

Annual Corporate
Governance Report, 2006

ZARDOYA OTIS S.A.



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ANNUAL CORPORATE GOVERNANCE REPORT, 2006

In order to better understand the model and how to prepare it, it is necessary to read the instructions on completing this report that appear at the end of the present document.

A OWNERSHIP STRUCTURE

A.1. Complete the following table on the company's share capital:

Date of latest modification	Share capital (€)	Number of shares
05-31-2006	26,193,317.20	261,933,172

In the event that different classes of shares exist, state this in the following chart:

Class	Number of shares	Nominal unit value

A.2. Details of the direct and/or indirect owners of significant shareholdings in your company at the year-end date, excluding Board Members:

Name or corporate name of shareholder	Number of direct shares	Number of indirect shares (*)	% of total share capital
United Technologies Corporation (UTC)	0	133,762,063	51.067

(*) Through:

Name or corporate name of the direct owner of the shareholding	Number of direct shares	% of share capital
United Technologies Holdings SA.	133,762,063	51.067
Total:	133,762,063	

State the most significant movements in the shareholder structure that took place during the F.Y.:

Name or corporate name of shareholder	Transaction date	Description of transaction

A.3. Complete the following charts on the members of the Board of Directors of the company who hold shares therein:

Name or corporate name of Director	Date of first appointment	Date of latest appointment	Number of direct shares	Number of indirect shares	% of Total share capital
Euro-Syns, S.A.	05-31-1996	04-26-2004	27,821,690	0	10.622
Investment, S.A.	05-30-1984	04-26-2004	636,135	0	0.243
Loizaga Viguri Jose María	02-23-1973	05-31-2006	0	202,290	0.077
Abajo García, Mario	05-31-1985	04-21-2005	333,639	356,752	0.264
Zardoya García, F. Javier	02-23-1973	04-21-2005	86,515	386,784	0.181

(*) Through:

Name or corporate name of the direct owner of the shareholding	Number of direct shares
Mabagar, S.A.	356,752
Arana Isasa M ^a Luisa (Spouse)	386,784
Capital Stock, S.C.R., S.A.	23,574
Inversiones Europeas, S.L.	177,406
María Paz Jiménez Martínez (Spouse)	1,310
Total:	945,826

% of total share capital held by the Board of Directors	11,387
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Complete the following chart of the members of the Board of Directors of the company who hold rights over company shares:

Name or corporate name of Director	Number of direct option rights	Number of indirect option rights	Equivalent number of shares	% of total share capital

A.4. State, if applicable, any family, commercial, contractual or corporate relationships that exist between the owners of significant shareholdings, to the extent that these are known to the company, unless they are little relevance or are derived from ordinary business or trading:

Names or corporate names related	Type of relationship	Brief description

A.5. State, if applicable, any commercial, contractual or corporate relationships that exist between the owners of significant shareholdings and the company, unless they are of little relevance or are derived from ordinary business or trading:

Names or corporate names related	Type of relationship	Brief description
United Technologies Holdings S.A.	Commercial Contractual Corporate	UTC holds 100% shares of Otis Elevator Co. and 51.07% of Zardoya Otis SA. through United Technologies Holdings SA. Zardoya Otis, SA. has commercial and contractual relations with Otis Elevator Co. and UTC.

A.6. State any agreements drawn up between shareholders that have been notified to the company:

Parties to agreement	% of share capital affected	Brief description of agreement

State, if applicable, any actions that have been arranged between the shareholders of your company that are known to the company:

Parties to the action arranged	% of share capital affected	Brief description of the action arranged

In the event that there were any change or breach of said agreements or arranged actions during the F.Y., state this expressly.

A.7. State whether there exists any natural or legal person that exercises or can exercise control over the company pursuant to article 4 of the Stock Market Act:

Name or corporate name
United Technologies Holdings SA.
Comments
Holds 51.067% of the shares of Zardoya Otis, SA.

