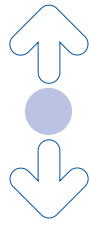
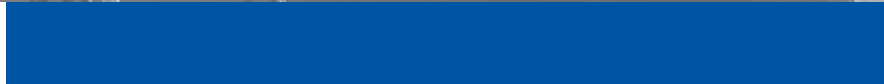


**ZARDOYA OTIS S.A.**



**Annual Corporate  
Governance Report, 2007**





**EXHIBIT I**

**ANNUAL CORPORATE GOVERNANCE REPORT**

LISTED CORPORATIONS

DETAILS IDENTIFYING ISSUER

FISCAL YEAR END

11/30/2007

Tax Id. Code A 28011153

Corporate name :

**ZARDOYA OTIS S.A.**

Registered office :

**GOLFO DE SALÓNICA, 73  
MADRID  
MADRID  
28033  
SPAIN**

MODEL FOR ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED  
CORPORATIONS

For a better understanding of this specimen report and completion hereof, it is necessary to read the instructions on how to complete it included at the end of this report. The column containing the Tax ID Code or similar code, which shall be non-public, must be filled out in all cases where such information is necessary to complete the data of individuals or legal persons.

Tax ID or similar code or number (NIF, CIF)	Other information
A-28011153	

**A OWNERSHIP STRUCTURE**

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

Date of latest modification	Share capital ( € )	Number of shares	Number of voting rights
06-14-2007	28,812,648.90	288,126,489	288,126,489

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

YES  NO

Class	Number of shares	Nominal unit value	Number of voting rights per share	Different rights

**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	146,515,402	50.851

(\*) Through:

Name or corporate name of the direct owner of the shareholding	Number of direct voting rights	% of total voting rights
UNITED TECHNOLOGIES HOLDINGS, S.A.	146,515,402	50.851
<b>Total:</b>	<b>146,515,402</b>	<b>50.851</b>

**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	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
EURO-SYNS S.A.	31,693,915	0	11.000
BRESLA INVESTMENTS, S.L.	25,999	0	0.009
LOIZAGA VIGURI, JOSE MARIA	193,600	1,452	0.068
ABAJO GARCIA, MARIO	759,430	0	0.264
ZARDOYA GARCIA, F. JAVIER	95,166	95,167	0.066

(\*) Through:

Name or corporate name of the direct owner of the shareholding	Number of direct voting rights	% of total voting rights
JIMÉNEZ MARTINEZ, MARIA PAZ (Spouse)	1,452	0.000005
ARANA ISASA, MARIA LUISA (Spouse)	95,167	0.033
<b>Total:</b>	<b>96,619</b>	<b>0,03353</b>

<b>% of total voting rights held by the Board of Directors</b>	11,407
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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 voting rights

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 of little relevance or are derived from ordinary business or trading:

Names or corporate names related	Type of relationship	Brief description
Euro-Syns, S.A. and Bresla Invesments, S.L.	Family	Both directors are companies controlled by the Zardoya family

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	United Technologies Corporation (UTC) holds 100% shares of Otis Elevator Co. and 50,85% of Zardoya Otis, S.A.. through United Technologies Holdings S.A. . Zardoya Otis S.A. has commercial and contractual relations with Otis Elevator Company and United Technologies Corporation (UTC)

A.6. Indicate whether any paracorporate (shareholders') agreements affecting the Company pursuant to the provisions of Section 112 of the Stock Market Act [Ley del Mercado de Valores – LMV] have been reported to the Company. If so, briefly describe them and list the shareholders bound by the agreement:

YES  NO

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:

YES  NO

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

In the event that there was 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. If so, identify them:

YES  NO

Name or corporate name
UNITED TECHNOLOGIES CORPORATION

Comments
It is the indirect owner (through the French company United Technologies Holdings S.A.) of 50.851% of the shares of Zardoya Otis, S.A.

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

(\*) 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 1362/2007, , that took place in the F.Y.:

Notification date	Total direct shares acquired	Total indirect shares acquired	% 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 Ordinary General Meeting of Shareholders of Zardoya Otis, S.A. held on April 24, 2007 authorized the Board of Directors to acquire shares of Zardoya Otis, S.A., either directly or indirectly, up to a maximum of 5% of the share capital, during a period of 18 months as from the date of said General Meeting. The acquisition price of said shares may not be lower than 5 euros per share or higher than 35 euros per share and the Board is authorized to set aside the reserves required under article 79 of the Corporations Act.

