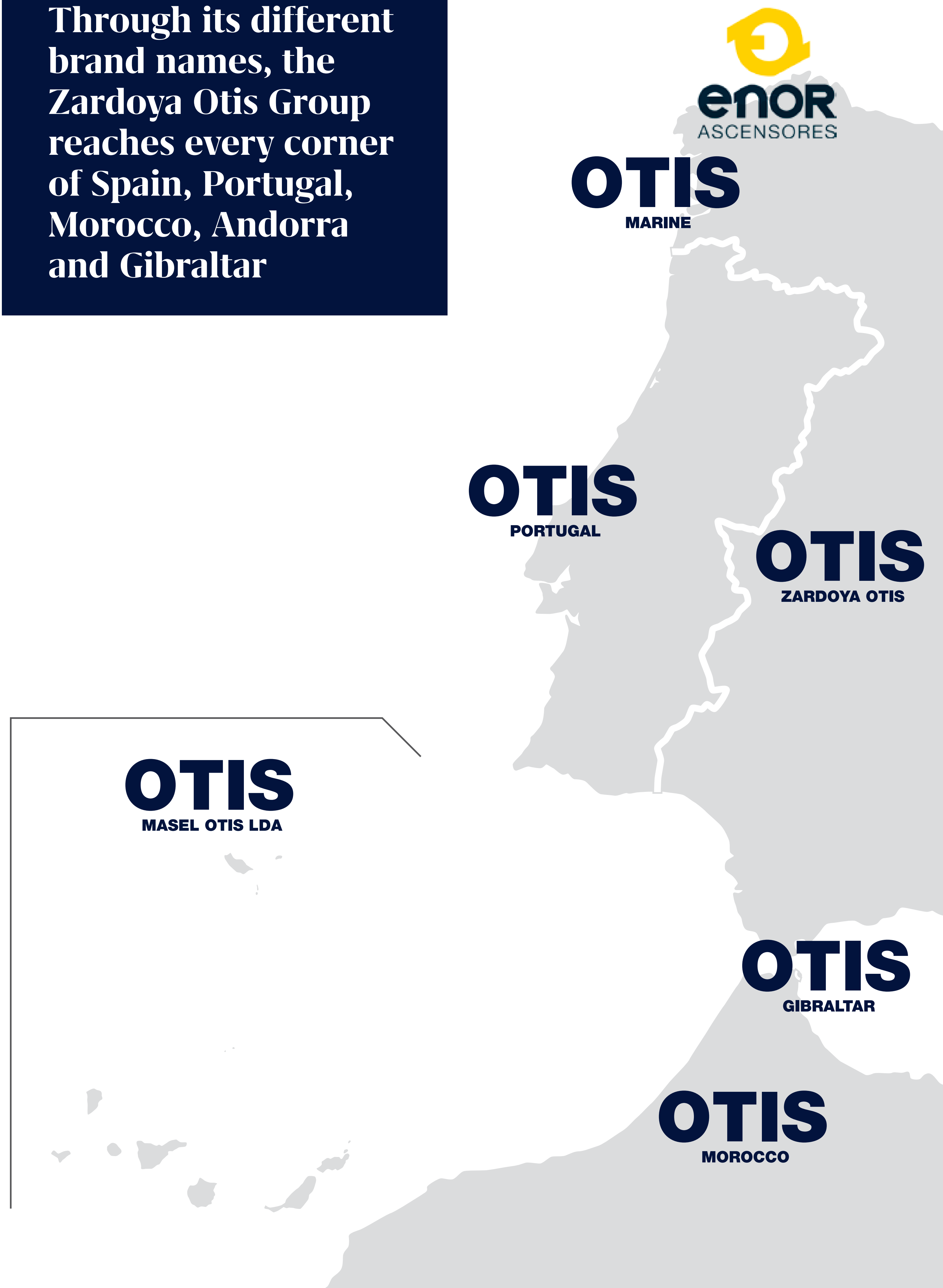
+16%

in new building sales

+2,600

units in existing buildings, new record

Through its different brand names, the Zardoya Otis Group reaches every corner of Spain, Portugal, Morocco, Andorra and Gibraltar




Hemen
ascensores • igogailuak
INTEGRA
ascensores
PORTIS
Grupo Zardoya Otis
EXPRESS
ASCENSORES
OTIS
ANDORRA
ASCENSORS
SERRA
CRUXENT
ascensors
EDELMA
GRUPO
LV3
serveis de l'ascensor
cresa
cardellach
PERTOR
Ideal Boid
ASPE
ASCENSORES
AMT
MONTES TALLON
INGAR

Products

Innovation forms part of our DNA and, therefore, offering new solutions to our customers and covering new market niches is a daily challenge.

Some years ago, we took the Gen2 technology as a starting point and designed a machine that integrated the brake and the engine. Today, our Green Power machine, manufactured in San Sebastián, is the most efficient on the market and moves a substantial part of the Gen2 elevators that are manufactured and sold almost all over the world.

We had achieved efficient and comfortable elevators, but the market led us to seek greater capacity in the same available space and we created the Gen2 Flex. An elevator that takes maximum advantage of the space available in such a way that, where 4 persons fitted previously, now 6 will fit.

Energy saving continued to be challenge for us and a necessity for our customers, so we invented the Gen2 Switch. The first elevator able to run on a single-phase electricity supply of 230 volts, needing power of only 500 watts. It saves 90% on the electricity bill and can make 100 trips without being connected to the mains. A complete revolution! Furthermore, if it is connected to the appropriate photovoltaic panels, it is the only elevator in the world capable of running on solar energy alone. A 100% clean elevator.

To enable us to use any space, however small it may be, we have made the impossible possible with the Gen2 Fit. An elevator that adapts to minimal spaces to attain a more accessible world.

Green Power Machine

The most efficient on the market

Gen2 Flex

Takes maximum advantage of space so that, where 4 people fitted previously, 6 will now fit

Gen2 Switch

The first elevator able to run on a single-phase electricity supply of 230 volts, needing power of only 500 watts

90%

saving on the electricity bill

Gen2 Fit

An elevator that adapts to minimal spaces to achieve a more accessible world

Gen2 Home

The first electrical elevator platform that uses flat belts and provides all the safety, comfort and energy saving advantages to this market

And, for single-family houses, we have created the best product for this market niche, which is on the rise: the Gen2 Home. The first electric elevator platform that uses flat belts and provides full safety, comfort and energy-saving advantages to this market.

Our elevators are different and unique because we include eView as a standard feature. The first system that keeps the passenger in touch with the outside by videoconference, permanently monitors the operation of the elevator and personalizes the building through the content broadcast on the screen.

And, taking efficiency to its highest, we developed the Genesis, a key product aimed at a sector where appearances are not the most important factor.

Why not introduce new technologies into existing elevators and make safer and less pollutive elevators? Thus, we created Gen2 Mod, a system that allows elevators to be modernized and transforms them into latest-generation equipment without the need to replace them.

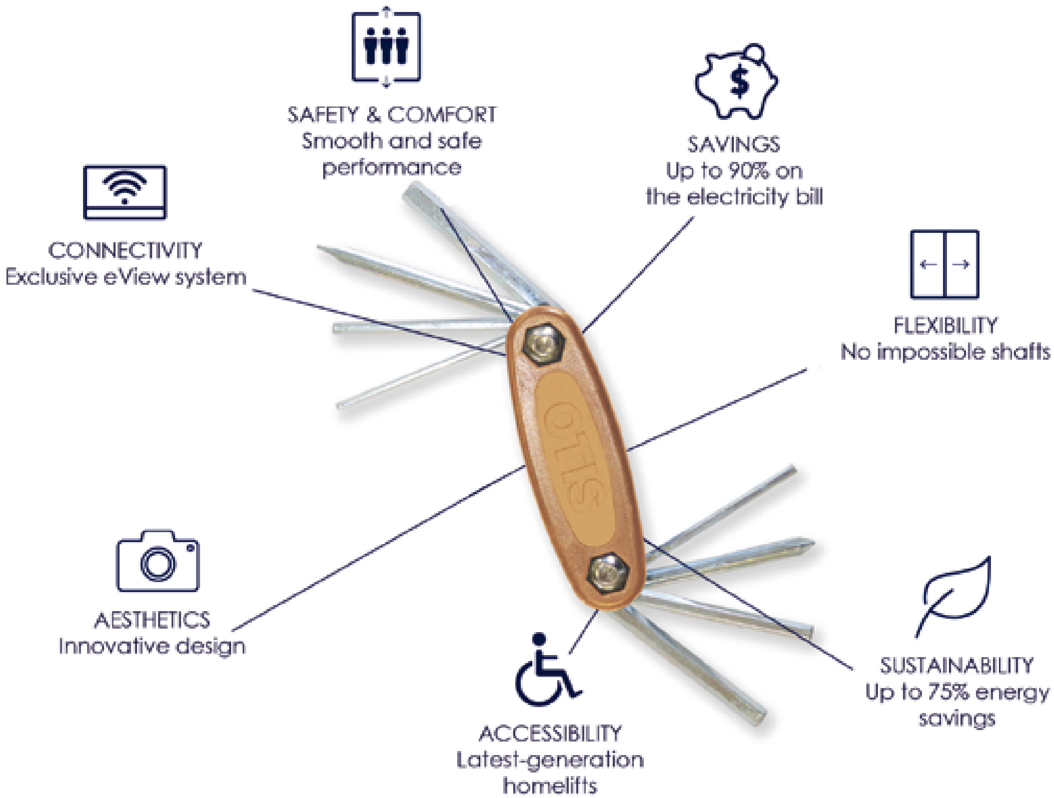
We have also found out how to install an elevator where none exists, creating the space necessary with self-supporting structures.

And, to offer our customers a complete service, we created our automatic door division, PORTIS, which in a short time, has become the sector leader.

But we have an enterprising spirit, so we embarked on another voyage. Our OTIS MARINE division, headquartered in Vigo, designs and manufactures elevators for the marine sector and has incorporated the flat-belt technology into ship elevators.

Always innovating, always in movement. Because we move to keep the world moving.

Our elevators have EVERYTHING



Operating excellence

Growth

+10,500
elevators dispatched

51,500
machines produced

+16%
in sales for new buildings

+2,600
units in existing buildings, new record

Zardoya Otis's growth is demonstrated in all its management parameters: production, sales, invoicing and customer portfolio. Consolidated sales totalled 784.4 M€, compared with 778.3 M€ in 2017. In new buildings, growth was 16% up on 2017. In existing buildings, the world record was broken once again, with more than 2,600 units sold in Spain. These good figures are the consequence of the market recovery and the capacity to meet customer needs with more innovative and efficient products and services. An example to highlight is the Gen2 technology adapted to single-family homes or the elevators for one or two people. These new solutions have been received with a very favourable response by customers, who value them as a key element in their life because they make possible something so valuable as the freedom to go outside, surmounting any kind of architectural barrier.

Growth in installations in new buildings was concentrated in the residential sector and had a higher incidence in large cities

Focused on growth, Zardoya Otis completed 5 transactions whereby it purchased other companies, 4 of them engaged in the elevator sector and one engaged in accessibility elements. Corporate Development continues to analyze other strategic business opportunities with synergies with the company, in order to drive this growth.

The sales increase in installations in new buildings in 2018 was especially concentrated in the residential sector and had higher incidence in large cities, the south of the country and the coastal area. The growth trend is becoming consolidated, in a sector that was severely damaged by the crisis and is now recovering with high demand for qualified labour.

In installations in new buildings, emblematic constructions stand out, such as Las Terrazas del Lago (Valdebebas) or the Helios and Josefa Valcárcel office buildings, both in Madrid. Buildings such as the Amazon headquarters in Barcelona, with 7 high-speed elevators, the Sunset Drive apartments in Benidorm, Hospital Quirón in Cordoba and the Ciudad de la Justicia in Albacete may also be highlighted. Among the contracts concluded in 2018, we can mention the Airbus headquarter in Madrid (20 elevators), the Ocean Spa in Gibraltar (6 high-speed elevators), the Tropicana Shopping Mall in Tenerife (2 elevators and 2 escalators) and the Riverside Tower in Madrid (3 high-speed elevators).

Internationally, elevators have been exported for projects like the Hong Kong international airport, the tallest building In the City of London (22 Bishopsgate) or the Oslo museum. In 2018, 76 countries all over the world received 7,539 units manufactured in Spain and exports accounted for 22.6% of consolidated sales.

Accessibility

LV3 integration

benchmark in accessibility

1 person

Otis creates the one-person elevator, which it will launch in 2019

Zardoya Otis's strategy goes hand in hand with its commitment to accessibility, which, in 2018, materialized in the purchase of the LV3 group, a prestigious enterprise in its segment. This was the most important purchase of the year, which consolidated the group in a strategic business sector to guarantee the quality of life of thousands of people, In short, meeting the needs of the groups with mobility difficulties for physical and/ or sensorial reasons is, for Zardoya Otis, a commitment and a challenge for the future. First, legislation now makes it obligatory for any public or private building to be accessible. Second, we need only remember that, in 2031, one out of four Spanish people will be over 65.

But accessibility also entails installing elevators where this seemed impossible due to lack of space. In installations in existing buildings, Zardoya Otis again beat its own record in 2018. Among the most strategic and successful products, the Gen2 Switch continues to stand out. It is an elevator that connects to the conventional 230 V electricity supply and only needs power of 500 W to work. This facilitates its installation in old buildings without three-phase electric power. Not only does it allow an elevator to be installed without changing the entire electricity installation, but it brings great savings in energy consumption, as a result of its energy regeneration system, and in the electricity bill, since it is not necessary to contract additional electric power. To enhance this saving strategy even more, Zardoya Otis has developed the Gen2 Switch Solar, which runs on solar energy as a result of the installation of photovoltaic panels.

The value proposition of the Gen2 Switch is a key factor in a country where the large cities grew very swiftly for decades, with non-adaptable homes and areas that, furthermore, now have an increasingly ageing population with medium or low purchasing power.

The latest product to be launched in the market, the Gen2 Home, which, for the first time, incorporates the most advanced technologies into a domestic elevator, also underwent a 20% rise in the number of units dispatched.

In our struggle to eliminate barriers, as a result of the fact that our elevators include the eView system as standard equipment, there are now 12,000 units under maintenance that have this bidirectional communication system. This system prevents people with visual, vocal or hearing impairments from being isolated in a car. It works through videoconferencing and allows contact to be made with the outside world through voice and image.

Innovation

14

new patents in safety components

+automation

for more flexible production

The success of the Otis elevators designed and marketed in Spain and the favourable behaviour of the market in 2018 provoked a production increase. At the Otis plant in Madrid, 10,424 complete elevators were dispatched and, in San Sebastián, 51,500 machines. The Vigo plant dispatched 80 special elevators, 50 units for ships and 2,000 Gen2 packages for elevator modernization. To maintain the very high level of customer satisfaction in respect of deadlines and requirements being met, our resources and the efficiency of the processes have been increased. The Zardoya Otis plants are continuing with automation to attain flexible manufacturing, both from the point of view of product variety and from a time standpoint. Vacation periods when production stops have been reduced to a minimum and the Madrid plant is prepared to work in three shifts, in order to meet customer needs. The Vigo plant has obtained the ISO 50001 certification for energy management. Thus, the three Spanish plants are certified in energy management and Spain is the only country in the world where this is the case.

Continuing with its vocation for innovation, in 2018, Zardoya Otis's Engineering Department obtained 14 patents, all of which were related to the introduction of new technologies in the elevator safety components, which will allow the Industry 4.0 concept to be implemented in the service. At the same time, we continue to work on development of the next generation of systems to connect the elevators with large databases. Furthermore, 2018 was the year of the new single-person elevator, which needs only a minimal space to be installed and will be launched on to the market in 2019.

Advances in the connection of elevators and databases

Digitalization

Personalized service for

185,000

customers

98.4%

customers satisfied with our service

The bet on service excellence continues to lead to growth in the units of elevators and escalators under maintenance and an assistance network that is now the largest in the world, with 250 locations.

We are growing thanks to the trust of over 185,000 customers and a maintenance portfolio that has now reached 288,467 units in the group, 0.9% above 2017 figure.

In Spain, in 2018, we carried out 300 projects to move elevators to building entrance level (level zero) and replaced more than more than 350 elevators, in order to expand their capacity and make them accessible without changes to the existing space. Elevator replacement, a growing market, totalled almost 1,000 units in 2018. Our bet on modernization using Gen2 technology merited the recognition of the Chairperson of Otis Elevator, Judy Marks, who, on her visit to Spain, awarded Zardoya Otis a prize for reaching 4,000 units sold.

The chairperson of Otis Elevator, Judy Marks, awarded Otis Spain a prize as a worldwide benchmark in sales of the Gen2 Mod installation.

Zardoya Otis's success if based on the quality of its post-sale service and its assistance network, the largest in the world. This network continued to grow in 2018, with the acquisition of Otis Gibraltar and, in December 2018, Otis Andorra, which have become part of the group. Our efforts focus on listening to the customer's voice and his or her needs and opinions. In 2018, 19,043 customers received a survey and 98.41% of them expressed satisfaction with the service received.

Digitalization helps us to provide an increasingly personalized service, advising of the moment at which maintenance actions will be performed, finding out the status of the installation through remote intervention, etc. Furthermore, the management process for maintenance activities, known as the time sheet, has become more streamlined. Now, digital centralization of this information allows more efficient planning, enables us to know where we need more resources and permits us to inform the customer of the work being carried out in real time, etc. In short, it provides a better, faster and more efficient and personalized service.