A.8. Complete the following charts on the company's treasury stock:

At year-end date:

Number of direct shares	Number of indirect shares	% of total share capital
0	0	0.000

(*) Through:

Name or corporate name of the direct owner of the shareholding	Number of direct shares
Total:	

Give details of any significant variations, pursuant to the provisions of Royal Decree 377/1991, that took place in the F.Y.:

Date	Number of direct shares	Number of indirect shares	% total of share capital

Profit/(loss) obtained in the F.Y. on treasury stock transactions (thousands of euros)	0
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A.9. Give details of the conditions and/or periods of the authorization(s) provided by the General Meeting of Shareholders to the Board of Directors to acquire or transfer the treasury stock described in point A.8 above.

The General Meeting of Shareholders of May 31st, 2006, granted powers to the Board of Directors in order that without any previous advise from the General Meeting of Shareholders, may acquire for the Company its own shares, up to five percent of the Capital Stock, within a period of eighteen months starting on the same day of the General Meeting of Shareholders. The minimum price for the acquisition of these shares would be 5 euros per share and the maximum price 35 euros per share. It also proposed to grant powers to the board of Directors in order to allocate the reserves required by Art. 79 of the Corporation Law. The aforementioned authorization, has not been used, and will be valid until November 30st, 2007.

A.10. State, if applicable, any legal restrictions or restrictions imposed by the By-Laws on the use of voting rights, together with legal restrictions on the acquisition or transfer of holdings in the share capital:

B STRUCTURE OF THE COMPANY'S GOVERNING BODIES**B.1. Board of Directors****B.1.1. State the maximum and minimum number of Directors provided for in the By-Laws:**

Maximum number of Directors	15
Minimum number of Directors	3

B.1.2. Complete the following chart with the members of the Board:

Name or corporate name of Director	Representative	Position on the Board	Date of first appointment	Date of latest appointment	Election procedure
Zardoya García, Francisco Javier		Chairman	02-23-1973	04-21-2005	General Meeting
Abajo García, Mario		Deputy Chairman Chief Executive Officer	05-31-1985	04-21-2005	General Meeting
Loizaga Viguri, José María		Deputy Chairman	02-23-1973	05-31-2006	General Meeting
Grob Bruno		Director	05-27-1992	05-31-2006	General Meeting
Otis Elevator Co.	Bill, Johan	Director	05-30-1984	05-31-2006	General Meeting
Investment, S.A.	Zardoya Arana, Francisco Javier	Director	05-30-1984	04-26-2004	General Meeting
Euro-Syns, S.A.	Fernández Iriondo, Jesús María	Director	05-31-1996	04-26-2004	General Meeting
Diehl Sandy		Director	03-01-2005	04-21-2005	General Meeting
Messina Angelo		Director	06-30-2005	05-31-2006	General Meeting

Total number of Directors	9
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State any Directors who left the Board during the period:

Name or corporate name of Director	Date left Board

B.1.3. Complete the following charts on the members of the Board and their classification:

EXECUTIVE DIRECTORS

Name or corporate name of Director	Commission that proposed appointment of the Director	Position in the company's organization chart
Abajo García, Mario	Board of Directors	Deputy Chairman CEO

EXTERNAL DIRECTORS REPRESENTING SHAREHOLDERS

Name or corporate name of Director	Commission that proposed appointment of the Director	Name or corporate name of significant shareholder represented or that proposed appointment of the Director
Zardoya García, Francisco Javier		Euro-Syns, S.A.
Messina Angelo		United Technologies Holdings, S.A.
Diehl Sandy		United Technologies Holdings, S.A.
Grob, Bruno		United Technologies Holdings, S.A.
Otis Elevator Co.		United Technologies Holdings, S.A.
Euro-Syns, S.A.		Euro-Syns, S.A.
Investment, S.A.		Investment, S.A.