Said authorization, which has not been used to date, will be in force until October 24, 2008. Notwithstanding, at the Board of Directors meeting held on April 15, 2008, the Board called a General Meeting of Shareholders, to be held on May 19, 2008 on the first call or May 20, 2008 on the second call, which included, as point 9 on the Agenda, authorization of the Board of Directors so that it may acquire, directly or indirectly, shares in the Company within the limits and meeting the requirements set forth in the Corporations Act, proposing that this authorization should be renewed for a further 18-month period as from the date of said General Meeting.

**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.**

Indicate whether there are legal restrictions on the exercise of voting rights:

YES  NO

Maximum percentage of voting rights that a shareholder may exercise due to legal restrictions	
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Indicate whether there are by-law restrictions on the exercise of voting rights:

YES  NO

Maximum percentage of voting rights that a shareholder may exercise due to by-law restrictions	
--	--

Description of legal and by law restrictions on the exercise of voting rights

**A.11. State whether the shareholders acting at a General Shareholders' Meeting have approved the adoption of breakthrough measures in the event of a public tender offer pursuant to the provisions of Law 6/2007:**

YES  NO

If applicable, describe the approved measures and the terms on which the restrictions will become ineffective.

<b>B STRUCTURE OF THE COMPANY'S GOVERNING BODIES</b>
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**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 GARCIA, F. JAVIER		CHAIRMAN	02-23-1973	04-21-2005	GENERAL MEETING
ABAJO GARCIA, MARIO		DEPUTY CHAIRMAN CEO	05-31-1985	04-21-2005	JUNTA GENERAL
LOIZAGA VIGURI, JOSE MARIA		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
BRESLA INVESTMENTS, S.L.	ZARDOYA ARANA, FRANCISCO JAVIER	DIRECTOR	07-16-2007		CO-OPTION
EURO-SYNS S.A.	FERNANDEZ IRIONDO, JESUS MARÍA	DIRECTOR	05-31-1996	04-26-2004	GENERAL MEETING
DIEHL, SANDY		DIRECTOR	03-01-2005	04-21-2005	GENERAL MEETING
MESSINA, ANGELO J.		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	Status of the director at the time of vacancy	Date of vacancy
INVESTMENT, S.A.	DIRECTOR	07-16-2007

**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
MARIO ABAJO GARCIA	BOARD OF DIRECTORS	DEPUTY CHAIRMAN CEO

Total number of executive directors	1
Total % of Board members	11,1



### EXTERNAL PROPRIETARY DIRECTORS

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 GARCIA, F. JAVIER		EURO-SYNS S.A.
MESSINA, ANGELO J.		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.
BRESLA INVESTMENTS S.L		BRESLA INVESTMENTS, S.L

<b>Total number of external proprietary directors</b>	7
<b>Total % of Board members</b>	77,8

### INDEPENDENT EXTERNAL DIRECTORS

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

<b>Total number of independent external directors</b>	
<b>Total % of Board members</b>	

### OTHER EXTERNAL DIRECTORS

Name or corporate name of Director	Commission that proposed appointment of the Director
JOSE MARIA LOIZAGA VIGURI	

<b>Total number of other external directors</b>	1
<b>Total % of Board members</b>	11,1

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

Name or corporate name of Director	Reasons	Company, Manager or shareholder with whom the director has ties
LOIZAGA VIGURI, JOSÉ MARÍA	Mr. Loizaga meets all the requirements of section iii, No. 5 of the Unified Code of Good Governance except letter h), since a Nominating Commission has not been created.	NONE

**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
LOIZAGA VIGURI, JOSE MARIA	Since application of the Unified Code of Good Governance	INDEPENDENT EXTERNAL	OTHER EXTERNAL

**B.1.4. Describe, if applicable, the reasons why proprietary directors have been appointed at the proposal of shareholders whose shareholding interest is less than 5% of share capital.**

Name or corporate name of director	Reasons
BRESLA INVESTMENTS, S.L.	This company is controlled by the Zardoya family and has replaced Investment, S.A., a former Director, on the Board.

State whether formal petitions for presence on the Board have been received from shareholders whose shareholding interest is equal to or greater than that of others at whose proposal proprietary directors have been appointed. If so, describe the reasons why such petitions have not been satisfied.

YES  NO

Name or corporate name of director	Reasons

**B.1.5. State whether any director has withdrawn from his/her position before the expiration of his/her term of office, whether the director has given reasons to the Board and by what means, and in the event that he/she gave reasons in writing to the full Board, describe at least the reasons given by the director:**

Name of director	Reason for withdrawal
INVESTMENT, S.A.	Letter to the Secretary to the Board informing of its liquidation as the result of the reorganization of the Zardoya family's investments.