In the service area, the digitalization process has also improved productivity. For example, the mobility application, through which the system gives the technician all the data of the installation and the checks he should perform and provides him with reference documentation. Digitalization also allows elevators to be monitored and gives data of key operating parameters. The remote system tells the technician what is occurring to the unit and allows him or her to anticipate and predict possible failures when a component is about to complete its useful life. Monitoring also now enables failures to be solved and even allows rescues to be performed remotely.

Safety

6,297
safety courses

59,277
hours of safety training

Zardoya Otis's operating excellence has safety as is main focus. We have succeeded in maintaining our low workplace accident rates, in spite of having increased production. Our very low accident rate makes us a company 7 times safer than the industrial sector average and 10 times safer than the construction sector average.

In 2018, external audits of the corporation were performed, one in the on-site area and the other in the manufacturing area. Both placed Zardoya Otis among the leaders in safety worldwide and made its plants benchmarks. Thanks to these studies, the hazard identification policies to control risks at construction sites have been reinforced. The target is to provide technicians with the training and tools that enable them to anticipate possible hazards due to external causes.

In order to progress towards the total disappearance of accidents, we have increased the training efforts, with 6,297 courses, representing 59,277 hours of training. Communication and support tools have also been reinforced for hazardous activities, process control and assembly systems, etc. All of this is to reduce risk to a minimum, both in production or assembly operations and in maintenance activities. In the latter, digitalization also contributes significant enhancements. It allows the activities of the technicians to be placed in order, it makes it easier for them to consult procedures, and it gives them an alarm system to obtain help as quickly as possible.

At Zardoya Otis, we also have the goal of reducing accidents on the way to work. Since 2012, we have been analyzing these accidents and combatting them with additional measures, such as revisions of the vehicle fleet, optimization of the working areas to reduce travel, sensitization, etc. As a result of this analysis, the motorcycle fleet has been practically eliminated, having been reduced by 98%.

7 times safer than the sector average

Major projects completed in 2018

- Sunset Drive apartments in Benidorm (13 elevators)
- Hospital Quirón in Cordoba (13 elevators)
- Amazon headquarters in Barcelona (7 high-speed elevators)
- Office building at Josefa Valcárcel 40 bis in Madrid (3 high-speed elevators)
- Homes in Las Terrazas del Lago in Valdebebas – Madrid (9 elevators)

Major projects sold and completed in 2018

- Helios office building in Madrid (10 elevators)
- Ciudad de la Justicia in Albacete (15 elevators and 4 escalators)

Major projects sold in 2018

- Ocean Spa in Gibraltar (6 high-speed elevators)
- Tropicana shopping mall in Tenerife (2 elevators and 2 escalators)
- Riverside Tower in Madrid (3 high-speed elevators)
- Airbus headquarters in Madrid (20 elevators)

Portis

Growth

1,400
units sold

+30,000
units under maintenance

Portis, a leader in the automatic door sector, achieved a growth rate of over 15% in 2018 and has the largest service center network in the country in its sector.

Portis consolidated its leadership in 2018, with more than 1,400 automatic doors sold and over 30,000 units under maintenance. High-speed, high-performance doors, which again surpassed 500 units sold, should be highlighted. This is a strategic product for Portis because of its excellent quality and its safety, since it has a unique system that prevents any damage due to collision in the event of an accident.

Furthermore, Portis is working to develop its own designs and innovations to provide an even better response to customer needs. The pilot testing of front door automation to enhance accessibility to homes and the connectivity projects for logistic centers may be highlighted.

42 Portis centers throughout Spain

Furthermore, the Portis network continues to grow. Its service network is the largest in the country in its sector, in order to provide an even better response to customer needs. Its multi-brand specialization allows it to service any kind of automatic door anywhere in the country in record time. This response capacity has been a key factor in surpassing 30,000 units under maintenance, 10,000 of which belong to large customers.

Otis Marine

Growth

50

pieces of equipment
dispatched for ships

The Otis subsidiary specialized in ship elevators has equipped the fifth largest cruise ship in the world and has consolidated its position as a benchmark in a sector that is advancing at full steam.

The billing of Otis's marine unit (Otis Marine) rose as a result of the performance of contracts in large cruise ships. In 2018, the first cruise ship with the company's elevators, the AIDAnova, built by the Meyer shipyards in Germany and Finland, was delivered. It is the fifth largest and tallest cruise ship in the world and the first to run solely on liquid gas.

Likewise, in 2018, the installation of top-end elevators commenced in a luxury cruise ship for the company Ritz-Carlton. This is another milestone to highlight, because it is the first time that belt elevators, with Gen2 technology, have been installed in this type of vessel.

The growth of Otis Marine in the cruise ship sector over recent years, working at shipyards all over the world, is a strategic bet for the company. Furthermore, it is the result of its marine tradition and the experience accumulated in smaller vessels.

First cruise ship fully equipped by Otis

Talent and teamwork

People first

+6%

female talent

153,941

hours of training

Capturing female talent, diversity, training and teamwork were Zardoya OTIS's priorities in 2018.

With a team of thousands of professionals committed to service excellence, Zardoya Otis places its priority focus on people, the key to the company's success. Therefore, we develop policies to create a work environment that foments respect, health, safety, well-being at work and equal opportunities.

An essential focus is the training of our human team, with 17,884 training actions in Zardoya Otis and an average of 35 hours' training per person in safety, ethics, technical training, quality, sales, languages, etc. A total of 153,941 hours of training. We highlight the adaptation to the digital transformation, which has enabled the technical personnel and supervisors to work with advanced digital mobility tools, generating higher productivity and efficiency and permitting a personalized,, swift and effective service. In the training area, we have a performance management system and foment career plans, coaching, mentoring, etc., intended to favour the personal and professional development of our team.

2018 was the year in which the "Together, we are unstoppable" programme became consolidated. Its goal is to foment teamwork, commitment and pride in belonging to the human team of Zardoya OTIS. There are multiple initiatives in this area. In internal communication, we highlight the use of new digital tools in order to reach all the members of OTIS, wherever they may be, or the new magazine, "Gente Imparable" ('Unstoppable People'), focused on people and reporting their achievements. In the value proposition for the employee, we highlight the study grants and also programs like the health and well-being plan, with discounts on practising sports and healthy eating advice.

As a result of our commitment to people, we obtained, for the fourth year running, the 'Top Employer' certificate, which places us among the companies with the best conditions for their employees. At Zardoya Otis, the percentage of permanent contracts (91.47%), the average length of service with the company (16.26 years) and the very low turnover (1.61% in people who leave the company voluntarily or on unpaid leave of absence) are aspects to highlight.

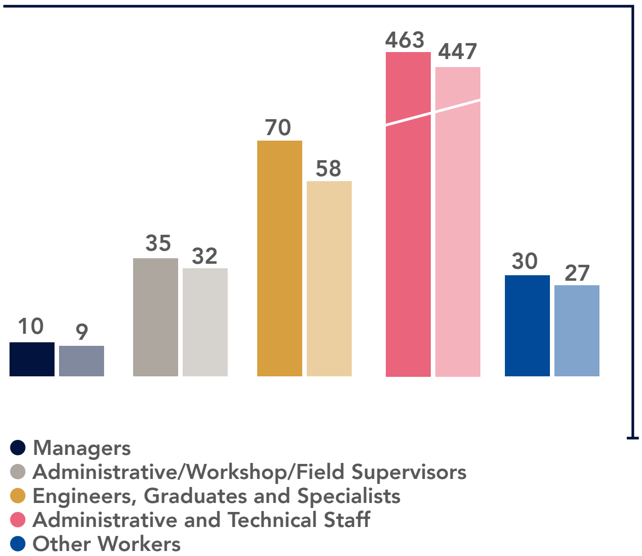
'Top Employer' certificate

Capturing talent

In 2018, we also took an important step forward in capturing female talent, one of the group's clear targets. Thanks to the "We go" program, eight women engineers were selected to form part of the company's team. The goal is to increase female talent in all positions, especially in managing teams of people. OTIS's commitment in this field has already led to a 6% increase in female talent in Spain in the last year in, furthermore, positions such as supervisors, maintenance technicians and engineers.

Moreover, in 2018, we signed the "More women, better companies" agreement with the Ministry of Equality, whereby we undertook to increase the presence of women in pre-managerial, managerial and management committee positions within a period of four years.

Women on payroll (2018/2017)



Ethics and Corporate Social Responsibility

Trust, Respect, Integrity, Innovation and Excellence are the values that guide the conduct of all those who form Zardoya Otis

4ª Carrera Solidaria
OTIS
más que nunca
¡Juntos contra

Ethics and corporate social responsibility

People first

Equality

INTRAMA

INTRAMA Prize for diversity and equality

We are consolidating our commitment to equality and inclusion and the ethical values that guide Zardoya Otis: Integrity, Respect, Trust, Innovation and Excellence.

At Zardoya Otis, we are especially proud of our Diversity and Inclusion Plan, "Todos somos Todos". This commitment has been recognized with the INTRAMA prize, which places us among the 10 best companies in Spain in relation to diversity and equality. We also cooperate with dual professional training programs to capture talent and help reduce unemployment among young people.

Zardoya Otis's commitment to society also materializes in numerous actions where we cooperate with social entities and volunteering activities. A commitment based on child protection, gender equality, diversity and the inclusion of people with disabilities and at risk of exclusion, as well as employee health and well-being.

In 2018, we highlight the success of the charity race, with 1,600 entries, 100% of the proceeds of which were donated to the fight against children's cancer. Through different entities and foundations, we also cooperated with programs intended to improve the employability of women at risk of exclusion. Together with Special Olympics, we participated, as we have been doing for more than 25 years, in volunteering activities to help the social integration of young people with disabilities through sport. A commitment with society that was, once again recognized with the Social Company Prize and the Bequal seal.

Commitment to ethics

Trust, Respect, Integrity, Innovation and Excellence are the values that must guide the conduct of all those who form Zardoya Otis and they are recognized in our Code of Ethics. In 2018, we progressed with our Ethics and Compliance Plan with 5 lines of action:

1. Leadership from management: we renewed the Ethics and Compliance commitment of the entire management team and gave recognition to ten people for good ethics practices.

2. Risk prevention: we drew up a risk map that includes the quarterly review of the mitigation and control actions. We certified knowledge of the Code of Ethics and the related policies by all our employees.

3. Education and training: we started an employee training plan, with 9,808 on-line courses and quarterly courses for technicians and technical workers at all our work centers. We also celebrated Ethics Day, distributing 4,500 copies of the Code of Ethics and 220 "Ethics Bingo" games, in order to reinforce the company's fundamental values.

Best Social Company Prize for "Responsible Project in accessibility and CSR in the industrial sector"

4. Communication: we launched the campaign "OTIS does the right thing", with actual examples of good practices. We also issued 20 "ECO Informa" communications and simple and brief ethics messages by e-mail (Tweethics). Likewise, we informed on the new Data Protection Regulations and created a privacy section in the ethics intranet.

5. Control: we have a confidential communication channel for reporting any possible irregularities in the company through the Ombudsman/Dialogue program.

Prevention and internal control

At Zardoya Otis, we have become leaders in the prevention of corruption, regulating matters such as business gifts, sponsored trips, hiring public employees or people related to the government and agreements with external representatives or distributors. We analyse any potential conflicts of interest and fully assume the obligation to comply with anti-corruption and anti-trust laws.

We also require partners, suppliers and subcontractors to comply with the Code of Conduct for Suppliers, which requires respect for health and safety, environmental protection and human and labour rights.

Our ethics commitment includes transparency with the market and shareholders, with accurate financial statements and complete records, in accordance with the law and established accounting principles and financial procedures.

The Audit Committee ensures the efficacy of the group's internal control. Furthermore, we have created a Crime Prevention Model, a Risk Map and the Compliance Committee, which monitors any report or investigation.

Zardoya Otis has an Internal Code of Conduct, with rules on handling privileged and insider information, transactions with the company's own securities, treasury share transactions, the detection and handling of conflicts of interest, etc. The goal is to prevent any situation of market abuse and protect the interests of the investors.

Management Report


OTIS
Ascensores - Escaleras mecánicas
901 24 00 24
www.otis.com
THE WAY TO GREEN
0814 GYX

Management Report of Zardoya Otis

(Consolidated Financial Statements 2018) (thousands of euros - EThs)

Key Data at November 30

(Consolidated figures in millions of euros)

						% variance over prior year			
Annual results	**2018**	**2017**	**2016**	**2015**	**2014**	**18/17**	**17/16**	**16/15**	**15/14**
Profit before tax	**191.4**	201.3	207.8	210.0	220.2	**(4.9)**	(3.1)	(1.0)	(4.6)
Profit after tax	**145.7**	152.7	152.6	148.7	154.0	**(4.6)**	0.1	2.6	(3.4)
EBITDA	**208.7**	220.8	227.8	234.0	242.6	**(5.5)**	(3.1)	(2.7)	(3.5)
Cash-Flow	**161.9**	163.9	163.3	163.8	199.5	**(1.2)**	0.3	(0.3)	(17.9)
Dividends paid	**150.5**	150.1	147.7	144.1	147.2	**0.3**	1.6	2.4	(2.1)

Shareholders' Equity	**2018**	**2017**	**2016**	**2015**	**2014**	**18/17**	**17/16**	**16/15**	**15/14**
Capital and Reserves (*)	**423.7**	430.1	423.6	419.6	412.1	**(1.5)**	1.5	0.9	1.8

(*) Includes Treasury Stock

Sales Data	**2018**	**2017**	**2016**	**2015**	**2014**	**18/17**	**17/16**	**16/15**	**15/14**
New Installations	**56.5**	48.8	41.7	37.1	39.4	**16.0**	16.8	12.6	(6.0)
Service	**550.7**	545.4	534.4	539.9	546.9	**1.0**	2.0	(1.0)	(1.3)
Total Exports	**190.9**	196.3	179.2	163.3	160.5	**(2.7)**	9.5	9.7	1.7
Exports to Portugal (*)	**(13.7)**	(12.1)	(9.4)	(8.1)	(7.9)	**13.3**	29.2	15.9	2.6
Net Exports (without Portugal)	**177.2**	184.2	169.9	155.3	152.7	**(3.8)**	8.4	9.4	1.7
Total	**784.4**	**778.3**	**746.0**	**732.2**	**739.0**	**0.8**	4.3	1.9	(0.9)

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

New Installations	**2018**	**2017**	**2016**	**2015**	**2014**	**18/17**	**17/16**	**16/15**	**15/14**
Orders received	**189.1**	197.2	168.2	123.1	106.0	**(4.1)**	17.3	36.6	16.2
Backlog	**143.3**	139.3	109.9	91.9	82.5	**2.8**	26.7	19.7	11.3

Service Data	**2018**	**2017**	**2016**	**2015**	**2014**	**18/17**	**17/16**	**16/15**	**15/14**
Units under maintenance	**288,467**	285,840	285,586	283,626	284,418	**0.9**	0.1	0.7	(0.3)
Maintenance centers	**385**	375	374	371	371	**2.7**	0.3	0.8	0.0

Manpower	**2018**	**2017**	**2016**	**2015**	**2014**	**18/17**	**17/16**	**16/15**	**15/14**
Total manpower	**5,476**	5,233	5,145	5,086	5,137	**4.6**	1.7	1.2	(1.0)

Stock Market Data at December 31 (Euros)

Share capital	2018	2017	2016	2015	2014
Shares written off					
Number of shares before share capital increase	**470,464,311**	470,464,311	452,369,530	434,970,702	418,241,060
"Number of shares capital increase (Non-monetary contribution)"	**-**	-	-	-	-
Splits	**-**	-	-	-	-
Capital increases (Bonus issues)	**-**	-	1x25	1x25	1x25
Number of shares at December 31	**470,464,311**	470,464,311	470,464,311	452,369,530	434,970,702
Par value	**0.10**	0.10	0.10	0.10	0.10
Share capital (millions)	**47.0**	47.0	47.0	45.2	43.5
Profit per share	**2018**	**2017**	**2016**	**2015**	**2014**
Profit after Tax	**0.310**	0.325	0.331	0.329	0.354
P.A.T. adjusted by capital increase	**0.310**	0.325	0.331	0.316	0.327
Adjusted P.A.T. variance (%)	**(4.6%)**	(1.9%)	4.7%	(3.4%)	2.1%
EBITDA per share	**0.444**	0.469	0.484	0.517	0.558
EBITDA adjusted by capital increase	**0.444**	0.469	0.484	0.497	0.516
Adjusted EBITDA variance (%)	**(5.5%)**	(3.1%)	(2.7%)	(3.5%)	(1.8%)
Dividend per share*	**2018**	**2017**	**2016**	**2015**	**2014**
Dividend per share	**0.320**	0.319	0.320	0.325	0.345
Dividend adjusted by capital increase	**0.320**	0.319	0.314	0.306	0.313
% variance adjusted dividend	**0.3%**	1.6%	2.4%	(2.1%)	(0.3%)
Paid in calendar year	**0.320**	0.319	0.314	0.319	0.338
(*) Calculated with dividends charged to the period or to reserves and partial cash distribution of share premium when applicable, with number of shares at December 31					
Price per share	**2018**	**2017**	**2016**	**2015**	**2014**
Price of 1 share	**6.21**	9.12	8.03	10.78	9.20
Price adjusted by share capital increase	**6.21**	9.12	8.03	10.37	8.51
% adjusted price variance	**(31.9%)**	13.6%	(22.5%)	21.9%	(27.2%)
Annual yield of one share (%) (*)	**2018**	**2017**	**2016**	**2015**	**2014**
Dividend	**3.5**	4.0	3.0	3.6	2.7
Market value	**(31.9)**	13.6	(22.5)	21.9	(27.2)
Total	**(28.4)**	**17.5**	**(19.5)**	**25.5**	**(24.6)**
(*) Calculated with dividends charged to the period or to reserves and partial cash distribution of share premium when applicable, for a share owned on January 1st and valued at last price on December 31th.					
Trading	**2018**	**2017**	**2016**	**2015**	**2014**
Market capitalization (millions)	**2,922**	4,291	3,778	4,877	4,002
Trading fequency (%)	**100.0**	100.0	100.0	100.0	100.0
Effective value traded (millions)	**905**	939	818	1,094	1,494
Stock market ratios	**2018**	**2017**	**2016**	**2015**	**2014**
PER (price/net profit: number of times)	**20.0**	28.1	24.8	32.8	26.0
Pay-out % (dividends paid / net profit)	**103.31**	98.25	96.74	96.91	95.6
Variance of stock market indices	**2018**	**2017**	**2016**	**2015**	**2014**
Zardoya Otis, S.A.					
Market capitalization at 12/31 (Mill.€)	**2,922**	4,291	3,778	4,877	4,002
"Market capitalization at 1/1/1990 (Mill.€) (Start of IBEX 35)"	**331**	331	331	331	331
Variance market capitalization since 1/1/1990	**2,590**	3,959	3,446	4,545	3,670
% variance market capitalization since 1/1/1990	**781.6%**	1,194.7%	1,040.0%	1,371.6%	1,107.6%
% inter-annual variance market capitalization	**(31.9%)**	13.6%	(22.5%)	21.9%	(27.2%)
IBEX 35					
IBEX 35 at 12/31	**8,540**	10,044	9,352	9,544	10,280
IBEX 35 at start (1/1/1990)	**3,000**	3,000	3,000	3,000	3,000
Variance IBEX-35 since 1/1/1990	**5,540**	7,044	6,352	6,544	7,280
% variance IBEX 35 since 1/1/1990	**184.7%**	234.8%	211.7%	218.1%	242.7%
% inter-annual variance IBEX 35	**(15.0%)**	7.4%	(2.0%)	(7.2%)	3.7%

Presentation of the annual financial statements

The consolidated annual financial statements of the Zardoya Otis Group at November 30, 2018 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) at the 2018 reporting date was 208.7 million euros, 5.5% lower than the 2017 figure.