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of Director	Commission that proposed appointment of the Director	Profile
Loizaga Viguri, José María	Board of Directors	Financial

OTHER EXTERNAL DIRECTORS

Name or corporate name of Director	Commission that proposed appointment of the Director

Give details of the reasons for which they cannot be deemed to represent a shareholding or be independent:

State any variations in the classification of each Director that may have taken place during the period:

Name or corporate name of Director	Date of modification	Former classification	Current classification

B.1.4. State whether the classification of Directors set forth in the preceding point is in line with the distribution provided for in the Regulations of the Board:
YES

B.1.5. State the powers, if any, that are delegated to the Chief Executive Officer/s:

Name or corporate name of Director	Brief description
Abajo García, Mario	Usual powers delegated by the Board of Directors

B.1.6. Identify, if applicable, the members of the Board who hold positions as Directors or managers in other companies that form part of the group of the listed company:

Name or corporate name of Director	Corporate name of group company	Position
Abajo García, Mario	Otis Elevadores Lda. (Portugal)	Chairman of Board of Directors
Zardoya García, Francisco Javier	Otis Elevadores Lda. (Portugal)	Director
Loizaga Viguri, José María	Otis Elevadores Lda. (Portugal)	Director

B.1.7. Give details, if applicable, of the Directors of your company who are members of the Boards of Directors of other companies outside your group that are listed on official stock markets in Spain, when this has been notified to the company:

Name or corporate name of Director	Listed Company	Position
Loizaga Viguri, José María	Actividades de Construcción y Servicios S.A. (ACS) Cartera Hotelera, S.A. Mecalux, S.A. Unión Fenosa, S.A.	Consejero Chairman Consejero Consejero
Zardoya García, Francisco Javier	Cartera Hotelera, S.A.	Consejero
Abajo García, Mario	Cartera Hotelera, S.A.	Consejero
EURO-SYNS, S.A.	Mecalux, S.A.	Consejero

B.1.8. Complete the following charts on the aggregated remuneration of the Directors accrued during the year:

a) In the company to which the present report refers:

Item of remuneration	Figures in thousands of euros
Fixed remuneration	305
Variable remuneration	434
Allowances	0
Remuneration pursuant to By-Laws	1,200
Stock options and/or other financial instruments	0
Other	0
Total:	1,939

Other benefits	Figures in thousands of euros
Advance payments	0
Credits granted	0
Pension funds and plans: contributions	0
Pension funds and plans: obligations acquired	100
Life insurance premiums	6
Guarantees furnished by the company in favour of Directors	0

b) As a result of company Directors' belonging to other Boards of Director and/or the senior management of group companies:

Item of remuneration	Figures in thousands of euros
Fixed remuneration	0
Variable remuneration	0
Allowances	0
Remuneration pursuant to By-Laws	0
Stock options and/or other financial instruments	0
Other	0
Total:	0

Other benefits	Figures in thousands of euros
Advance payments	0
Credits granted	0
Pension funds and plans: contributions	0
Pension funds and plans: obligations acquired	0
Life insurance premiums	0
Guarantees furnished by the company in favour of Directors	0

c) Total remuneration by type of Director:

Type of Director	By company	By group
Executive directors	739	0
External directors representing shareholdings	960	0
Independent external directors	240	0
Other external directors	0	0
Total:	1,939	0

d) In relation to the profit attributed to the parent company:

Total remuneration of Directors (thousands of euros)	1,939
Total remuneration of Directors/profit attributed to parent company (expressed as a percentage)	1.304

B.1.9. Identify the members of senior management who are not also executive directors and state the total remuneration accrued in their favour during the F.Y.:

Name or corporate name	Position
Sainz de Baranda y Riva, Pedro	General Manager
Da Ascençao Oliveira, Domingos Edmundo	General Manager

Total remuneration senior management (thousands of euros)	400
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B.1.10. State, on an aggregated basis, whether there exist guarantee or protection clauses in favour of the members of senior management, including executive directors of the company or its group, in the event of dismissal or changes in control. State whether these contracts must be notified to and/or approved by the governing body/ies of the company or its group:

Number of beneficiaries	0
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	Board of Directors	General Meeting
Body authorizing the clauses		

	YES	NO
Is the General Meeting informed of the clauses		X

B.1.11. State the process for fixing the remuneration of the members of the Board of Directors and the relevant clauses of the By-Laws in this respect.