The consolidated profit before tax at the end of the 2018 reporting period was 191.4 million euros, 4.9% lower than the 2017 figure.

Profit after tax was 145.7 million euros, 4.6% lower than the 152.7 million euros obtained in 2017.

In the second half of 2017, the Group commenced a digitalization plan. The figures for the second six months of 2018 include expenses related to this process. Raw material costs increased significantly in 2018.

Sales

Total consolidated sales in 2018 were 784.4 million euros, in comparison with the 778.3 million euros of 2017, representing a 0.8% increase. The drop in export sales was offset by the increase in service sales and the growth in new installations.

New Sales

Work completed

The value of work completed in 2018 was 56.5 million euros, 16.0% higher than the work completed in 2017.

At the end of 2018, new installation sales accounted for 7.2% of total sales (6.3% at the end of 2017).

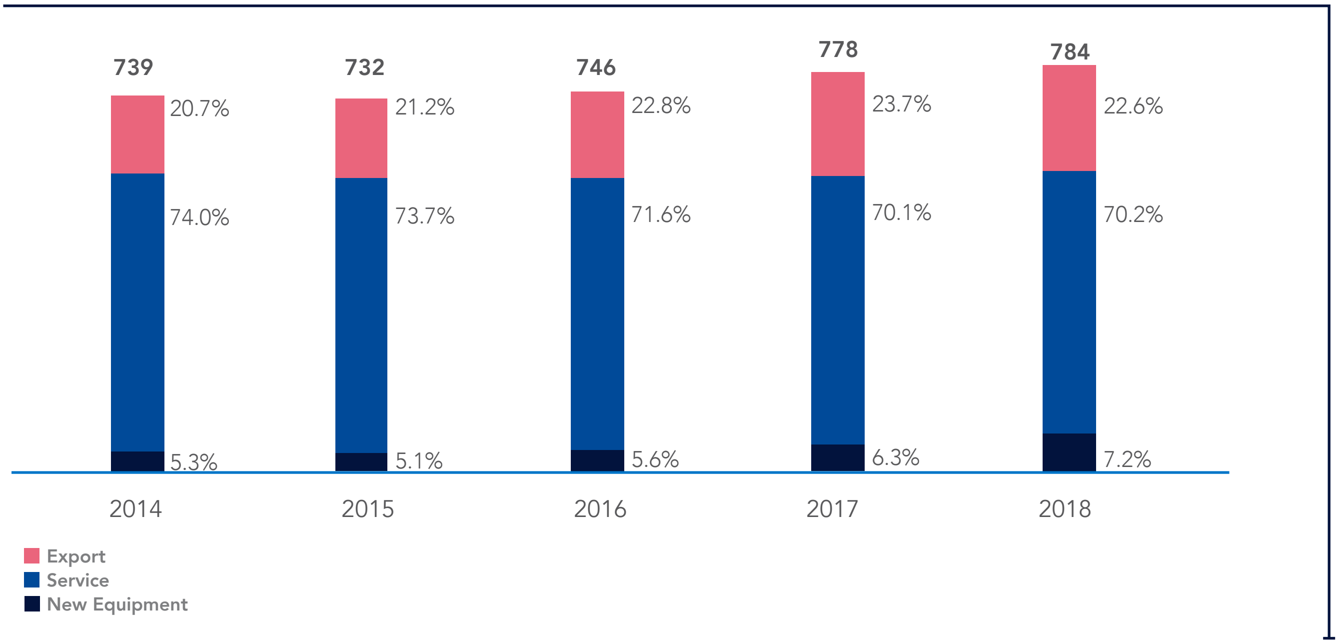
Orders received and backlog of unfilled orders

Orders received for installations at the end of 2018, for both new and existing buildings, totalled 189.1 million euros, representing a decrease of 4.1% on 2017.

In 2017, we obtained a significant contract in our marine activity, consisting of the supply and installation of elevators for cruise ships for a value of ETHs 22 405. This equipment will be delivered between 2018 and 2022.

The backlog of unfilled orders at the end of 2018 was 143.3 million euros, representing an increase of 2.8% on 2017.

Sales (Millions of Euros)



Service

Sales

Consolidated service sales totalled 550.7 million euros (545.4 million euros in 2017), accounting for 70.2% of the Group's total billing (70.1% in 2017).

Growth in Service sales continued, ending the period with an increase of 1.0%.

Units under maintenance

The portfolio at the end of 2018 was 288,467 units, representing growth of 0.9% on the units under maintenance at the end of 2017.

Exports

Net consolidated export sales were 177.2 million euros (184.2 million euros in 2017), 3.8% lower than the 2017 figure. Some of the countries to which we export, such as Turkey and Italy, are in difficulties.

Exports represented 22.6% of the Group's consolidated sales at the end of 2018 (23.7% in 2017).

Employee headcount

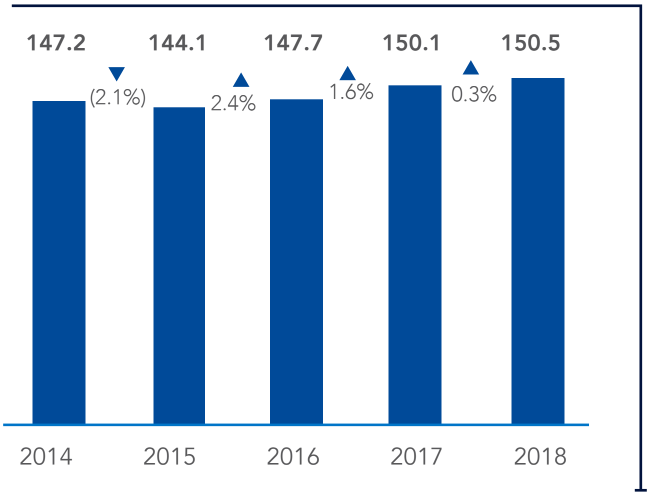
At the end of 2018, the Group employed 5,476 people, 4.6% up on the end of the preceding period.

In 2018, we increased the number of assemblers by 130, in order to absorb the local market growth in modernizations and new sales.

Dividends

At November 30, 2018, interim dividends had been declared for the period ended on said date for an amount of EThs 75,274 (EThs 75,274 in 2017). These interim dividends were paid to shares 1 to 470,464,311. Additionally, a dividend charged to reserves was distributed to shares 1 to 470,464,311 on July 10, 2018, for a gross amount of EThs 37,637.

Dividends (Millions of Euros)

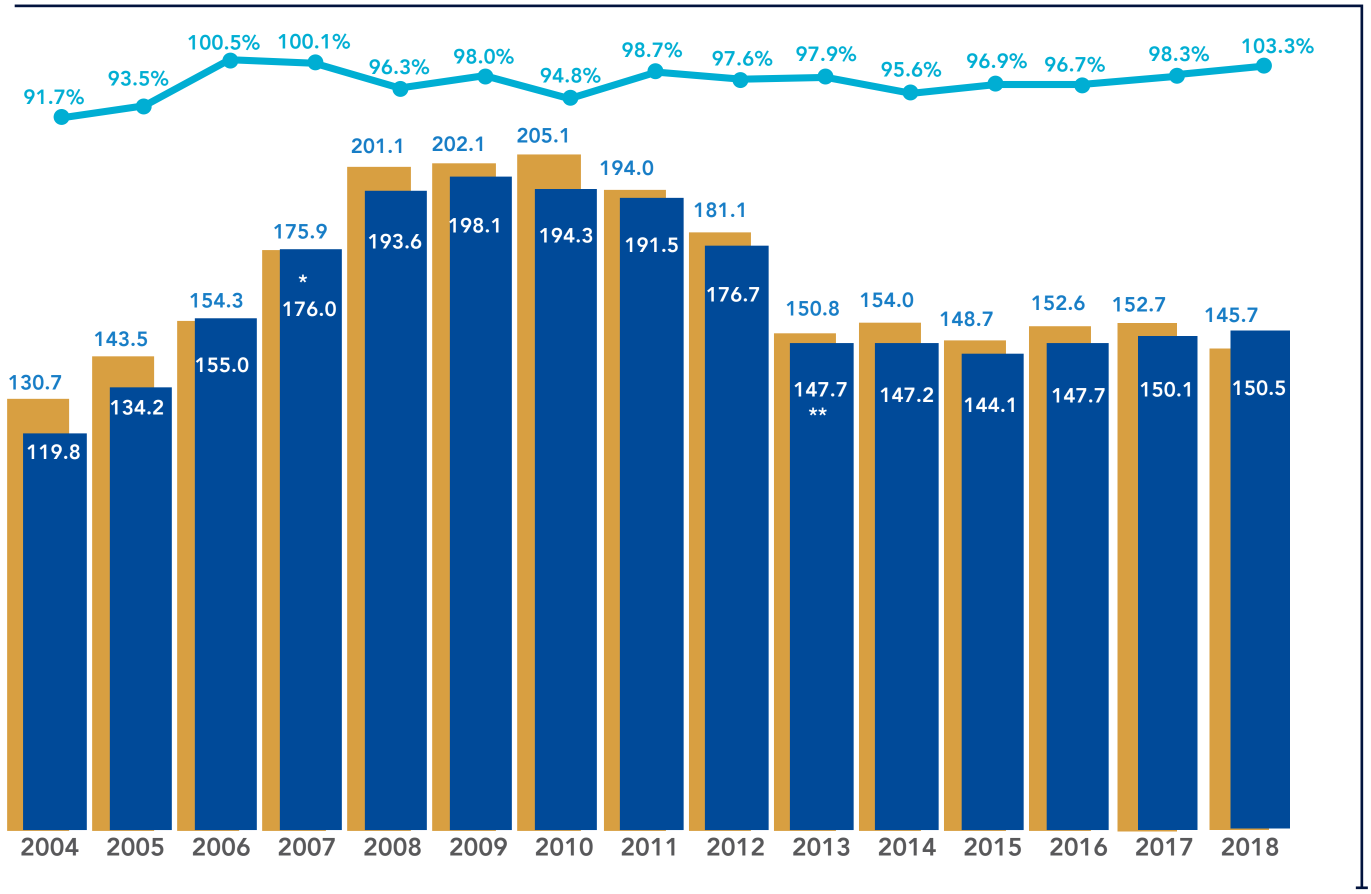


The dividends paid out in the 2018 calendar year were as follows:

Date	Gross per Share	Charged to	Shares entittled to dividend	Total paid
April 10	0.080 euros	1st interim, 2018	470,464,311	37,637,144.88
July 10	0.080 euros	Charged to Reserves	470,464,311	37,637,144.88
October 10	0.080 euros	2nd interim, 2018	470,464,311	37,637,144.88
January 10	0.080 euros	3rd interim, 2018	470,464,311	37,637,144.88
TOTAL SHAREHOLDERS REMUNERATION 2018				**150,548,579.52**

The total amount of the dividends (including the third interim dividend charged to the period, declared in December 2018 as an event after the reporting date, and the dividend charged to reserves in 2018) was 150.5 million euros, showing an increase of 0.3% on those paid in 2017 and, overall, represented a pay-out of 103.3% of the consolidated profit attributed to the parent company, Zardoya Otis, S.A., thus continuing with the Company's policy of distributing a pay-out of close to 100%.

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



* Before Extraordinary Results
** Restarted figures un application of NIC 19-R

Profit after Tax
Dividends paid in the calendar year
Pay out (%)

Evolution of capital

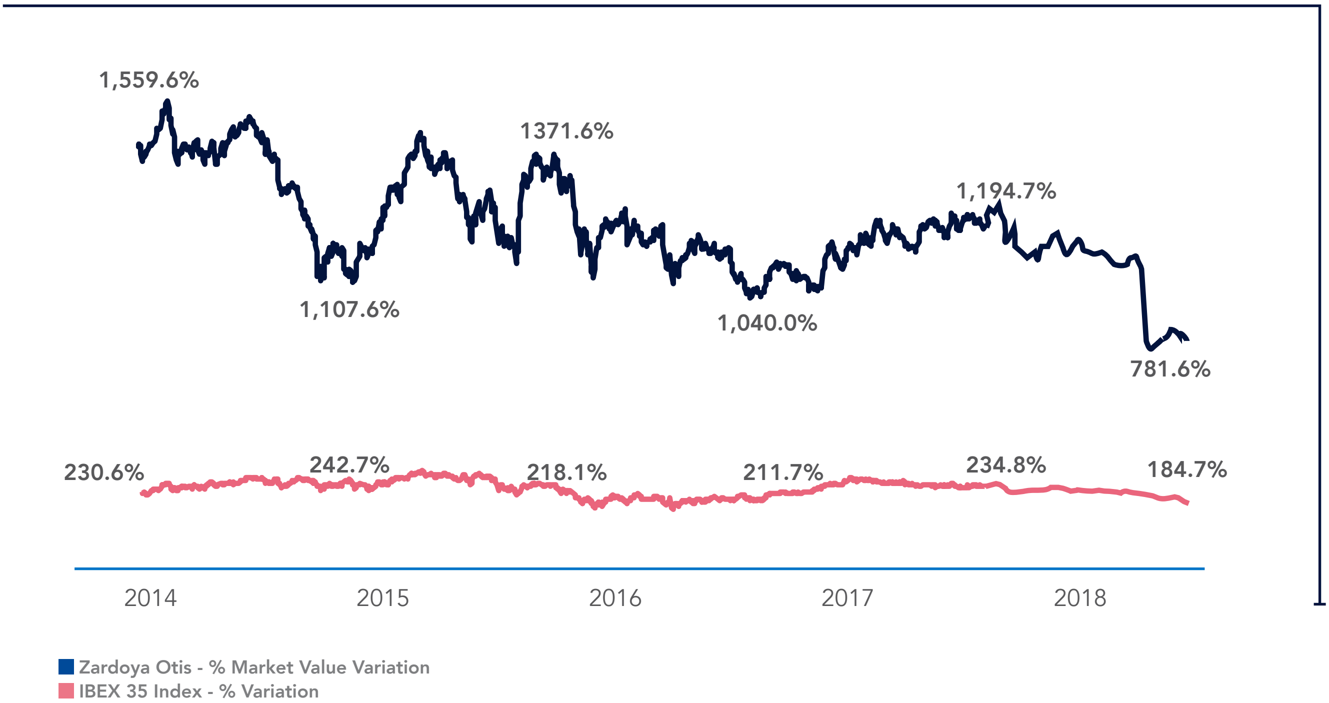
Treasury stock

At November 30, 2018, Zardoya Otis, S.A. did not hold any of its own shares.

Evolution of Zardoya Otis on the securities markets

The quoted share price at the end of 2018 was 6.21 euros per share, representing a decrease in value of 31.9% in comparison with the adjusted value at the end of 2017. As an event after the reporting date, the share price has increased by 15% over recent weeks.

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



Historical Stock Market Data

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
dic-18	-	6,21	**6,21**	(31,9)	20,0	103,3	2.921,6

(*) Without Extraordinary Result

Forecast evolution

In 2018, sales rose by 0.8% as a result of a slight recovery in the general economic situation and also in the construction industry. New installations sales increased by 16% while, in the service area, sales rose by 1.0%. We expect growth to continue in both new equipment sales and sales in the service area.

At the end of 2018, new installations sales accounted for 7.2% of total sales. We expect this relative weight to continue to grow in 2019. As in the preceding reporting period, the recovery continued in the construction segment in the Spanish, Portuguese and Moroccan markets.

General Description of the Group's Risk Policy

The Group's activity is 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 its financial profitability.

Risk management is controlled by Group Management as set out in the supplementary information that accompanies the annual corporate governance report as of November 30, 2017. 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.

Average payment period to suppliers

In relation to the provisions of Law 3/2004 and Law 15/2010 on Measures to Combat Payment Delays in Trading Operations, Law 31/2014 of December 3 amended Law 15/2010 in relation to the information to disclose in the notes to the annual financial statements to require the average annual payment period to suppliers. Thus, the average payment period to suppliers for 2018 was less than 60 days. The Group has put in place measures aimed at continued compliance with the law, which include keeping the average payment period of its transactions with group and associated companies in line with current legislation and complying with the trading agreements it holds with external suppliers.

Research and Development expenses

The Group parent follows the policy of recognizing research costs in the income statement in the period in which they are incurred, as stated in its accounting policies and principles. As of November 30, 2018, the income statement included expenses of EThs 1,645 (2017: EThs 1,957) for this item.

Significant events at November 30, 2018

In 2018, companies belonging to the CGU Zardoya Otis Group (Spain) had acquired 100% of the shares in the following companies:

- Ascensores Limarlift, S.L. on April 5, 2018
- Integra Ascensores, S.L. on June 26, 2018
- Elko sistemes d'elevacion, S.L. on September 11, 2018
- Euroascensores Alcaraz, S.L. on November 26, 2018

The corporate purpose of all of them is the maintenance and repair of elevators in Spain. Likewise, 80% of Soluciones de accesibilidad LV3 S.L. was acquired (April 16, 2018). This company is engaged in the elimination of architectural barriers and providing accessibility solutions with stair lifts and platforms. The total value per acquisition was EThs 14.802.

In December 2017, the merger project for the merger of the company M. Casas S.A. into Conservación A.E. Express, S.L. was completed. Likewise, in March and May 2018, respectively, Sistemas Automáticos de Elevación S.L. and Liftsur Elevadores S.L. were merged into Ascensores Ingar S.A. Similarly, in April 2018, the company Elevadores Castalia S.A. was merged into Ascensores Pertor, S.L. All the aforementioned companies are engaged in the elevator maintenance and repair activity.

On July 19, 2018, Zardoya Otis, S.A. sold the land and facilities of its old modernizations centre located in Munguía. The impact of the gain from the disposal of property, plant and equipment on the profit for the second half of 2018 was around EThs 3,635. The company intends to reinvest the capital gain in the new plant.

Events after the end of the reporting period

On December 27, 2018, Zardoya Otis, S.A. acquired 100% of the shares of the company Otis-Lliset SLU for a value of EThs 4 280. The company is engaged in elevator maintenance and repair in Andorra.

On December 11, Zardoya Otis, S.A. declared the fourth dividend in the calendar year –the third charged to the profit for the period– for a gross amount of 0.08 euros per share, resulting in a total gross dividend of EThs 37 637. This dividend was paid out on January 10, 2019.

Annual Corporate Governance Report

The Annual Corporate Governance Report for the 2018 reporting period forms part of this Management Report.

The Report is available to shareholders on both the CNMV website and the corporate website of Zardoya Otis.

As required by Royal Decree-Law 18/2017 on non-financial and diversity reporting, the relevant information on safety, environmental and social issues is set out below, as well as information on ethics and transparency, the fight against corruption and bribery, personnel, social commitment and service excellence.

STATEMENT OF NON-FINANCIAL INFORMATION

The Zardoya Otis Group is the leading vertical transport group in the Spanish, Portuguese and Moroccan markets. It has the largest maintenance portfolio in the elevator sector. It has three plants located in Madrid, San Sebastián and Vigo and an extensive sales and technical assistance network that allows it to be very close to its customers. It also has an R&D centre in Leganés (Madrid), one of the six that Otis Elevator Co. has worldwide.

The Zardoya Otis Group's goal is to provide its customers with service excellence. With this objective, the objective, the Group considers and encompasses all the phases that comprise safe and comfortable vertical transport for people and goods within its activity, starting with design and manufacturing, continuing with assembly, and finalizing with the provision of a preventive and corrective maintenance service that satisfies the needs of the market and the customers.

Zardoya Otis offers a wide range of elevators, escalators, moving walkways, platforms and stair lifts, as well as automatic doors, which combine existing technological advances in order to supply said equipment to both newly-constructed and existing buildings. Furthermore, over recent years, elevator modernization and replacement activities that seek to enhance the conditions in which the elevator operates in terms of comfort and consumption, together with the installation of equipment to eliminate architectural barriers, have been added to the Group's day-to-day work and teams of professionals specializing in these activities have been created.

The Group has a strong tradition in exports and sells elevators to the rest of the OTIS companies all over the world. In 2018, 76 countries worldwide received elevators exported from our plants.

I. SAFETY, HEALTH AND ENVIRONMENT

Commitment to Safety

The Group and the companies that form part of it apply the highest standards in safety and environment aspects. Since its beginnings, the Zardoya Otis Group has led the efforts and investments to attain the highest level of user and employee safety, the elevator being one of the safest automated means of transport that exist.

To help meet this objective, a "Safety, Occupational Health and Environment Program" has been put in place, setting out the policies and procedures necessary to comply with the legislation in force in these areas, which has been certified under Royal Decree 39/1997 (Prevention Services Regulation) and standards OSHAS 18001:2007 (Occupational Health and Safety Management Systems), ISO 14001 (Environmental Management System) and ISO 50001 (Energy Management System). The validity and efficacy of the Management System is confirmed annually through external audits by accredited firms. Compliance with and continuous development of the policies of said system allows a sustained enhancement of occupational safety and health. The program is constructed on 12 pillars:

1) Policy and leadership

2) Organization and responsibilities

3) Annual plans and objectives

4) Performance evaluation

5) Assessment, prevention and control

6) Education and training

7) Communication

8) Rules and procedures

9) Inspections and audits

10) Enquiries into accidents and incidents

11) Documentation

12) Annual evaluation of the program

Management's commitment to attaining these objectives is reflected in the Safety, Health and Environment Policy, signed by the Chief Executive Officer and the General Manager, and the Safety, Occupational Health, Environment and Energy Efficiency Commitment, signed by the entire management team.

Likewise, to attain the objectives of the Safety, Occupational Health and Environment Program and direct and coordinate the implementation thereof, the day-to-day cooperation and participation of all the employees is essential. For this purpose, the following management bodies and support instruments have been created:

- Central Safety Body. Formed by the managers of the different areas, it provides Safety, Health and Environment strategy and monitoring at company level and supervises the effective implementation of the Management System.
- Prevention Service. It assumes the duties and responsibilities assigned by Royal Decree 39/1997 in the four areas of Prevention, Industrial Hygiene, Ergonomics and Psychosociology, and Occupational Medicine, and coordinates the actions necessary to attain the effective implementation and continuing enhancement of the Prevention and Environmental Management System.
- Safety coordinators. The regional offices, production centres and associated companies have a safety coordinator, who coordinates the actions necessary to implement the Management System effectively in their respective geographical areas.
- Inter-centre Safety Committee. It has equal representation of workers' representatives nationwide and the company's central management, in order to review global aspects.
- Safety and Health Committees. These exist at all the regional offices where a service network is organized. Representatives of the workers and company management in each region participate and review local aspects.

There is monthly safety and awareness training for technical personnel, informing of the accidents that have occurred worldwide.

The Risk Assessment activity of the different work areas (plants, warehouses, offices, etc.) and our business's different activities (manufacturing, assembly, maintenance and modernization) is the key factor for putting in place the preventive measures necessary to optimize safety, quality and environmental care in our products and processes, achieving a constant reduction in incidents and a general improvement in performance.

Attaining the objectives fixed in both Safety and Environment and Energy Efficiency, as well as obtaining the certifications under the aforementioned standards from accredited external firms, confirms the validity of the Management System for continuing improvement and the establishment of the most demanding standards in those areas.

In short, significant investment is made in specialized human resources and the means to ensure workplace safety, which, in turn, represents enhanced safety for our customers and users.

Commitment to Health

The Group actively promotes a number of projects aimed to improve its employees' health and well-being at work. The Group has programs for early disease detection, vaccination, gynaecology and anti-tobacco treatment, as well as general welfare programs, promoting a healthy lifestyle through sport and healthy eating.

Commitment to the Environment and Energy Efficiency

Environmental protection likewise forms part of our day-to-day activity: in product design, manufacturing, assembly, preventive and corrective maintenance and other activities ns that fall within the services the Group offers.

The Group holds a historical commitment with the environment and gives detailed consideration to the impact thereon of all its activities: the construction of a new manufacturing plant, the design of new production processes and its relations with suppliers are proof of this. Electricity generation using renewable energy sources at the Leganés plant meant that the company was the first in the sector to have a solar farm.

The Leganés (Madrid) plant is an example of production plant design seeking the least environmental impact possible. It includes materials with high thermal insulation capacity, lighting that adjusts according to the available daylight, and solar panels to produce the centre's hot water.

On the roof of the building, a photovoltaic solar plant with a power capacity of 720 Kw has been installed, suppling 60% of all the centre's needs. The installation, formed by 3,600 solar panels, prevents the emission of 1,000 tonnes of CO_2 into the atmosphere every year, as well as 90 tonnes of SO2, a sulphur based compound that generates what is known as acid rain.

Efficient energy use plays a fundamental role in protecting our environment. In fact, a significant part of new developments is devoted to developing energy-efficient products. The Group has eliminated hydraulic equipment from its production process, replacing it by GeN2 technology, thus completing its range of state-of-the-art low-consumption elevators for all segments. Some benchmark products are the GeN2 Switch, which uses single-phase electricity and needs only a 500W power connection to work, and the GeN2 Switch Solar, the first elevator on the market capable of working with 100% clean energy and which attains a ZERO energy balance.

This environmental commitment materializes in the fact that all equipment designed and manufactured by Zardoya Otis is equipped with a series of electricity regeneration devices.

In day-to-day operations, the Group is a pioneer in the use of electric vehicles for its maintenance routes and is working on agreements with suppliers, authorities and other stakeholders to develop a larger fleet of electric vehicles that do not emit pollutant gases.

The Group has received numerous recognitions from local, regional and state authorities for its constant work in safety and environmental protection.

II. ETHICS AND TRANSPARENCY

Commitment to ethics and compliance

Ethics is one of the absolute values on which the Group's activity is based.

Zardoya Otis is responsible for establishing solid and sustainable relationships with its stakeholders, whether they be its customers, employees, shareholders and investors, suppliers or the community of which it forms part.

Trust, Respect, Integrity, Innovation and Excellence are the common values established to guide all employees and those who work with the Group in correct decision-making, always complying with the commitments acquired.

These values are set out in the Code of Ethics, which is the document that guides the conduct of all those who form part of the Group.

Acting with integrity does not only mean complying with current legislation, but also meeting our commitments and seeking to provide benefits to the different stakeholders and the community in which the Group operates.

The Ethics Compliance Officer (ECO) and the person responsible for internal audit may, on an independent basis, put any matters they see fit in the aforementioned respects to the Board of Directors. The Disciplinary and Prevention Committee supervises and decides on any irregularities in ethics compliance issues that may arise.

The communication of the Code of Ethics and its five values are fundamental pillars in order to continue to consolidate an ethical culture of commitment to good governance towards all the stakeholders

The 2018 Ethics and Compliance Plan materialised in five lines of action:

1. Management Leadership

2. Risk Policies and Prevention (Audit and Assessment)

3. Education and Training

4. Communication

5. Case inquiries – Disciplinary and corrective actions

<u>1. Management Leadership</u>

- Renewal of the commitment to Ethics and Compliance of the whole management team in February 2018.

- Quarterly meetings of the Compliance Committee.

- Ten people received recognition for good ethical practices.

<u>2. Risk Policies and Prevention</u>

- Preparation of Risk Map: ERM (Enterprise Risk Management), including Compliance risks, with quarterly review of the mitigation and control actions.

- Annual certification of all the employees, who state they know and understand the Code of Ethics and its policies, identifying any possible conflicts of interest that should be checked.

- Special reinforcement of training in anti-corruption and crime prevention policies.

3. Education and Training

- Training plan consisting of online courses for employees (9,808 courses taken in 2018).

- Quarterly training of technical staff and workers at all the offices and work centres.

- Ethics Day (November 2018) – distribution of 4,500 copies of the Code of Ethics to all employees and technical personnel and 220 "Ethics Bingo" games to reinforce the Company's fundamental values: Respect, Integrity, Trust, Innovation and Excellence.

4. Communication

- Launch of the campaign "OTIS Does the Right Thing" – real examples of good practices.

- 20 communications issued under the title "ECO INFORMA".

- Communication of the new General Data Protection Regulation and creation of a specific section of Data Privacy in the Ethics and Compliance intranet.

- E-mails with simple ethics messages in "tweet" format through "tweethics".

5. Case Inquiries – Disciplinary and Corrective Actions

- The use of the Ombudsman/Dialogue program and a confidential and anonymous communication channel allows irregularities noted in the Company's internal audits and controls to be reported (which may also be done through the ECO). In some of the cases investigated in 2018, the decisions led to disciplinary measures, including dismissal in some situations.

- The increase in the use of the communication channels is a good sign that the workers are notifying possible irregularities without fear of reprisals, since the commitment to ethics has been implemented at all levels of the Company, starting with Management, and this guarantees a culture that favours transparency and good business practices.

III. FIGHT AGAINST CORRUPTION AND BRIBERY

Compliance with anti-trust laws

The Group assumes the obligation to comply with the antitrust laws, also known as competition laws. Anti-competition activities are an infringement of the Group's fundamental values.

Therefore, our competitors are treated with respect and business is based on the merits of the products and services offered.

The Group has specific policies regarding compliance with antitrust and anti-corruption laws, informing and providing training to all employees, who undertake to comply with them by signing the Code of Ethics.

Corruption risk prevention

While the values of innovation and excellence distinguish what is done, our values of integrity and trust show how it is done. The Group undertakes not to take advantage of an opportunity, irrespective of other circumstances, if it implies a result obtained by the undue use of influences or in a manner that does not respect the Code of Ethics.

The Group leads by example in the prevention of corruption, in accordance with the Corporate Policy manuals, which regulate subjects such as business gifts, sponsored trips, hiring civil servants or persons related to the government, and agreements with external representatives or distributors. Likewise, it fights to prevent the effect of corruption on society and helps to foster and protect the free market, defending the rights of consumers and their capacity to choose.

The Group upholds fair, lawful and transparent market practices. An example of this is the systematic and meticulous analysis of potential conflicts of interest that may affect members of management, employees, suppliers, partners or any kind of person or entity that has a relationship with the Group.

Confidential internal communication channel (Dialogue and ECO)

Internal communication is of fundamental importance in transmitting trust and credibility to the employees. For this reason, there is:

- An Ethics Compliance Officer (ECO). Any worker may contact him or her to obtain guidance or to consult aspects concerning compliance with the Code of Ethics. Likewise, this person acts independently of the chain of command and conducts thorough investigations into any possible infringements of the Code of Ethics.

- The Dialogue Program. A confidential and anonymous communication channel that ensures protection of those people who make reports in good faith or cooperate with an investigation, preventing any kind of retaliation against them.

Responsibility in the purchase of goods and services

One of the Group's general principles is to treat partners, suppliers and subcontractors with integrity and without discrimination. Therefore, the Group purchases equipment or raw materials and hires services based solely on merit.

Business partners are sought who share an inflexible commitment to excellence and the commitment to meet or surpass the customers' needs. The Group drives innovation, cultivates trust and treats its partners with integrity and respect. The protection of their rights and having them comply with the Company's high standards of ethics forms part of a top-class supply chain.

Likewise, the Group requires its partners, suppliers and subcontractors to adhere to its Supplier Code of Conduct. This Code requires the goods and services acquired to be designed, produced and supplied respecting the safety and health of both employees and consumers. Likewise, suppliers must carry on their activity protecting the environment and respecting the human and labour rights recognized in national and international legislation, prohibiting child labour and treating workers and business partners without discrimination.

Internal control, information and transparency

One of the Group's priority objectives is to favour transparency with the markets and the shareholders. Thus, it undertakes to:

- Work to ensure that the financial statements are complete and accurate.

- Strive for assets, liabilities, revenue, expenses and commercial transactions to be recorded fully and accurately in the Group's books and records, in accordance with the applicable legislation, generally-accepted accounting principles and the financial policies and procedures established.

- Refrain from establishing or holding assets or liabilities that are not recognized in the accounts.

- Publish the relevant information on the Group.

- Comply with the information requirements under the applicable legislation in every country in which it operates.

- Safeguard the rights of investors and shareholders in accordance with the Bylaws and the Regulations of the General Shareholders' Meeting, providing tools and channels to facilitate involvement and communication with these stakeholders.

- Comply with securities market legislation, particularly the market abuse legislation.

According to the Regulations of the Board of Directors, the Board has the mission of determining the risk control and management policy, including tax risks, and supervising the internal reporting and control systems.

Likewise, the Audit Committee supervises the efficiency of the Group's internal control, internal audit and risk management systems, including tax risks, and safeguards the independence and efficacy of the internal audit service. Among other duties, the Audit Committee discusses any significant weaknesses in the internal control system detected in the course of the audit with the statutory auditor. It also has the mission of supervising the process of preparing and presenting the mandatory financial reporting, including compliance with the requirements of current legislation and the correct application of accounting principles. Likewise, it regularly receives information from the statutory auditor on the audit plan and the execution thereof, always ensuring the auditor's independence in performing its duties.