Article 24 of the By-Laws states that the global remuneration for all the members of the Board will consist of a 1.5% share in the consolidated profit after tax, up to an upper limit of 1% of the consolidated profit before tax, which may only be taken from the liquid profit (after tax) after the needs of the Legal and Statutory Reserves have been met and a minimum dividend of 10% of the paid-up share capital has been attributed to the shareholders. Said remuneration will be distributed in the manner freely decided by the Board of Directors among the members thereof, depending on whether or not they belong to delegate bodies of the Board, the positions they hold, their attendance at meetings or the service they provide to the company. Since there is no Remuneration Committee, the amount of the Board's remuneration is fixed by the Audit Committee and ratified by the General Meeting of Shareholders at the annual meeting. In no case is the maximum percentage authorized by the By-Laws applied.

B.1.12. State, if applicable, the identity of the members of the Board who are also members of the Boards of Directors or management of companies that hold significant shareholdings in the listed company and/or companies belonging to its group:

Name of Director	Company	Designation
Angelo J. Messina	Asia Pacific Elevator Company (Delaware, USA)	Director
	Atlantic Lifts, Inc. (Delaware, USA)	Director
	Elevator Export Trading Corporation (Delaware, USA)	Director
	Nippon Otis Elevator Company (Japan)	Director
	Otis Elevator Company (Delaware, USA)	Director
	Otis Elevator Korea (Korea)	Director
	Otis Elevator International, Inc. (Delaware, USA)	Director
	Otis Pacific Holdings B.V. (Netherlands)	Director
	United Technologies (Cayman) Holdings, Ltd. (Cayman Islands)	Director
	UTCL Investments B.V.. (Netherlands)	Director
	Otis Investments, LLC. (Delaware, USA)	Committee Member Assistant General Manager; Member of the Management Committee
G. Sandy Diehl	Otis Systèmes de Transport S.A.S. (France)	Chairman; Member of the Board of Directors
	Otis Elevator International, Inc. (Delaware, USA)	Chairman of the Board; Member of the Board of Directors
	Nippon Otis Elevator Company (Japan)	Director
	Otis Elevator Korea (Korea)	Director
Bruno Grob	LiftMall, LLC. (Delaware, USA)	General Manager
	Otis (Switzerland)	Chairman of the Board; Member of the Board of Directors
	Otis (Belgium)	Director
	Otis Maroc, S.A. (Morocco)	Director
	Otis OY (Finland)	Director
	Otis SpA. (Italy)	Director
Mario Abajo Garcia	Otis B.V. (Netherlands)	Supervisory Board Member
	Otis Elevadores, Lda (Portugal)	Chairman
	Otis LLC. (United Arab Emirates)	Chairman
	Otis SpA. (Italy)	Chairman; Member of the Board of Directors
	Jordan Elevator Overseas Limited (Channel Islands)	Director
	Melcorp South Africa (Pty) Ltd. (South Africa)	Director
	Otis Elevator Company S.A.L. (Lebanon)	Director
	Otis Elevator Company Saudi Arabia Limited (Saudi Arabia)	Director
	Otis Elevator Company (Kuwait)	Director
	Otis Elevator Overseas Ltd. (Channel Islands)	Director
	Technologie Liban S.A.L (Lebanon)	Director
	C. Veremis Otis, S.A. (Greece)	Director
	Otis (Proprietary) Limited (South Africa)	Director
	Otis Elevator Company (Egypt) S.A.E. (Egypt)	Director
Buga Otis Asansor Sanayi ve Ticaret A.S. (Turkey)	Vice Chairman	

Give details, if applicable, of any relevant relationships, other than those considered under the previous caption, between members of the Board of Directors and the significant shareholders and/or companies belonging to their groups:

Name or corporate name of Director	Name or corporate name significant shareholder	Description of relationship

B.1.13. State, if applicable, any modifications made to the Regulations of the Board of Directors during the F.Y..

B.1.14. State the procedures for appointment, re-election, evaluation and removal of Directors. Give details of the competent bodies, the procedures to follow and the criteria to be employed in each on of the procedures.

Article 20 of the company By-Laws states that Directors will be designated by voting in accordance with the rules established by law.

B.1.15. State the circumstances in which Directors are obliged to resign.

B.1.16. Explain whether the function of chief executive of the company is performed by the person holding the position of Chairman of the Board. If applicable, state the measures taken to limit the risks of accumulation of power by a single person:

YES NO

Measures to limit risks

B.1.17. Are qualified majorities, other than those legally provided for, required for any type of decision?:

YES NO

State how the resolutions of the Board of Directors are adopted, stating at least the minimum quorum for attendance and the type of majorities required to adopt the resolutions:

Adoption of resolutions

Description of resolution	Quorum	Type of majority

B.1.18. Explain whether there exists specific requirements, other than those relating to Directors, to be appointed Chairman.

YES NO

Description of the requirements

B.1.19. State whether the Chairman has a casting vote:

YES NO

Subjects for which the casting vote exists

B.1.20. State whether the By-Laws or the Regulations of the Board of Directors fix any age limit for Directors:

YES NO

Age limit Chairman	
Age limit Chief Executive Officer	
Age limit Director	

B.1.21. State whether the By-Laws or the Regulations of the Board of Directors fix a limited term of office for independent Directors:

YES NO

Maximum number of year of term of office	0
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B.1.22. State whether there are any formal processes for delegating votes on the Board of Directors. If applicable, describe briefly.

B.1.23. State the number of meetings held by the Board of Directors during the F.Y.. Likewise, if applicable, state the number of times that the Board met without the presence of the Chairman:

Number of Board meetings	8
Number of Board meetings without the presence of the Chairman	0

State the number of meetings that the different commissions of the Board held during the F.Y.:

Number of meetings of the Executive or Delegate Commission	0
Number of meetings of the Audit Committee	6
Number of meetings of the Appointmens and Remuneration Commission	0
Number of meetings of the Strategy and Investment Commission	0
Number of meetings of the Commission	0

B.1.24. State whether the individual and consolidated annual accounts that are submitted to the Board for its approval are certified previously:

YES NO

Identify, if applicable, the person/s who certified the company's individual and consolidated accounts to be formulated by the Board:

Name	Position

B.1.25. Explain the mechanism, if any, established by the Board of Directors to prevent the individual and consolidated accounts it formulates from being submitted to the General Meeting with qualifications in the audit report.

This responsibility is delegated to the Audit Committee.

B.1.26. Give details of the measures adopted to ensure that the information provided to the stock markets is transmitted fairly and symmetrically.

The Company has published Internal Code of Conduct on stock market issues. The Board of Directors authorizes the Secretary to the Board of Directors to notify any relevant fact that arises to the competent bodies and to comply with all the requirements established by the applicable legislation and/or rules within the shortest period possible.

B.1.27. Is the secretary to the Board a Director?:

YES NO

B.1.28. State the mechanisms, if any, established by the company to ensure the independence of the auditor, the financial analysts, the investment banks and the rating agencies.

The Company has published Internal Code of Conduct in relation to the stock markets.

B.1.29. State whether the audit firm carries out work for the company and/or its group other than audit work and, if so, state the amount of the fees received for said work and the percentage of the fees billed to the company and/or its group that these represent.