Additionally, a Crime Prevention Model and a Risk Map have been approved. A Compliance Committee has been created, formed by members of management, which has the specific obligations of reviewing and approving any change to the Crime Prevention Model and Risk Map and submitting it for a prior report from the Audit Committee. Likewise, it monitors any internal report received on and/or investigations in progress into criminal matters, periodically reporting on its activities to the Audit Committee.

The Group has an Internal Audit Department that reports directly to the Audit Committee and reviews and guarantees annually, on an independent basis, that business practices and processes are honest, effective and efficient.

Likewise, the Group has Internal Conduct Regulations, the objective of which is to protect the interests of investors and their confidence in the market. Said Regulations contain a series of guidelines and rules applicable to the Group and its directors, managers and employees regarding management and control of relevant and insider information, carrying out transactions with its own securities, performing treasury share transactions and detecting and handling conflicts of interest, all of which is intended to avoid any situation where market abuse occurs.

IV. PEOPLE AND SOCIAL COMMITMENT

The Group has put in place a series of policies and programs that concentrate on people, creating a work environment that fosters respect, health, safety and well-being in the workplace, as well as equal opportunities.

The Human Resources Department is responsible for drawing up and promoting the respective programs for training, internal communication, corporate social responsibility, selection, development, welcome and integration, labour relations, compensation and benefits, etc. These policies are reviewed periodically and are update ed and adapted to the business's needs.

The Zardoya Otis Group fosters a culture of commitment and team work. The "pride of belonging" of all the employees is reinforced and, in the parent company, there is a common vision that unites and commits, reflected in the internal motto: "Together we are unstoppable".

The Group's main asset is people. Therefore, training is one of the keys to our success. Zardoya Otis's ratios are the highest in the sector and also among other companies of the same size.

All Group employees have the opportunity and right to access training, a key element that helps to allow the employees' personal and professional growth. The training and development plans are monitored and analyzed by the management committees.

An average of more than 35 hours of training per employee per year is imparted regularly on subjects such as safety, ethics, technical training, quality, sales, leadership, office IT, languages, etc., through both internal trainers and external consultants, using different methodologies (classroom, on-line or mixed training). Professional growth of employees is also encouraged with individual development programs (first degree or master's) at any public university.

The Group also has a performance management system, as well as career and succession plans, mentoring, coaching, internationalization schemes, etc., defined to foster the personal and professional development of all the people who form part of it and their alignment with the business's culture and strategic goals. 90% of the managers (middle management, management and senior management) come from internal promotion.

Workplace climate surveys are conducted between 2 and 4 times a year and actions for improvement are implemented on the basis of an analysis of their results.

The digital transformation process that is underway is a key challenge, given the change in culture it involves. The companies that form the Group have adapted to this new situation. The technical personnel and supervisors now work with advanced digital mobility tools that integrate Smartphone technology and place communication, management and service technology at the customers' disposal. These tools allow a reduction in administrative tasks, generating higher productivity and efficiency in order to provide the customer with a personalized, swift and effective service.

The objective is to continue to consolidate the position of sector leadership, transforming service, incorporating connectivity and efficient management technologies, and contributing reliability, productivity, flexibility and transparency, in order to continue to provide the customers with service excellence.

For the Group, promoting innovation is of fundamental importance in order to maximize value creation. The Madrid Engineering Centre is a worldwide benchmark centre for Otis and an enormous number of patent applications for the products and processes developed commence there. Since 2001, more than 500 patent applications have been filed from Spain all over the world and almost 300 patents have been granted.

Likewise, there is a suggestion program, which encourages and rewards the generation of new ideas on enhancements to products, services or processes.

Furthermore, employees enjoy a complete benefit package, which includes a flexible remuneration system, several types of insurance and special discounts on a series of leisure and cultural activities.

In 2018, work to advance in and consolidate the Unstoppable Commitment continued, aligning it with the sustainable development goals and concentrating on four basic pillars: child protection, gender equality, diversity and the inclusion of people with disabilities or at risk of social exclusion, and employee health and well-being.

In a sector that is particularly complicated in terms of gender diversity, one of the great challenges that is being tackled is to include female talent in the Group, something for which Zardoya Otis is constantly striving. In 2018, the parity indices improved at all levels in order to encourage the growth and development of female talent in the Group, and recognition was obtained for this.

Zardoya Otis is especially proud of its Equality Plan and its Diversity and Inclusion Plan, the title of which is "Todos somos Todos".

Social commitment also includes mainstreaming people with disabilities and/or at risk of social exclusion in the Group, an aspect that is always borne in mind in every recruitment process.

The Group cooperates and works with special employment centres that help to include professionals with disabilities, who perform wonderful work in the organization.

One of the basic parts of the Corporate Social Responsibility Policy is social commitment with the environment. Various solidarity projects and activities in which employees participate are organized.

Corporate volunteering acquires special importance with programs for mainstreaming disability through sport (25 years of cooperation with Special Olympics) and child protection (annual charity race and cooperation with several foundations in different activities).

There is also cooperation with educational centres to provide training and professional development opportunities to students with potential and talent who lack the resources necessary to access them. Furthermore, through cooperation with professional training centres, young, recently-qualified people are recruited. Both these actions contribute to reducing unemployment, mainly among young people.

Social action policies are communicated to all employees through the different internal communication channels.

All the foregoing has allowed a number of recognitions to be obtained as a socially responsible entity and the award of the "Top Employers Institute" international certificate for the fourth year running. This is one of the most highly valued and important certificates worldwide and recognizes the Group's main company as one of the best companies to work for in Spain.

Regarding Accessibility, the entity is aware of the situation of millions of people who have difficulties in surmounting the numerous architectural barriers that exist in cities. In Spain, for example, there are more than one million buildings to which measures to make access easier should be applied.

The Group, together with associations of persons with disabilities and the authorities, has always been active in developing legislation on standards that improve elevator accessibility for people.

	Women in 2018	Women in 2017
Managers	10	9
Administration/Workshop/Field Supervisors	35	32
Engineers, University graduates and other experts	70	58
Administrative and technical personnel	463	447
Other workers	30	27
	608	**573**

The Group is committed to the development of technical solutions, technological advances and social initiatives intended to make a decisive contribution to eliminating accessibility barriers. An example of this is the standard inclusion of equipment with capabilities aimed to make the elevators easier to use for people with some kind of disability: Braille on the buttons, improved signage, audible messages regarding the elevator's movements, improvement in stopping accuracy, systems for the early detection of door closure, interactive information systems in the car and a long list of capabilities that may be enjoyed today as a result of the standard achieved.

As stated previously in this Management Report, in April 2018, 80% of Soluciones de accesibilidad LV3 S.L., a company engaged in eliminating architectural barriers with stair lifts and platforms, was acquired.

V. SERVICE EXCELLENCE

The Group's objective is to become the benchmark in the sector and the first choice for customers and users, as a result of the quality of its products and the service excellence in all its activities.

The Group has implemented the following measures for the continuous enhancement of its processes:

- Annually, the CEO and the General Manager approve a roadmap which defines the main quality objectives and the metrics or indicators to be used at the work centres.

- Zardoya Otis, S.A. was the first company in the sector to obtain ISO 9001 certification of its Quality Management System, which it achieved with AENOR in October 1992 for the Company overall, later extending said certification to compliance with the Lift Directive and the Royal Decrees that transpose it, including the pertinent Supplementary Technical Instructions.

- To enhance quality, the ACE Operating System (Competitive Excellence) is used. This is a system for continuing improvement, aimed at solving problems and detecting opportunities. The causes of the problems are analyzed and processes are modified to eliminate or decrease the likelihood of their being repeated. This operating system allows processes to be defined, controlled and improved, eliminates tasks that add no value, reduces the number of errors by analyzing their causes and, through a continuing improvement process, achieves the desired business results, all of which is focused on keeping the customers satisfied and obtaining a high rate of recommendations.

- Unceasing search for differences between the actual results and the targets fixed, analysing and enhancing the processes, assessing and establishing the objectives in accordance with their impact and importance for our customers, shareholders and employees.

- In 2002, the Service Excellence Program was implemented, concentrating on improving the services provided and how customers perceive them. The enhancement of what are known as essential processes: obtaining the loyalty of customers and the portfolio, handling notifications, maintenance visits, complaints management and sales visits, reinforces the customers' perception at "moments of truth", when the Group's image is enhanced as a result of the attention received from the person who interacts with the customer and/or user on the Group's behalf.

VI. OTHER SIGNIFICANT NON-FINANCIAL PERFORMANCE INDICATORS AND INITIATIVES

- **Units under maintenance**

  288,467 elevator units under maintenance

  33,000 automatic doors under maintenance

- **Human team**

  5,476 employees:

  - 78 managers, 12.8% of whom are women
  - 539 administration and workshop supervisors, 6.5% of whom are women
  - 311 engineers, university graduates and other experts, 22.5% of whom are women
  - 959 administrative and technical staff, 48.3% of whom are women
  - 3,589 elevator technicians, 0.8% of whom are women
  - An average of 17 years of service with the organization (16.3 years in 2018)

- **Training**

  - 17,884 training actions
  - 153,941 hours of training
  - 35 hours of training/employee/year
  - 6,297 safety courses with 4,760 participants, representing 59,277 hours of training
  - 9,808 ethics courses with 1,560 participants, representing 4,904 hours of training
  - 595 technical training courses with 3,710 participants, representing 40,739 hours of training
  - 459 language and management courses, with 1,172 participants, representing 46,658 hours of training
  - 725 quality and process enhancement courses with 227 participants, representing 2,363 hours of training
  - 28 people pursuing official university studies with financing: first degree and Master's degree
  - 3,500 hours of training for technical staff for the digital transformation (iPhone and associated applications)

- **Customer service**

Zardoya Otis has an extensive network of branches, service offices and points of assistance in Spain, Portugal and Morocco (more than 250 locations).

The group carries out surveys with its customers in order to find out their degree of satisfaction with the service received and the likelihood of their recommending us to others. Activity in 2018 was:

  - 19,043 surveys
  - 99.16% customers satisfied with the attention received by telephone
  - 90.78% of customers surveyed would recommend the company to others
  - 98.41% of customers surveyed satisfied with the service received

- **Production**

  - 10,424 dispatched from the Leganes (Madrid) plant
  - 14 patents in 2018

- **Communication**

  - 205,000 visits to corporate website
  - 3.8 million customer impacts in 2017 (4.2 million 2018)

- **Suppliers**

  - 15% reduction in suppliers
  - Mandatory for suppliers to adopt the Code of Conduct

- **Social commitment**

  - Charity race: 1,600 entries and €15,580 collected and donated to Fundación Oncohematológica Infantil.

  - Other campaigns:

    - Cruzada por los niños ("Crusade for children")

    - Menudos Corazones ("Little Hearts")

    - "Integrated" Programs

    - "Juntos de la Mano" Program

    - Sponsored race for multiple sclerosis

    - 3rd edition of Oncobike

    - 6th edition of the Solidary Trail

    - "Fórmula imparable" healthy company program

  In all cases the sums collected are donated in full to NGOs, foundations and research centres.

- **Promotion of gender equality**

  - "No le pongas género, ponle talento" program in collaboration with the Fundación Adecco, aimed to increase the employability of women with disabilities, gender violence victims, women with unshared family responsibilities and other women at risk of social exclusion. 43 workshops, in which 528 women participated, were held.

  - "Por fin tengo trabajo" program with Fundación Randstad, aimed at women with disabilities.

  - "We go" program: recently created national program aimed to attract the best female talent to fill technical positions. The new recruits receive integral training in all areas of the business for 18 months. At present, four women are participating.

  - "Forward" program, an international program created to increase the presence of women in technical positions and foster gender equality. It has a national committee formed by a multidisciplinary team and was launched in April 2018.

Recognitions in relation to Equality, Diversity and Inclusion

Zardoya Otis has adhered to the “Más mujeres, mejores empresas” (“More women, better companies”) initiative issued by the Ministry of Health, Social Services and Equality. Through this cooperation, the Group undertakes to foster a balanced participation of women and men in pre-managerial and managerial positions and management committees.

In the Workplace Diversity and Inclusion area, the entity has been recognized as one of the 10 most innovative and committed enterprises in Spain in the sixth edition of the Intrama awards. This prize was due to the “Todos somos todos” program, which includes most of the initiatives implemented over the last two years in respect of gender diversity and people with disabilities or at risk of social exclusion.

The award of the Social Company Prize, in collaboration with the Fundación Mundo Ciudad, for the second year running recognizes the “Best Responsible Project in Accessibility and CSR in the Industrial Sector” for the MPD - eView ONE System.

Finally, also for the second year running, the Bequal Seal, which certifies the degree of Corporate Social Responsibility commitment with Disability, was obtained.

Cuentas anuales consolidadas


A

pwc

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. (parent company) and subsidiaries (the Group), consisting of the consolidated balance sheet at 30 November 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 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 2018 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 financial reporting standards applicable to the Group in Spain..

Basis for opinion

Our audit has been carried out in accordance with prevailing Spanish auditing regulations. Our responsibilities under these 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 non-audit services and 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 for 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.

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 915 685 400, www.pwc.es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

pwc

Zardoya Otis, S.A and subsidiaries

Key audit matters	How the matters were 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. The relevance of the estimates used in the recognition of revenues and their quantitative significance means that revenue recognition is considered 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 referred 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 checked 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 checked that the revenue has been accounted for in the correct period. We performed 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 also 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

pwc

Zardoya Otis, S.A and subsidiaries

Key audit matters	How the matters were addressed in the audit
Recovery of goodwill The Group records goodwill totalling €153 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 that affect its margin. It is a key audit matter due to the size of the item and because it entails judgement and estimation on the part of management, impacting 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. Specifically: • We verified that short-term revenue growth rates are consistent with recent years. • We confirmed that long-term growth rates are consistent with long-term economic forecasts. • We checked the reasonableness and consistency of future margins based on current and past performance. • We evaluated 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 verified the arithmetic calculations included in the valuation. • We verified the origin of the information used in the valuations, checking that the forecasts are approved by management. • We verified management's sensitivity analysis for discount rates and growth rates, evaluating in which other stress conditions impairment could arise. We 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 under goodwill.

Zardoya Otis, S.A and subsidiaries

Key audit matters	How the matters were addressed in the audit
Recovery of the value of intangible assets with finite useful lives	
The Company has intangible assets with a finite useful life amounting to €172 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). Amortisation is assessed regularly by analysing the useful lives of these assets and, where warranted, impairment tests are performed whenever there are any indications of impairment. In this respect, management considers the rate of cancellations and churn. It is a key audit matter due to the size of the item and because it entails judgement and estimation on the part of management, impacting forecast flows.	For the acquisitions of maintenance contract portfolios, we checked the key supporting documents, such as contracts and purchase deeds, asset valuations at the time of purchase and other relevant documents. As regards amortisation, estimated useful lives and possible impairment of the intangible assets: • We checked that the evolution of net contract loss rates is consistent. • We verified the evolution of maintenance contract prices. • We assessed the reasonableness of the relevant margins and profits • We carried out tests of detail on maintenance contract additions and cancellations. We also checked the sufficiency of the information disclosed in the consolidated annual accounts. Our tests have revealed a solid basis supporting the assets' useful lives and that the assets' recoverable amounts are higher than their carrying amount.

Other information: Consolidated management report

Other information refers exclusively to the 2018 consolidated management report, the preparation of which is the responsibility of the parent company's directors, and is not an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

a) A specific level applicable to the non-financial statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the management report or where applicable, that the management report includes the corresponding reference to the separate non-financial report as stipulated by prevailing regulations and if not, disclose this fact.

Zardoya Otis, S.A and subsidiaries

b) A general level applicable to other information included in the consolidated management report that consists of assessing and reporting on the consistency of that information with the consolidated annual accounts, on the basis of the understanding of the Group obtained in the performance of the audit of those accounts and without including information other than that obtained as evidence during the audit and assessing and reporting on whether the content and presentation of that part of the consolidated management report are in conformity with applicable legislation. 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 above, we have verified that the information mentioned in paragraph a) is provided in the consolidated management report and the other information contained in the consolidated management report is consistent with that of the consolidated annual accounts for 2018 and its content and presentation comply with applicable legislation.

Responsibility of the Directors and Audit Committee in relation to the Consolidated Annual Accounts

The parent company's directors are responsible for the preparation of the accompanying consolidated annual accounts such that they present fairly the equity and the financial position of the Group and subsidiaries and the consolidated results of their operations in accordance with Financial Reporting Standards adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain, and for the internal control considered necessary to permit the preparation of consolidated annual accounts which are free from material misstatement, due to fraud or error.

In drawing up the consolidated annual accounts, the parent company's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as appropriate, matters relating to going concern and using the going concern basis of accounting, unless the directors either intend to wind up the Group or to cease trading, or have no realistic alternative but to do so.

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 about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with auditing standards prevailing in Spain will always detect material misstatement when it exists. Misstatements can arise from fraud or error and are considered material, if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated annual accounts.

As part of an audit conducted in accordance with prevailing auditing standards in Spain, we apply our professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate 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, forgery, deliberate omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Group's internal control.

- We assess whether the accounting policies applied are appropriate and the reasonableness of the accounting estimates and the related disclosures by the parent company's directors.

- We conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion Our conclusions are based on audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and assess whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- 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 the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate 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 deficiency 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 communicated 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 law or regulation precludes the public disclosure of the matter concerned.

Report 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 12 March 2019.

Zardoya Otis, S.A and subsidiaries

Term of engagement

We were appointed auditors of the Group for a one-year period at the annual general meeting of shareholders held on 23 May 2018.

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

Services rendered

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

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
Rafael Pérez Guerra (20738)

12 March 2019

ZARDOYA OTIS S.A.
AND SUBSIDIARIES

Consolidated Annual Financial Statements
at November 30, 2018

Translation of Annual Financial Statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails.