YES NO

	Company	Group	Total
Amount of work other than audit work (thousands of euros)	0	0	0
Amount of work other than audit work/total amount billed by the audit firm (%)	0.000	0.000	0.000

B.1.30. State the number of years for which the current audit firm has been uninterruptedly auditing the annual accounts of the company and/or its group. Likewise, state the percentage represented by the number of years audit firm in relation to the total number of years for which the annual accounts have been audited:

	Company	Group
Number of consecutive years	17	17

	Company	Group
Number of years audited by the current audit firm/Number of years for which the company has been audited (%)	53.125	100.000

B.1.31. State the holdings of members of the Board of Directors of the company in companies that have the same, an analogous or a complementary type of activity to the activity that constitutes the corporate purpose of both the company and its group, when such holdings have been notified to the company. Likewise state the positions or functions executed in said companies:

Name or corporate name of Director	Name of relevant company	% shareholding	Position or functions
Loizaga Viguri, José María	Actividades de Construcción y Servicio, S.A. (ACS)	0.100	Director

B.1.32. State whether any procedure exists that allows the Directors to obtain external advice and, if applicable, give details thereof:

YES NO

Details of procedure

B.1.33. State whether there exists a procedure that allows the Directors to obtain the information required to prepare the meetings of the governing bodies in sufficient time and, if applicable, give details:

YES NO

Describe the procedure
<p>The meetings of the Board are called 20 days in advance, enclosing the agenda and providing the Directors with the information required to prepare the matters to be considered at each meeting. For matters involving the Audit Committee, said Committee meets before the Board meeting, which it subsequently informs, and gathers the information and calls the people from the company, auditors, etc. that it deems necessary in order to perform its functions appropriately.</p>

B.1.34. State whether there exists liability insurance in favour of the company Directors:

YES NO

B.2. Commissions of the Board of Directors

B.2.1. List the governing bodies:

Name of body	Number of members	Functions
Audit Committee	3	See B.2.3.

B.2.2. Give details of all the commissions of the Board of Directors and the members of said commissions:

EXECUTIVE OR DELEGATE COMMISSION	
Name	Position

AUDIT COMMITTEE

Name	Position
Loizaga Viguri, José María	Chairman
Messina, Angelo	Member
Grob, Bruno	Member

APPOINTMENTS AND REMUNERATION COMMISSION

Name	Position

STRATEGY AND INVESTMENT COMMISSION

Name	Position

B.2.3. Provide a description of the rules of organization and operation and of the responsibilities attributed to each one of the commissions of the Board:

AUDIT COMMITTEE

1. To inform, through the Chairman, at the General Meeting of Shareholders on issues raised thereat by shareholders in matters in which it is competent.
2. To propose to the Board of Directors the appointment of the external Account Auditor.
3. To supervise the company's internal audit services.
4. To be informed of the company's financial information system and internal control systems.
5. To be in contact with the Account Auditor to receive information on any issues that may place the latter's independence at risk and any other matters related to the process of performing the account audit, and to maintain with the Account Auditor the other communications provided for in account auditing legislation and technical audit rules.

Likewise, the Committee analyzes and informs the Board on issues relating to prior reports on payment of interim dividends, periodic and annual financial statements, information to be published through the Stock Market National Commission, quarterly reports on results, relevant facts and Annual Corporate Governance Report.

B.2.4. State, if applicable, the authority in relation to advice or consultation and, if applicable, the delegations that each of the commissions holds:

Name of commission	Brief description

B.2.5. State, if applicable, the existence of any regulations of the commissions of the Board, the place in which they are available to be consulted and any amendments that may have been made during the year. Also, state whether any annual report has been prepared voluntarily on the activities of each commission:

Competencies and rules have been established for the audit Committee and these did not change in 2006. The Annual Accounts at the year end include a summary of the main points discussed by the Audit Committee in the F.Y. All this information is available on the Company's web page in the section Corporate Governance, Commissions of the Board.

B.2.6. If an executive commission exists, explain the degree of delegation and autonomy it enjoys in performing its functions, in order to adopt decisions on the administration and management of the company:

B.2.7. State whether the composition of the executive commission reflects the participation of the different Directors in the Board in accordance with their classification:

YES NO

If not, explain the composition of the executive commission

There is no Executive Commission and, since there are 9 Directors, the meetings of the Board of Directors take place with a majority of the Directors either present or represented.