ZARDOYA OTIS S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT NOVEMBER 30, 2018 AND 2017
(Thousands of euros - ETHs)

	2018	2017
ASSETS		
Noncurrent assets		
Property, plant & equipment (Note 5)	62 126	60 093
Intangible assets (Note 6)	172 308	177 749
Goodwill (Note 6)	153 077	146 551
Financial investments (Note 7)	733	718
Deferred tax assets (Note 18)	24 197	23 994
Other noncurrent assets (Notes 7 & 19)	7 626	8 125
	420 067	**417 230**
Current assets		
Inventories (Note 9)	33 350	33 658
Financial receivables (Note 7)	263	224
Trade and other receivables (Notes 7 & 8)	213 309	201 405
Cash and cash equivalents (Notes 7 & 10)	56 445	60 854
	303 367	**296 141**
Total assets	**723 434**	**713 371**

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

Translation of Annual Financial Statements originally issued in Spanish. In the event of discrepancy, the Spanish-language versión prevails. 2

ZARDOYA OTIS S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT NOVEMBER 30, 2018 AND 2017
(Thousands of euros - ETHs)

		2018	2017
	EQUITY		
	Share capital (Note 11)	47 046	47 046
	Share Premium	306	306
	Legal reserve (Note 13)	10 162	9 785
	Reserves in subsidiaries & other reserves (Note 14)	295 748	295 448
	Retained earnings (Note 15)	145 731	152 744
	Interim dividends paid (Note 29)	(75 274)	(75 274)
	Foreign exchange differences	(10)	(489)
	Non-controlling interests (Notes 2,15)	10 646	11 426
	Total equity	**434 355**	**440 992**
	LIABILITIES		
	Noncurrent liabilities		
	Other payables (Notes 7 & 16)	1 843	2 648
	Provisions for other liabilities and expenses (Note 21)	10 731	10 084
	Deferred tax liabilities (Note 18)	23 672	24 263
		36 246	**36 995**
	Current liabilities		
	Trade and other payables (Notes 7 & 16)	232 926	216 544
	Current tax liabilities	9 377	7 856
	Borrowings (Notes 7 & 20)	290	323
	Provisions for other liabilities and expenses (Note 21)	10 240	10 661
		252 833	**235 384**
	Total liabilities	**289 079**	**272 379**
	Total equity and liabilities	**723 434**	**713 371**

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, 2018 AND 2017
(Thousands of euros - ETHs)

		2018	2017
	Sales (Note 22)	784 434	778 282
	Other revenue	1 542	1 448
	Raw materials and consumables used (Note 24)	(264 697)	(257 376)
	Employee benefit expense (Note 23)	(254 326)	(246 532)
	Amortization, depreciation and impairment losses (Note 5 & 6)	(20 523)	(19 942)
	Other net expenses (Note 25)	(58 301)	(54 992)
	Operating profit	**188 129**	**200 888**
	Financial income (Note 26)	162	621
	Financial costs (Note 26)	(378)	(394)
	Net foreign exchange differences (Note 26)	66	70
	Other gains and losses	**3 581**	**129**
	Profit before tax	**191 428**	**201 314**
	Income tax expense (Note 27)	(45 127)	(47 827)
	Profit for period	**146 301**	**153 487**
	Profit from continuing operations after tax (Note 15)	**146 301**	**153 487**
	Attributable to:		
	Shareholders of the Company (Note 15)	145 731	152 744
	Non-controlling interests (Note 15)	570	743
	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	0,31	0,32
	- Diluted	0,31	0,32

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, 2018 AND 2017
(Thousands of euros - ETHs)

	2018	2017
Profit for the period (Note 15)	**146 301**	**153 487**
Other comprehensive income:		
Items that can be transferred to profit and loss		
Exchange rate differences	480	(485)
Items that will not be reclassified to profit and loss		
Actuarial gain or (loss)	433	3 013
Other comprehensive income for the period, net of taxes		
Total comprehensive income for the period, net of taxes	**147 214**	**156 015**
Attributable to:		
– Shareholders of parent company	146 644	155 272
– Non-controlling interests	570	743

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, 2018 AND 2017
(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, 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 2017 (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**
Application IFRS 15 (Note 2.25)	**-**	**-**	**-**	**-**	**-**	**(165)**	**-**	**-**	**(165)**
Balance at December 1, 2017	**47 046**	**306**	**9 785**	**-**	**(490)**	**276 227**	**96 527**	**11 426**	**440 827**
Comprehensive profit for the period (Note 15)					480		146 164	570	147 214
Distribution of profit 2017 (Note 15)			377			39 456	(152 744)		(112 911)
Dividend relating to 2017 (Note 29)							112 911		112 911
Dividend 201 8 (Note 29)							(112 911)		(112 911)
Dividend charged to available reserves						(37 637)			(37 637)
Transactions with non-controlling interests (Notes 2 & 6)								113	113
Other movements						(1 788)		(1 463)	(3 251)
Balance at November 30, 2018	**47 046**	**306**	**10 162**	**-**	**(10)**	**276 258**	**89 947**	**10 646**	**434 355**

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, 2018 AND 2017
(Thousands of euros - ETHs)

	2018	2017
Net profit	**145 731**	**152 744**
Adjustments to profit:		
Amortization/depreciation/provisions (Notes 5, 6 &,8)	18 938	17 865
Taxes (Note 27)	45 127	47 827
Other losses and gains (Note 26)	150	297
Gains/(losses) on sales of fixed assets	(3 581)	127
Tax payment for period (Note 30)	(46 004)	(42 677)
Change in working capital	971	(13 055)
Profit attributable to non-controlling interests (Note 15)	570	743
Cash flows from operating activities (Note 30)	**161 902**	**163 871**
Investment in property, plant & equipment/intangible assets(Notes 5 & 6)	(10 168)	(4 086)
Acquisition of subsidiaries (Notes 6 & 33)	(10 377)	(9 469)
Acquisition of other financial assets	-	-
Cash from business combinations (Note 33)	1 191	163
Cash receipts from asset disposal (Nota 5)	4 000	-
Cash flows from investing activities	**(15 354)**	**(13 392)**
Dividends paid (Note 29)	(150 548)	(150 077)
Bank borrowings (Received/Paid) (Note 20)	(31)	(1)
Payment for acquisition of non-controlling interests	(378)	(1 891)
Cash flow from financing activities	**(150 957)**	**(151 969)**
Variation in cash and cash equivalents	**(4 409)**	**(1 490)**
Cash and cash equivalents at the beginning of the period (Note 10)	60 854	62 344
Cash and cash equivalents at the end of the period (Note 10)	56 445	60 854

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

ZARDOYA OTIS S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE PERIODS 2018 AND 2017
(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 21, 2019 and are pending the approval of the Annual General Shareholders' Meeting. Nevertheless, Management considers that said 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, 2018 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, 2018 include the figures for the preceding year to allow a comparison to be made. Likewise, they have been prepared under the going concern principle. They will be approved by the Board of Directors on February 21, 2019. The Consolidated Annual Financial Statements for 2017 were approved at the General Shareholders' Meeting of May 23, 2018.

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 derivatives) 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 subsidiary 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.

If a business combination takes place in stages, the acquisition-date carrying amount of the interest in the acquiree's equity previously held by the acquirer is remeasured at acquisition-date fair value. Any loss or gain arising from this remeasurement is taken to profit and loss.

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 in the event of a bargain purchase, 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:

		2018		2017		
Company and registered office	**Activity**	%	Carrying amount (EThs)	%	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%	26 505	Zardoya Otis S.A.
(+) Ascensores Serra, S.A. (Gerona)	Installation & Service of Elevators	75%	605	75%	605	Zardoya Otis S.A.
(+) Puertas Automáticas Portis, S.L. (Madrid)	Installation & 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	96,76%	19 515	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 & Service of Elevators	52%	10 823	52%	10 823	Zardoya Otis, S.A.
(+) Ascensores Enor S.A. (Pontevedra)	Installation & Service of Elevators & 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%	17 820	100%	10 790	Zardoya Otis, S.A.
Companies acquired by the CGU Spain (Puertollano, Seville, Malaga, Castellon, Madrid)	Installation & Service of Elevators	-	-	100%	14 568	Companies belonging to the Spain CGU (*)

Companies acquired by the CGU Spain (Zaragoza, Madrid & Alicante)	Installation & Service of Elevators	100%	14 352	-	-	Companies belonging to the Spain CGU (*)
Companies acquired by the CGU Portugal	Installation & Service of Elevators	-	-	100%	2 688	Companies belonging to the Portugal CGU (*)
Soluciones de Accesibilidad LV3 SL (Barcelona)	Installation and Service of Accessibility Solutions Equipment	80%	450	-	-	Zardoya Otis, S.A.

(+) 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 2018:

In 2018, companies belonging to the Zardoya Otis Group (Spain) CGU acquired 100% of the shares of the companies Ascensores Limarlift S.L (April 5, 2018), Integra Ascensores SL (June 26, 2018), Elko sistemtes d´elevacion S.L. (September 11, 2018) and Euroascensores Alcaraz SL (November 26, 2018), all of which are engaged in the elevator maintenance and repair activity. Likewise, 80% of Soluciones de accessibilidad LV3 S.L. was acquired (April 16, 2018). This company is engaged in the elimination of architectural barriers and providing accessibility solutions using stair lifts and platforms.

On June 4, 2018, the subsidiary Electromecánica Elevadores SL carried out a capital increase of ETHs 7 030. The new shares in the company were fully subscribed and paid up in cash, together with the related share premium, by Zardoya Otis, S.A.

In December 2017, the merger project for the merger of the company M. Casas S.A. into Conservación A.E. Express, S.L. was carried out. Likewise, in March and May 2018, respectively, Sistemas Automáticos de Elevación S.L. and Liftsur Elevadores S.L. were merged into Ascensores Ingar S.A. Similarly, in April 2018, the company Elevadores Castalia S.A. was merged into Ascensores Pertor, S.L. All these companies were merged into Group companies and, in the course of the period, they were dissolved without liquidation and the entirety of their respective equities was transferred en bloc to the absorbing companies.

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 2017 and will be treated in accordance with the policy on transactions with non-controlling interests, 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 7.

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 non-controlling interests and the difference between the consideration received and the related proportion of non-controlling 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, 2018 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, 2018, the aforementioned restatement had an impact of EThs 250 (EThs 269 in 2017) on the net carrying amount of property, plant and equipment. Consequently, the effect of this restatement on the provision for the year 2018 is EThs 19 (EThs 19 in 2017).

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 factors that indicate any possible impairment exist.

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 allocated 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 that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). The possible reversal of impairment losses on non-financial assets other than goodwill is reviewed on 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 be recognized in consolidated profit and loss.

2.11 Derivative financial instruments and hedging activity

The Group occasionally maintains commitments of insignificant value in foreign currency 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 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 or asset 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, assembly and export 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 numbers 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, 2017, with no significant effect on the Group's financial statements.

<u>IAS 7 (Amendment) "Disclosure Initiative – Amendments to IAS 7"</u>: An entity must disclose information that allows users to understand the changes in liabilities arising from financing activities. This includes changes arising from:

- Cash flows, such as withdrawals and loan repayments; and
- Non-cash changes, such as acquisitions, disposals and unrealized exchange rate differences.

Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

Additionally, the new disclosure requirement also relates to changes in financial assets (for example, assets hedging liabilities arising from financing activities) if the cash flows from those assets were, or future cash flows will be, included in the cash flows from financing activities.
The amendment suggests that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, although it does not establish a specific format.

<u>IAS 12 (Amendment) "Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12":</u> The amendments to IAS 12 clarify the requirements for recognizing deferred tax assets for unrealized losses. The amendments clarify the accounting treatment of the deferred tax when an asset is measured at fair value and that fair value is lower than the asset's tax base.

<u>Annual Improvements to IFRS. Cycle 2014 – 2016.</u> The amendments affect IFRS 12 "Disclosure of Interests in Other Entities" and apply to the annual periods commencing on or after January 1, 2017. The main amendment relates to a clarification of the scope of the Standard.

The Group has been applying these rules to transactions since December 1, 2017, with no significant effect on the Group's financial statements.

b.- Standards that have not yet come into force, but which may be adopted earlier than the periods beginning on or after January 1, 2017, for which we have not yet identified any significant effects on the financial statements in the period in which they are adopted:

<u>IFRS 15 "Revenue from Contracts with Customers":</u> 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.

Therefore, the Group has evaluated and elected early application of this Standard.

The Group has applied the standard retrospectively with the cumulative effect of initial application thereof recognized as of the initial application date.

The main impacts of applying the Standard to the annual financial information are shown below:

	2018(*)	2018 (**)
Initial reserves 12.01.2017	440 992	440 827
Profit for period	146 659	146 301
Total assets	722 792	723 434

(*) Figures before including impacts of early application of IFRS 15 “Revenue from Contracts with Customers” in the period 2018.
(**) Including impacts of early application of IFRS 15 “Revenue from Contracts with Customers” in the period 2018.

IFRS 4 (Amendment) “Application of IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” – Amendments to IFRS 4”: The amendments to IFRS 4 published by the IASB in September 2016 introduced two optional approaches for insurance companies. Not applicable to the Zardoya Otis Group.

IFRS 16 “Leases”: This was issued in January 2016. It will mean that almost all leases are recognized in the statement of financial position, since the distinction between operating leases and finance leases is removed. Under the new Standard, an asset (the right to use the leased item) is recognized, with a financial liability for the lease payments. The only exceptions are short-term, low-value leases.

The Standard will affect principally the accounting of the Group’s operating leases. At the end of 2018, the Group held operating lease commitments of ETHs 9 918 (EThs 9 572 in 2017). However, the Group has not yet determined the extent to which these commitments will result in recognition of an asset and a liability for future payments or how this will affect the Group’s profits and the classification of the cash flows.

Some of the commitments may be covered by the exception for short-term, low-value leases, while other commitments may be related to agreements that would not classify as leases under IFRS 16.

The Standard is mandatory for the first interim period in the annual financial periods commencing on or after January 1, 2019. The Group does not intend to adopt the Standard before it comes into force.

IFRS 9 “Financial Instruments” refers to the classification, measurement and derecognition of financial assets and liabilities, introduces new hedge accounting rules and a new financial asset impairment model. The Group has decided not to adopt IFRS 9 until it becomes mandatory on December 1, 2018.

The Group does not expect the new guidance to have a material effect on the classification and measurement of its financial assets for the following reasons:

- The Group does not currently hold any debt instruments classified as available for sale.

- Equity investments currently held at fair value through profit and loss will continue to be measured on the same basis under IFRS 9.

- Debt instruments currently classified as held-to-maturity and measured at amortized cost appear to meet the requirements to be classified at amortized cost under IFRS 9.

Additionally, in 2018, transitional guidance was published on the interpretation of international standards that have not yet come into force and have not been adopted early by the Group.

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, 2018.

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 eight 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 addition to the aforementioned exposure concerning the investment in Otis Maroc, S.A., in relation to export and import trading transactions, the Group is exposed to exchange rate risk, which is not significant. At November 30, 2018, there were balances payable in foreign currencies other than the euro for a value equivalent to EThs 1 030 (EThs 1 003 in 2017).

(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, 2018, said provision was EThs 85 184 (EThs 89 041 in 2017) (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, 2018 and 2017 is as follows:

	2018	**2017**
Between 6 months & 1 year	8 525	11 817
Between 1 & 2 years	8 799	8 055
More than 2 years		-
EThs	17 324	19 872

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

As stated in Note 10, at November 30, 2018 and 2017, the Group held short-term deposits with financial institutions of EThs 17 726 and EThs 16 034, 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, 2018, cash and cash equivalents represented EThs 56 445 (EThs 60 854 in 2017), 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:

	2018	2017
Cash at beginning of period	**60 854**	**62 344**
Cash flows from operating activities	161 902	163 871
Cash flows from investing activities	(15 354)	(13 392)
Cash flows from financial activities	(150 957)	(151 969)
Cash at end of period	**56 445**	**60 854**

(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 arises 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 2018 and 2017 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.

	2018	**2017**
Borrowings (current and noncurrent)	290	323
Other current & noncurrent financial liabilities	10 471	7 675
Cash and cash equivalents	(56 445)	(60 854)
Net financial debt	(45 684)	(52 856)
Equity	434 355	440 992
Leverage (*)	**-0.11**	**-0.14**

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

At November 30, 2018, this net debt represented -0.2192 of EBITDA (-0.2756 at the end of 2017). (EBITDA: operating profit + amortization + depreciation + impairment of fixed assets).

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 market leaders, 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 set out 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.

2018	Sales	Operating profit	Assets: Total	Assets: Amortization/ depreciation charge	Assets: Noncurrent investments in assets	Liabilities
Zardoya Otis Group – Spain	703 874	165 799	600 728	19 675	22 943	229 180
Otis Elevadores Group and Enor - Portugal	60 354	21 252	76 165	485	276	26 478
Otis Maroc – Morocco	20 206	2 279	46 541	363	2 688	33 421
Elimination intra-group transactions	(13 699)	(1 201)	-	-	-	-
Consolidated	784 434	188 129	723 434	20 523	25 907	289 079

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

Additionally separate information on the parent company and subsidiaries is shown below:

2018	Sales	Operating profit	%	Fixed assets acquired
Zardoya Otis S.A.	583 880	133 804	22,92	5 315
Spanish Group companies - (16 companies)	169 293	31 666	18,70	17 628
Otis Group & Enor Elevadores – Portugal	60 354	21 581	35,76	276
Otis Maroc – Morocco	20 206	2 279	11,28	2 688
Group total	833 733	189 330	22,71	25 907
Eliminations – intra-group transactions	(55 451)	(1 201)	-	-
Consolidated	778 282	188 129	24,17	25 907

2017	Sales	Operating profit	%	Fixed assets acquired
Zardoya Otis S.A.	590 223	154 155	25,93	5 903
Spanish Group companies - (15 companies)	155 731	25 751	16,54	4 262
Otis Group & 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

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, 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)
	(144)	(326)	(37)	(507)
As of November 30, 2017				
Cost	61 867	30 187	68 248	160 302
Accumulated depreciation	(15 909)	(24 543)	(59 757)	(100 209)
Impairment loss	-	-	-	-
Net carrying amount	**45 958**	**5 644**	**8 491**	**60 093**
2018				
Business combinations (Note 33)	-	-	120	120
Increases	3 078	773	3 381	7 532
Decreases	(1 287)	(2 242)	(1 061)	(4 590)
Depreciation charge	(1 504)	(1 681)	(2 132)	(5 318)
Eliminations from depreciation	958	2 279	1 059	4 296
Impairment losses recognized in period	-	-	-	-
Impairment losses reversed	-	-	-	-
Other movements	(7)	-	-	(7)
	1 238	(871)	1 666	2 033
As of November 30, 2018				
Cost	63 658	28 718	70 988	163 364
Accumulated depreciation	(16 462)	(23 945)	(60 831)	(101 238)
Impairment loss	-	-	-	-
Net carrying amount	**47 196**	**4 773**	**10 157**	**62 126**

The property, plant and equipment figures include assets in progress for a total value of EThs 2 511 in 2018 and EThs 714 in 2017.

The principal property, plant and equipment consists of buildings and installations related to the Leganés plant (2008) for EThs 24 112 (EThs 24 130 in 2017) 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 12 613 (ETHs 13 248 in 2017).

At November 30, 2018 and 2017, the following items of property, plant and equipment had been fully depreciated:

	Thousands of euros	
	2018	**2017**
Land and buildings	4 691	5 476
Vehicles and machinery	35 305	29 786
Furniture, fittings and equipment	18 958	29 042
ETHs	58 954	64 304

Of the total property, plant and equipment net of depreciation, the value of which is ETHs 62 126, a total of ETHs 519 is in Portugal and a total of ETHs 2 873 in Morocco (ETHs 449 and ETHs 549, respectively, in 2017). 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, 2018 and 2017 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, 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**
2018				
Increases	511	-	1 894	2 405
Business combinations (Note 33)	9 211	6 526	-	15 737
Decreases	(167)	-	-	(167)
Amortization charge	(13 311)	-	(1 894)	(15 205)
Eliminations from amortization	167	-	-	167
Other	(1 825)	-	(26)	(1 852)
	(5 414)	6 526	(26)	1 086

As of November 30, 2018

Cost	329 301	161 131	19 553	509 985
Accumulated amortization	(162 980)	-	(13 566)	(176 546)
Impairment loss	-	(8 054)	-	(8 054)
Net carrying amount	**166 321**	**153 077**	**5 987**	**325 385**

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 2018 and 2017, several transactions with non-controlling interests and mergers between Group companies took place, 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, 2018 and 2017, goodwill with an indefinite useful life was allocated to the Group's cash generating units (CGUs) as follows:

	2018	**2017**
Zardoya Otis Group (Spain)	124 290	117 764
Zardoya Otis Group (Portugal)	13 168	13 168
Zardoya Otis Group (Morocco)	15 619	15 619
EThs	**153 077**	**146 551**

At November 30, 2018 and 2017, maintenance contracts with defined useful lives were allocated to the Group's cash generating units (CGUs) as follows:

	2018	**2017**
Zardoya Otis Group (Spain)	159 650	164 184
Zardoya Otis Group (Portugal)	6 671	7 284
Zardoya Otis Group (Morocco)	-	267
EThs	**166 321**	**171 735**

In 2018 and 2017, the Group carried out the 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 2018, a maximum annual growth rate of 2.9% (2.9% in 2017) was used and the perpetuity rate was 2% (2% in 2017). The discount rate applied was 6.12% (2017: 6.01%) for the Spain CGU, 8.59% (2017: 8.39%) for the Portugal CGU and 8.43% (2017: 8.13%) 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 2018 and 2017, 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 the goodwill of this CGU suffered impairment in the period 2015 and, therefore, would be the best adjusted.

Period 2018: (millions of euros)

	Growth				
Discount rate	**1.00%**	**1.50%**	**2.00%**	**2.50%**	**3.00%**
10.50%	28.8	30.0	31.3	32.8	34.5
9.00%	34.5	36.3	38.3	40.7	43.4
8.43%	37.3	39.4	41.8	44.7	48.0
8.00%	39.6	42.0	44.9	48.3	52.3

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 2018, the trade and other payables heading included an obligation of ETHs 12 696 (2017: 12 535) 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 2018, the change in liabilities was recognized in the consolidated income statement as financial income and expenses of ETHs 161 (ETHs 320 in 2017).

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 2018 and 2017 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 allocated are as follows:

ETHs period 2018	Zardoya Otis Group Spain	Zardoya Otis Group Portugal	Zardoya Otis Group Morocco	Total
Maintenance contracts	159 650	6 671	-	166 321
Goodwill	124 290	13 168	15 619	153 077
Other intangible assets	5 987	-	-	5 987
Property, plant & equipment	58 734	519	2 873	62 126
Other noncurrent assets	31 761	795	-	32 556
Current assets	220 306	55 012	28 049	303 367
Total assets	**600 728**	**76 165**	**46 541**	**723 434**
Noncurrent liabilities	34 940	1 306	-	36 246
Current liabilities	201 494	25 172	26 167	252 833
Total liabilities	**236 434**	**26 478**	**26 167**	**289 079**
Net assets	**371 932**	**42 049**	**20 374**	**434 355**

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**

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, 2018					
Noncurrent assets in statement of financial position					
Loans and receivables (Note 8)	7 626	-	-	-	7 626
Other	733	-	-	-	733
Total	**8 359**	**-**	**-**	**-**	**8 359**
November 30, 2018					
Current assets in statement of financial position					
Trade and other receivables	205 922	-	-	-	205 922
Other	263	-	-	-	263
Cash and cash equivalents (Note 10)	56 445	-	-	-	56 445
Total	**262 630**	**-**	**-**	**-**	**262 630**

	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**

	Liabilities held at fair value through profit and loss	Hedging derivatives	Other financial liabilities at amortized cost	Total
November 30, 2018				
Noncurrent liabilities in statement of financial position				
Borrowings from financial institutions (Note 20)	-	-	-	-
Trade and other payables	-	-	-	-
Other debts through acquisitions (Note 16)	-	-	1 843	1 843
Total	**-**	**-**	**1 843**	**1 843**
November 30, 2018				
Current liabilities in statement of financial position				
Borrowings from financial institutions (Note 20)	-	-	290	290
Trade and other payables (Note 16)	-	-	197 637	197 637
Other debts through acquisitions (Note 16)	-	-	8 965	8 965
Total	**-**	**-**	**206 892**	**206 892**

	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**

8. Trade and other receivables

		2018	**2017**
Trade receivables		194 855	204 113
Less: Provision for impairment of receivables		(85 184)	(89 041)
Trade receivables– Net		109 671	115 072
Amount due from customers for contract work		28 409	27 115
Other receivables		8 839	8 193
Public authorities (Note 17)		7 387	14 008
Prepayments		521	695
Receivables from related parties (Note 34)		45 339	36 322
Total	EThs	213 309	201 405

The total amount of the costs incurred at the reporting date was ETHs 128 582 (2017: ETHs 90 165). This amount includes recognized profits (less recognized losses) on all contracts in progress for ETHs 2 038 (2017: ETHs 5 344). 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 87 030 (ETHs 63 050 in 2017). At November 30, 2018, the trade receivables balance showed an amount of Eths 3 398 (2017: ETHs 2 797) relating 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:

		2018	2017
Beginning of period		89 040	94 659
Provision made		1 791	2 044
Applications		(3 167)	(4 121)
Reversal of unused provisions		(2 480)	(3 542)
	ETHs	85 184	89 040

The provisions and applications are included on the income statement under the heading "Other expenses, net". The net provision made in the period 2018 was -0.18% of Group sales (2017: -0.27%).

To provide further detail, the following is a summary of unimpaired receivables overdue by less and more than 6 months:

2018

Thousands of euros	Total	Impaired	Net	Not yet due	Due but not impaired
Less than 6 months	113 418	(20 998)	92 421	47 945	44 476
Between 6 months and 1 year	11 931	(3 405)	8 525	-	8 525
Between 1 and 2 years	27 212	(18 487)	8 725	-	8 725
More than 2 years	2 315	(2 315)	-	-	-
In litigation	39 979	(39 979)	-	-	-
Total	194 855	(85 184)	109 671	47 945	61 726

2017

Thousands of euros	Total	Impaired	Net	Not yet due	Due but not impaired
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

For 2018 and 2017, 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 3 790 (EThs 3 984 in 2017). The breakdown by years until maturity is as follows:

	2018	2017
Two years	3 079	3 440
Three years	583	442
More than three years	128	102
EThs	3 790	3 984

9. Inventories

	2018	2017
Raw materials and consumables for production	27 657	29 125
Work in progress	5 693	4 533
EThs	33 350	33 658

10. Cash and cash equivalents

	2018	2017
Cash and banks	38 719	44 820
Current deposits with financial institutions	11 726	16 034
Cash deposits with related entities	6 000	-
EThs	56 445	60 854

The effective interest rate on current deposits with financial institutions was 0.02% (2017: 0.02% and 0.05%) and the average term of these deposits was less than one month.

As of November 30, 2018 and 2017, the Company did not hold any restricted amounts in banks.

As of November 30, 2018, the cash and cash equivalents heading included EThs 6 000 (2017: zero) for a cash deposit placed by Zardoya Otis, S.A. with United Technologies Intercompany Lending Ireland Designated Activity Company and United Technologies Corporation (parent of Otis Elevator Company). Deposits with group companies were cash placements maturing at 30 days, which accrued an average interest rate of 0.01%, approximately 0.01 percentage points higher than the usual market rate.

Cash and borrowings include:

	2018	2017
Cash and cash equivalents	56 445	60 854
Borrowings: utilization of bank credit (Note 20)	290	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 2018 reporting date, total current borrowings balance include EThs 290 (2017: 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
As of November 30, 2016	470,464,311	470,464,311	470,464,311
As of November 30,2017	470,464,311	470,464,311	470,464,311
As of November 30,2018	470,464,311	470,464,311	470,464,311

	Shares		% interest	
Titular	2018	2017	2018	2017
United Technologies Holdings, S.A.	235,279,377	235,279,377	50.01	50.01
Euro-Syns, S.A.	55,015,423	54,392,423	11.69	11.56
Other non-controlling interests	180,169,511	180,792,511	38.30	38.43
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.

All the shares of Zardoya Otis, S.A. are listed on the Madrid, Bilbao, Barcelona and Valencia Stock Exchanges.

12. Treasury stock

At November 30, 2018, Zardoya Otis, S.A. did not hold any of its own shares (zero at the end of 2017).

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, 2018 and 2017 are as follows:

		2018	2017
Parent company of Group			
Zardoya Otis S.A.	EThs	10 162	9 785
Subsidiaries			
Ascensores Ingar, S.A.		13	13
Ascensores Serra, S.A.		48	48
Cruxent-Edelma, S.L.		24	24
Mototracción Eléctrica Latierro, S.A.		-	-
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	-	-
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 2017 (merged in 2017)	-	1
Companies acquired in 2018 (in process of merger)	5	-

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

EThs	Consolidated companies	Other reserves	Total
As of November 30, 2016	**85 735**	**149 399**	**235 134**
Profit 2016	38 607	41 197	79 804
Dividends paid in the period	(39 352)	-	(39 352)
Capital increase	-	-	-
Other movements	806	-	806
As of November 30, 2017	**85 796**	**190 596**	**276 392**
Profit 2017	43 806	39 001	82 642
Dividends paid in the period	(43 186)	(37 637)	(80 823)
Application IFRS 15	-	(165)	(165)
Other movements	(1 788)	-	(1 788)
As of November 30, 2018	**84 463**	**191 795**	**276 258**

Details by company of reserves in consolidated companies and other reserves as of November 30, 2018 and 2017 are as follows:

Company	2018	2017
Zardoya Otis S.A.	214 347	209 939
Ascensores Ingar, S.A.	(5 837)	(6 262)
Ascensores Serra, S.A.	1 166	1 166
Cruxent-Edelma, S.L.	(13 077)	(12 129)
Grupo Otis Elevadores (Portugal)	31 376	37 376
Puertas Automáticas Portis, S.L.	6 452	6 469
Zardoya Otis (Gibraltar) Limited	59	34
Ascensores Pertor, S.L.	5 453	6 441
Conservación de Aparatos Elevadores Express, S.L.	19 175	17 893
Acresa Cardellach, S.L.	26 835	26 041
Ascensores Aspe S.A. (subsidiary of Eguren S.A.)	(3 488)	(2 888)
Otis Maroc, S.A.	5 257	4 502
Montes Tallón S.L.	(3 553)	(3 027)
Electromecánica Hemen Elevadores, S.L.	524	1 048
Companies acquired in 2016	451	97

Enor companies	11	(349)
IFRS adjustments	(9 959)	(9 959)
	276 258	279 407

Details of non-controlling interests by company as of November 30, 2018 and 2017 are as follows:

	Non-controlling interests		Dividends paid	
Company	**2018**	**2017**	**2018**	**2017**
Ascensores Serra, S.A.	768	836	482	466
Ascensores Pertor, S.L.	932	1 151	201	195
Acresa Cardellach, S.L.	1 227	1 355	71	96
Montes Tallón S.L.	6 653	6 790	-	-
Masel Otis Elevadores de Madeira, Lda	939	1 294	709	319
Soluciones de Accesibilidad LV3 SL	127	-	-	-
EThs	10 646	11 426	1 463	1 076

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:

	2018		2017	
Company EThs	**Consolidated profit**	**Attributable to non-controlling interests**	**Consolidated profit**	**Attributable to non-controlling interests**
Zardoya Otis S.A.	109 208	-	117 481	-
Ascensores Ingar, S.A.	265	-	425	-
Ascensores Serra, S.A.	1 672	418	1 946	487
Cruxent-Edelma, S.L.	2 026	-	1 643	-
Grupo Otis Elevadores (Portugal)	15 619	355	14 831	410
Puertas Automáticas Portis, S.L.	3 641	-	2 515	-
Zardoya Otis (Gibraltar) Limited	264	-	32	-
Ascensores Pertor, S.L.	2 523	113	2 236	131
Conservación de Aparatos Elevadores Express, S.L.	2 033	-	2 843	-
Acresa Cardellach, S.L.	2 739	63	2 898	94
Otis Maroc, S.A.	1 550	-	1 404	-
Ascensores Aspe S.A.	453	-	413	-
Montes Tallón, S.A.	(427)	(393)	(526)	(379)
Enor	3 935	-	3 792	-
Electromecánica y Ascensores Hemen	145	-	360	-
Acquisitions 2018 & 2017	85	14	451	-
EThs	**145 731**	**570**	**152 744**	**743**

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:

		2018	2017(*)
Available for distribution			
Profit for the period		148 874	152 289
	EThs	148 874	152 289
Distribution			
Legal reserve		376	377
Reserve for goodwill		-	-
Other reserves		35 586	39 001

Dividends	112 911	112 911
EThs	148 874	152 289

(*) Distribution of the 2017 profit approved by the General Shareholders' Meeting of Zardoya Otis, S.A. on May 23, 2018.

16. Trade and other payables

	2018	2017
Trade payables	42 333	34 160
Payables to related parties (Note 34)	9 689	10 318
Other payables	4 251	13 776
Goods received but not invoiced	16 799	8 572
Notes payable	144	146
Amounts due to customers on work in progress (Note 8)	55 871	43 815
Maintenance billing in advance	21 514	24 272
Acquisition commitments (Note 7)	8 965	5 027
Other payables to public authorities (Note 17)	26 324	23 393
Outstanding employee remuneration	29 291	27 184
Other	17 745	25 881
EThs	232 926	216 544

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 986 (2017: EThs 879).

At November 30, 2018 and 2017, 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 12 696 (2017: EThs 12 535).

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

2018

	Current	2020	2021/22	Noncurrent
Acquisitions 2017 & earlier	2 139	254	255	509
Acquisitions 2018	6 826	499	835	1 334
EThs	8 965	753	1 090	1 843

2017

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

Summary of the 2018 debt:

	Current	Noncurrent
Acquisitions until 2018		
Acquisitions CGU Spain	8 538	1 843
Acquisitions CGU Portugal	427	-
Acquisitions CGU Morocco	-	-
	8 965	**1 843**

Summary of the 2017 debt::

	Current	Noncurrent
Acquisitions until 2017		
Acquisitions CGU Spain	4 360	1 946
Acquisitions CGU Portugal	667	427
Acquisitions CGU Morocco	-	-
	5 027	**2 648**

Company acquisition agreements in force at November 30, 2018 and 2017 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 2018 reporting period, total payments of ETHs 353 289 were made to suppliers (2017: ETHs 363 766), complying with the aforementioned legislation.