B.2.8. If there is an appointments commission, state whether all the members thereof are external Directors:

YES NO

C RELATED TRANSACTIONS

C.1. Give details of any relevant transactions that represent a transfer of resources or obligations between the company or companies belonging to its group and the company's significant shareholders:

Name or corporate name of significant shareholder	Name or corporate name of the company or company belonging to its group	Nature of the transaction	Type of relationship	Amount (thousands of euros)
United Technologies Holdings, S.A.	Otis Elevator Company	Contractual	Royalties	18,312

C.2. Give details of any relevant transactions that represent a transfer of resources or obligations between the company or companies belonging to its group and the company's Directors or management staff:

Name or corporate name of the directors or management staff	Name or corporate name of the company or company belonging to its group	Nature of the transaction	Type of relationship	Amount (thousands of euros)

C.3. Give details of any relevant transactions performed by the company with other companies belonging to the same group, when these are not eliminated in the process of preparing financial consolidated statements and do not form part of the company's ordinary trade in terms of their purpose and conditions:

Corporate name of group entity	Brief description of transaction	Amount (thousands of euros)
Otis Elevator Group	Imports (from)	52,521
Otis Elevator Group	Exports (to)	62,355
Otis Elevator Group	Financial Income (from)	2,207
Otis Elevator Group	Invoicing (to) R&D of Zardoya Otis	427

C.4. Identify, if applicable, any situations of conflicts of interest that affect the company's Directors, as provided for in article 127 ter of the Limited Liability Companies Act.

C.5. Give details of the any mechanism established to detect, determine and solve any possible conflicts of interest between the company and/or its group and its Directors, management staff or significant shareholders.

By means of an internal process, the company obtains an annual written certification from all the management staff and Directors regarding the situation in relation to conflicts of interests.

D RISK CONTROL SYSTEMS

D.1. General description of the risk policy of the company and/or its group, providing details of and evaluating the risks covered by the systems, together with an explanation of why said systems are appropriate for the profile of each type of risk.

The Audit Committee has set up and supervised control devices that allow the main potential risks of the company and the group to be evaluated, together with the evaluation of the risk control systems, adapted to the risk profile of the company and its group.

D.2. State the control system that are in place to evaluate, mitigate or reduce the main risks of the company and its group:

The Company has an Internal Audit Department, with systems and processes that are intended to evaluate, mitigate or reduce the Company's main risks by means of preventive measures and alerts of possible risk situations. The Financial Department covers the risks affecting assets and liabilities by the appropriate insurance policies. Likewise, it has processes that control the risk that may originate from commercial transactions.

D.3. In the event that any of the risks affecting the company and/or its group have materialized, state the circumstances that caused them and whether the control systems that were in place worked correctly.

There have been no material risks and the control systems that are in place have worked correctly.

D.4. State whether there exists any commission or other governing body in charge of setting up these control devices and supervising them and give details of its functions.

The Audit Committee supervises these control devices by the analysis of the processes established, the annual plans, the regular monitoring thereof and the improvements that added to.

D.5. Identification and description of processes for compliance with the different regulations that affect your company and/or its group.

E GENERAL MEETING

E.1. State the quorum required for the valid assembly of the General Meeting fixed in the By-Laws. Describe how it differs from the system of minimums provided for in the Limited Liability Companies Act.

The quorum for the valid assembly of the General Meeting established in article 14 of the By-Laws is that 60% of the shareholder capital should be present or represented at first call and 50% at second call. This does not differ from the system of minimums provided for in the Spanish Corporation Law.

E.2. Explain the regime for adopting corporate resolutions. Describe how it differs from the system provided for in the Limited Liability Companies Act.

It does not differ from the system provided for in the Spanish Corporation Law: majority.

E.3. List any shareholders' rights in relation to the General Meeting that differ from those provided for in the Limited Liability Companies Act.

They do not differ from those provided for in the Spanish Corporation Law.

E.4. State, if applicable, any measures adopted to promote shareholder participation in the General Meetings.