	2018	2017
	Days	**Days**
Average payment period to suppliers	50	55
Ratio of transactions paid	51	55
Ratio of transactions outstanding	43	50
	Euros	**Euros**
Total payments made	353 289	363 766
Total payments outstanding	42 333	34 160

17. Public Treasury

	2018	2017
Debit balances		
Social security	-	46

		2018	2017
Withholding tax on investment income		617	361
Public Treasury, VAT payable		410	387
Public Treasury, input VAT		5 746	5 778
Prior years taxes		614	7 436
	EThs	7 387	14 008
Credit balances			
Provision for corporate income tax		48 150	50 533
Payments on account of corporate income tax		(38 773)	(42 677)
	EThs	9 377	7 856
Public Treasury, withholdings operated		2 924	3 091
Public Treasury, VAT due		6 524	2 320
Public Treasury, output VAT		6 039	7 636
Social Security		10 837	10 346
	EThs	26 324	23 393

18. Deferred taxes

		2018	**2017**
Deferred tax assets			
to be recovered after more than 12 months		23 517	23 395
to be recovered within 12 months		680	599
	EThs	24 197	23 994
Deferred tax liabilities			
to be recovered after more than 12 months		22 105	22 712
to be recovered within 12 months		1 567	1 551
	EThs	23 672	24 263

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, 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	11 037	6 226	6 731	23 994
P&L impact	(138)	274	67	203
Change in statutory rate	-	-	-	-
Business combinations	-	-	-	-
As of November 30, 2018	10 899	6 500	6 798	24 197

Deferred tax liabilities	**Welfare commitments**	**Amortization intangible assets**	**Other**	**Total**
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
P&L impact	-	(2 894)	-	(2 894)
Change in statutory rate	-	-	-	-
Business combinations (Note 33)	-	2 303	-	2 303
As of November 30, 2018	-	23 672	-	23 672

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 1 596 (2017: ETHs 1 978) 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.

	2018	2017
Obligations (Asset) on consolidated statement of financial position		
Current employees	(3 836)	(4 141)
	(3 836)	(4 141)

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

	2018	2017
Present value of the obligations financed	38 447	38 920
Fair value of plan assets	(42 283)	(43 061)
Liability (Asset) in statement of financial position	(3 836)	(4 141)

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, 2016	39 843	(42 516)
Service cost	2 233	-
Interest cost	679	-
Return on plan assets	-	(732)
Payments to beneficiaries	(806)	805
Contributions	-	(433)
Actuarial losses / gains	(2 712)	(301)
Settlements	(317)	116
As of November 30, 2017	38 920	(43 061)
Service cost	2 106	-
Interest cost	589	-
Return on plan assets	-	(690)
Payments to beneficiaries	(743)	743
Contributions	-	(857)
Actuarial losses / gains	(1 773)	1 338
Settlements	(652)	243
As of November 30, 2018	38 447	(42 284)

The principal actuarial assumptions used were as follows:

	2018	**2017**
The discount rate varies, depending on the length of the obligation, between	1.52%-1.58%	1.52%-1.58%
Mortality tables	PERMF 2000P	PERMF 2000P
Wage increase	2.15%	2.15%
Estimated average early retirement age	65 to 67 years	65 to 67 years

The amounts recognized in profit and loss were as follows:

	2018	**2017**
Current service cost	2 106	2 233
Interest cost	589	679
Expected return on plan assets	(690)	(732)
Settlements	(409)	(201)
Actuarial (gains) / losses	-	-
Total included in employee benefit expenses (income) (Note 23)	**1596**	**1 978**

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

The amounts of the present value of obligations for defined benefits and the fair value of plan assets for the 2018 reporting period and the preceding three annual periods are as follows:

	2018	2017	2016	2015
Present value of obligations financed	38 447	38 920	39 843	36 058
Fair value of plan assets	(42 284)	(43 061)	(42 516)	(40 630)

The Group's best estimate of the contributions to be paid in the year ending November 30, 2019 is ETHs 1 984 (2018: EThs 2 005).

The actuarial gains and losses shown in the statement of recognized income and expenses, recognized in equity for an actuarial gain of EThs 433 (actuarial loss of EThs 3 013 in 2017), relate principally to the effects of experience with the group on which the calculation was based and are the sum of an actuarial gain of EThs 370 (2017: actuarial loss of EThs 243); and an actuarial gain of 34 EThs (2017: actuarial gain of EThs 3 023), attributable to wage deviations and Social Security variables, which differed from expectations, and an actuarial gain of EThs 29 (2017: EThs 233) 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 698 (EThs 649 in 2017).

20. Borrowings

At November 30, 2018 and 2017, 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.

2018:

	Current	2019	2020	Noncurrent
Borrowings from financial institutions	155	-	-	-
Other	135			
EThs	290	-	-	-

2017:

	Current	2018	2019	Noncurrent
Borrowings from financial institutions	155	-	-	-
Other	168			
EThs	323	-	-	-

At November, 30 2018 financial assets of EThs 41 964 (EThs 33 831 in 2017) (trade receivables) that had been derecognized because the risks of default and delinquency had been transferred.

21. Provision for other liabilities and expenses

	2018	2017
Noncurrent		
Other commitments with employees	10 731	10 084
Current		
Litigations: customer transactions	201	133
Guarantees	8 638	9 827
Chamber of Commerce and other taxes	1 401	701
EThs	10 240	10 661

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, 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**
Provisions/(reversals) in income statement	647	68	(1 189)	700
Amounts used				
Other	-	-	-	-
As of November 30, 2018	**10 731**	**201**	**8 638**	**1 401**

22. Revenue

		2018	2017
Services provided		550 024	544 674
Revenue from construction contracts		56 535	48 754
Exports		177 239	184 167
Other sales		636	687
Total revenue	EThs	784 434	778 282

23. Employee benefit expenses

		2018	2017
Wages and salaries		185 283	178 558
Social security and other		67 447	65 996
Employee benefit commitments		1 596	1 978
	EThs	254 326	246 532

Social security and other includes severance payments to employees of EThs 3 391 in 2018 (2017: EThs 2 974).

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 2018 was EThs 601 (2017: EThs 660).

24. Raw materials and consumables used

		2018	2017
Materials and subcomponents for installations and services		317 089	305 866
Elimination of intra-group transactions		(53 860)	(45 480)
Change in inventories		1 468	(3 010)
	EThs	264 697	257 376

25. Other net expenses

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

		2018	2017
Leases		16 685	18 027
Repairs and maintenance		2 736	2 472
Insurance premiums		382	194
Advertising and publicity		2 271	2 425
Transport		13 236	12 236
Supplies and other services		18 040	16 709
Independent professionals		2 271	2 843
Subcontracting		3 239	1 355
Other		817	808
Impairment of receivables (Note 8)		(1 376)	(2 077)
	EThs	58 301	54 992

26. Net financial expenses and income

		2018	2017
Interest expense:			
– Loans from financial institutions		(378)	(394)
		(378)	(394)
Interest income:			
– Bank deposits		162	621
		162	621
Net foreign exchange gains / (losses)		66	70
	EThs	(150)	297

27. Income tax

		2018	2017
Profit before tax		191 428	201 314
Permanent differences:		(815)	1 704
Profit from foreign companies		(23 861)	(22 610)
Other differences			
Prior period temporary differences in respect of which the relevant deferred tax asset was not recognized		(9 592)	(15 804)
Temporary differences arising in the period in respect of which the relevant deferred tax asset has not been recognized		-	-
Adjusted profit before tax		157 160	164 604
Temporary differences arising in the period in respect of which the relevant deferred tax asset is recognized		(2 796)	(3 155)
Taxable income		154 364	161 449
Gross tax payable		38 591	40 362
Tax credits		(486)	(514)
Other differences and tax assessment raised		700	2 013
Net corporate income tax expense, foreign companies		6 322	5 966
Change in statutory rate			
Corporate income tax expense	EThs	**45 127**	**47 827**

The deferred tax asset accumulated at November 30, 2018 was EThs 24 197 (EThs 23 994 in 2017). 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 23 697 (EThs 24 263 in 2017) relating to differences generated by goodwill.

Deductible temporary differences relate principally to welfare commitments of EThs 10 899 (2017: 11 037), which are expected to be offset as follows:

Period 2019: EThs 629
Period 2020: EThs 525
Period 2021: EThs 508
Period 2022: EThs 552
Period 2023: EThs 474
Period 2024: EThs 433
Rest of periods: EThs 7 778.

At the reporting date, EThs 38 774 (EThs 42 677 in 2017) had been paid on account of the final corporate income tax payable. Corporate income tax expense included EThs 3 097 of revenue from deferred taxes (EThs 4 740 of revenue from deferred taxes in 2017) (Note 18).

The effective tax rate for Otis Elevadores, Lda. (Portugal) is 26.15% and that of Otis Maroc, S.A., 30.00% (26.66% and 23.00% in 2017, respectively), while corporate income tax expense for 2018 was EThs 5 658 and EThs 664, respectively (EThs 5 542 and 423 in 2017).

In relation to Zardoya Otis, S.A., tax inspections concluded in 2017 with no material 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. No event that could dilute the earnings per share has occurred.

	2018	2017
Profit attributable to equity holders of the Company	145 731	152 744
Weighted average number of ordinary shares in issue during the year	470 464 311	470 464 311
Weighted average number of treasury shares	-	-
Basic earnings per share	0.31	0.32

29. Dividends and partial cash distribution of share premium

In 2017 and 2018, 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 period 2017. Declared on March 21, 2017 and paid out on April 10, 2017. Shares: 470,464,311 (Treasury stock: zero) Gross total = 36,637,144.88 euros	37 637
Partial distribution of share premium: 0,080 euros gross per share. Declared on May 24, 2017 and paid out on July 10, 2017. Shares: 470,464,311 (Treasury stock: zero) Gross total = 36,166,680.57 Euros	37 166
2nd Dividend 0.080 euros gross per share, charged to the period 2017. Declared on September 18, 2017 and paid out on October 10, 2017. Shares: 470,464,311 (Treasury stock: zero) Gross total = 36,637,144.88 euros	37 637
Dividend at end of period	112 440
3rd Dividend 0.080 euros gross per share, charged to the period 2017. Declared on December 12, 2017 and paid out on January 10, 2018. Shares: 470,464,311 (Treasury stock: zero) Gross total = 36,637,144.88 euros	37 637
TOTAL 2017	150 077

In 2018, three quarterly dividends were paid and there was a partial monetary distribution of the share premium, as follows:

1st Dividend 0.080 euros gross per share, charged to the period 2018. Declared on March 20, 2018 and paid out on April 10, 2018. Shares: 470,464,311 (Treasury stock: zero) Gross total = 36,637,144.88 euros	37 637
Dividend charged to reserves: 0.080 euros gross per share. Declared on May 23, 2018 and paid out on July 10, 2018. Shares: 470,464,311 (Treasury stock: zero) Gross total = 36,637,144.88 euros	37 637
2nd Dividend 0.080 euros gross per share, charged to the period 2018. Declared on September 14, 2018 and paid out on October 10, 2018. Shares: 470,464,311 (Treasury stock: zero) Gross total = 36,637,144.88 euros	37 637
Dividend at end of period	112 911
3rd Dividend 0.080 euros gross per share, charged to the period 2018. Declared on December 11, 2018 and paid out on January 10, 2019. Shares: 470,464,311 (Treasury stock: zero) Gross total = 36,637,144.88 euros	37 637
TOTAL 2018	150 548

In relation to the interim dividends distributed by Zardoya Otis, S.A. in the year 2018, 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, 2017	48 060	140 557	184 451
Estimate of corporate income tax payable	(8 651)	(25 920)	(35 577)
Available net profit	39 409	114 637	148 874
Amount distributed previously	-	37 637	75 274
Amount proposed and distributed	37 637	37 637	37 637
Liquidity in cash	25 715	49 597	24 341
Temporary financial investments	-	-	-
Current trade bills receivable	23 737	23 121	21 780
Current loans	14 903	153	13 178
Net liquidity	64 355	72 871	59 299

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:

	2018	**2017**
Profit before tax	191 428	201 314
– Depreciation of property, plant and equipment (Note 5)	5 317	4 653
– Amortization of intangible assets (Note 6)	15 205	15 305
– (Profit)/loss on disposals of property, plant and equipment	3 581	127
– Increase/(reduction) in retirement benefit obligations	(304)	1 468
– Interest paid (Note 26)	(378)	(394)
– Interest received (Note 26)	162	621
– Losses/(gains) on foreign currency conversion in operating activities (Note 26)	(66)	(70)
Changes in working capital (excluding the effects of the acquisition and foreign exchange differences upon consolidation):		
– Inventories	308	(2 810)
– Trade and other receivables	(10 294)	(11 568)
– Trade and other payables	3 251	3 052
Tax payment for the period	(46 004)	(47 827)
Cash generated by operations	**161 902**	**163 871**

31. Contingencies

The Group has contingent liabilities in respect of bank and other guarantees 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 11 418 (2017: EThs 15 833).

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 was filed before the Supreme Court.

The Supreme Court has dismissed the appeal filed by Zardoya Otis, confirming the National Court's judgment (which had confirmed the infringement but ruled that the fine was excessive and should be recalculated). The proceedings have, therefore, returned to the CNMC so that they can be analyzed and the fine recalculated.

32. Commitments

Asset purchase commitments

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

EThs	2018	2017
Property, plant and equipment	2 062	975

At the reporting date, there were purchase commitments for property, plant and equipment of EThs 2 062 (EThs 975 in 2017), EThs 1 880 of which (EThs 714 in 2017) 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:

	2018	2017
Premises leased	3 716	3 566
Other	6 202	6 006

33. Business combinations

2018:

In 2018, companies belonging to the Zardoya Otis Group (Spain) CGU acquired 100% of the shares of the companies Ascensores Limarlift S.L (April 5, 2018), Integra Ascensores SL (June 26, 2018), Elko sistemtes d´elevacion sl (September 11, 2018) and Euroascensores Alcaraz SL (November 26, 2018), all of which are engaged in the elevator maintenance and repair activity. Likewise, 80% of Soluciones de accessibilidad LV3 S.L. was acquired (April 16, 2018). This company is engaged in the elimination of architectural barriers and providing accessibility solutions using stair lifts and platforms, all of them for a total acquisition value of EThs 14 802.

The detail of the assets and the integrated liabilities is the following

Cash and cash equivalents	1 191
Property, plant & equipment	120
Intangible assets	9 211
Receivables	1 121
Inventories	413
Deferred tax assets	-

Payables	1 478
Deferred tax liabilities	2 303

A difference of EThs 6 526 arose as goodwill.

2017:

Companies belonging to the CGU Zardoya Otis Group (Spain) 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.

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	**2018**	**2017**
Transactions with Otis Elevator Co		
Royalties	(19 388)	(18 407)
Charge-back of costs relating to the R&D Center	3 852	3 899
Transactions with Otis Group company, sales and purchases of goods and services		
Sales and expenses invoiced	169 667	170 542
Purchases and expenses borne	(48 014)	(49 884)
Receivables	45 339	36 322
Payables	(9 689)	(10 318)

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 customers, 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). For 2018, the expense was EThs 601 (EThs 660 in 2017), relating to the fair value of the accumulated assets to which it is indexed, which was EThs 6 002 (EThs 4 554 in 2017).

As of November 30, 2018, the cash and cash equivalents heading included EThs 6 000 (2017: zero) relating to a cash deposit held by Zardoya Otis, S.A. with United Technologies Intercompany Lending Ireland Designated Activity Company and United Technologies Corporation (parent company of Otis Elevator Company). Deposits with group companies are cash placements maturing at 30 days and accrued an average interest rate of 0.01%, approximately 0.01 percentage points higher than the normal annual market rate.

The global remuneration for all items accrued during the year by the members of the Board of Directors was EThs 2 111 (2 084 in 2017) and consisted of the following items:

	2018	**2017**
Fixed compensation	290	281
Variable compensation	215	230
Bylaw stipulated items	1 200	1 200
Other long-term benefits	338	306
Pension plan contributions	68	67
TOTAL	**2 111**	**2 084**

At the 2018 and 2017 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 805 (EThs 865 in 2017), as reported in Sections C.1.15 and C.1.16 of the 2018 Annual Corporate Governance Report.

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 2018, 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, 2018 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 ETҺs 4 153 (2017: 4 153), with accumulated depreciation of EThs 1 908 at the reporting date (2017: 1 742).

In addition, in 2018, expenses for the removal or recycling of waste were recognized for a value of EThs 348 (2017: EThs 330).

36. Events after the reporting date

On December 27, 2018, Zardoya Otis, S.A. acquired 100% of the shares of the company Otis-Lliset SLU for a value of EThs 4 280. This company is engaged in the maintenance and repair of elevators in Andorra.

On December 11, 2018, Zardoya Otis, S.A. declared the fourth dividend in the 2018 calendar year, the third charged to the profit for the period, for a gross amount of 0.08 euros per share. The resulting total gross dividend was EThs 37 637. This dividend will be paid out on January 10, 2019.

37. Other information

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

	Men	Women	2018
Managers	68	10	78
Administration/workshop/field supervisors	504	35	539
Engineers, university graduates and other experts	241	70	311
Administrative and technical personnel	496	463	959
Other workers	3 559	30	3 589
	4 868	608	5 476

	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

The average number of persons with a disability rating of 33% or more employed by the Group in the reporting periods was 41 (37 men and 4 women) I 2018 and 53 (42 men and 11 women).in 2017.

(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 2018, was EThs 315 (EThs 315 in 2017), including the fees paid for the process audit required to comply with the requirements of 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 43 (EThs 42 in 2017).

The fees accrued during the year by PricewaterhouseCoopers Auditores, S.L. and other companies that use the PwC brand name as a result of other services rendered to the Group, were EThs 47 (EThs 67 in 2017).

ZARDOYA OTIS, S.A.

Golfo de Salónica, 73
28033 Madrid
Teléfono 91 343 51 00
www.otis.com