E.5. State whether the position of Chairman of the General Meeting coincides with the position of Chairman of the Board of Directors. Give details, if applicable, of the measures adopted to guarantee the independence and correct operation of the General Meeting:

YES NO

Details of the measures
Regulations for the General Meeting exist.

E.6. State, if applicable, any amendments made to the Regulations for the General Meeting during the year.

E.7. State the attendance figures for General Meetings held in the year to which the present report refers:

Attendance Figures

Date of General Meeting	% physically present	% represented	% distance votes	Total %
05-31-2006	64.08	4.94	0.000	69.02

E.8. State briefly resolutions adopted at the General Meetings held in the year to which the present report refers and the percentage of votes with each resolution was adopted.

- 1) Approval of Annual Accounts and Management Reports for the Year 2005.
 - 2) Application of the profit for 2005.
 - 3) Approval of the Board of Directors' performance and distribution of dividends charged to the profit for 2005.
 - 4) Resignation, appointment and re-election of Directors.
 - 5) Appointment of Auditors for 2006.
 - 6) 1 x 10 bonus issue charged to the Voluntary Reserve.
 - 7) Authorization of the Board to acquire treasury stock pursuant to Art. 75 and similar of the Spanish Corporation Law.
 - 8) Requests and questions.
 - 9) Delegation of powers for formalization of resolutions.
 - 10) Approval of the Minutes of the Meeting.
- All the resolutions were adopted unanimously.

E.9. State, if applicable, the number of shares required to attend the General Meeting and whether the By-Laws contain any restriction in this respect.

There are no restrictions in the By-Laws. Each share entitles the shareholder to one vote.

E.10. State and justify the policies followed by the company in relation to the delegation of votes at the General Meeting.

Any shareholder may be represented at the General Meeting by another person, who need not be a shareholder. The delegation of votes is not specifically regulated. Each shareholder may vote in person, if he attends the meeting, or by means of a duly-authorized representative.

E.11. State whether or not the company is aware of the policy of institutional investors on participating or otherwise in the company's decisions:

YES NO

Describe the policy

E.12. State the address and form of access to the corporate governance content of your web page.

The web page of Zardoya Otis, S.A. is www.otis.com. Depending on the language chosen, it may be accessed under Spain/Spanish or Spain/English. Once on the page, there is a section of Shareholder and Investor Information. This section has an extensive menu with all the periodic and historical information and, among other documents, includes the Corporate Governance Report for the F.Y. 2005, published in May 2006. The Report for the F.Y. 2006 will be published in March 2007.

F DEGREE TO WHICH THE CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED

State the degree to which the company follows existing corporate governance recommendations or, if applicable, any failures to follow said recommendations.

In the event that any of them is not met, explain the recommendations, rules, practices or criteria applied by the company.

Until the single document to which ORDER ECO/3722/2003, of December 26, refers has been prepared, the recommendations of the Olivencia Report and the Aldama Report should be used as a reference to complete this section.

The Company meets existing Corporate Governance recommendations except in the following cases: Recommendation 8. Create, within the Board, Commissions for: Audit, Appointments, Remuneration, Compliance. The Board of Directors has created the Audit Committee, to which the evaluation of Corporate Governance has also been delegated. The possibility of creating the Appointments and Remuneration Commission is also being studied. Recommendation 13. Age limit for the position of Director. At present, the Board of Directors does not deem it appropriate to limit the age of the Directors.

G OTHER RELEVANT INFORMATION

If you consider there to be any relevant principle or aspect in relation to the corporate governance practices applied by your company that has not been considered in the present Report, please mention it below and explain its content.

This section may include any other information, clarification or nuance related to the preceding sections of the Report, provided that it is relevant and is not repetitive.

Specifically, state whether the company is subject to corporate governance legislation other than the Spanish legislation and, if applicable, include any information that it is obliged to provide, other than the information required in the present report.

This annual corporate governance report was approved by the company's Board of Directors at its meeting held on March 14, 2007.

ZARDOYA OTIS S.A.

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