**B.1.6. State the powers, if any, that are delegated to the Chief Executive Officer/s**

Name or corporate name of Director	Brief description
MARIO ABAJO GARCIA	The CEO holds all the powers that can be delegated in accordance with the law or By-Laws, with the exception of purchase/sale of real estate.

**B.1.7. 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
MARIO ABAJO GARCIA	OTIS ELEVADORES LTD (PORTUGAL)	CHAIRMAN OF BOARD OF DIRECTORS
FRANCISCO JAVIER ZARDOYA GARCIA	OTIS ELEVADORES LTD (PORTUGAL)	DIRECTOR
JOSE MARIA LOIZAGA VIGURI	OTIS ELEVADORES LTD (PORTUGAL)	DIRECTOR

**B.1.8. 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
JOSE MARIA LOIZAGA VIGURI	ACTIVIDADES DE CONSTRUCCION Y SERVICIOS S.A. (ACS)	DIRECTOR
	CARTERA INDUSTRIAL REA, S.A.	CHAIRMAN
	MECALUX, S.A.	DIRECTOR
	UNION FENOSA, S.A.	DIRECTOR
BRESLA INVESTMENTS, S.L.	MECALUX, S.A.	DIRECTOR

**B.1.9. Indicate and, if applicable, explain whether the Company has established rules regarding the number of boards of which its directors may be members:**

YES  NO

Description of Rules
The Board of Directors meeting held on April 15, 2008, in compliance with part of recommendation 26 of the Unified Code of Good Governance, resolved to amend article 19 of the Regulations of the Board of Directors in order to expressly establish the directors' duty to devote the time and effort necessary to perform their function efficiently.

**B.1.10. In connection with recommendation number 8 of the Unified Code, indicate the Company's general policies and strategies reserved for approval by the full Board:**

	Yes	No
The investment and financing policy	X	
The definition of the structure of the group of companies	X	
The corporate governance policy	X	
The corporate social responsibility policy	X	
The strategic or business plan, as well as management objectives and annual budgets	X	
The policy regarding compensation and evaluation of performance of senior management	X	
The risk control and management policy, as well as the periodic monitoring of the internal information and control systems	X	
The dividend policy, as well the treasury stock policy and, especially, the limits thereto	X	

**B.1.11. Complete the following charts on the aggregated compensation of the Directors accrued during the year:**

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

Item of compensation	Figures in thousands of euros
Fixed compensation	316
Variable compensation	554
Allowances	0
Remuneration pursuant to By-laws	1,200
Stock options and/or other financial instruments	0
Other	0
<b>Total:</b>	<b>2,070</b>

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	53
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 Directors and/or the senior management of group companies:**

Item of compensation	Figures in thousands of euros
Fixed compensation	0
Variable compensation	0
Allowances	0
Remuneration pursuant to By-laws	0
Stock options and/or other financial instruments	0
Other	0
<b>Total:</b>	<b>0</b>

	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 compensation by type of Director:**

Type of Director	By company	By group
Executive directors	870	0
External proprietary directors	1,200	0
Independent external directors	0	0
Other external directors	240	0
<b>Total:</b>	<b>2,070</b>	<b>0</b>

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

<b>Total compensation of Directors (thousands of euros)</b>	<b>2,070</b>
<b>Total compensation of Directors/profit attributed to parent company (expressed as a percentage)</b>	<b>1,057</b>

**B.1.12. Identify the members of senior management who are not also executive directors and state the total compensation accrued in their favour during the F.Y.:**

Name or corporate name	Position
PEDRO SAINZ DE BARANDA y RIVA	GENERAL MANAGER
DOMINGOS EDMUNDO DA ASCENÇÃO OLIVEIRA	GENERAL MANAGER

Total compensation senior management (thousands of euros)	490
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**B.1.13. 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?		

**B.1.14. State the process for fixing the compensation of the members of the Board of Directors and the relevant clauses of the By-Laws in this respect.**

Process to set the compensation of the members of the Board of Directors and by-law provisions
Article 24 of the By-Laws states that the maximum global compensation 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 Reserve and the Reserves provided for in the By-Laws have been met and a minimum dividend of 10% of the paid-up share capital has been attributed to the shareholders. Said compensation 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.

**State whether the full Board has reserved the right to approve the following decisions:**

	YES	NO
At the proposal of the Company's chief executive, the appointment and, if applicable, the removal of senior managers, as well as their indemnity provisions.	X	
The compensation of directors and, in the case of executive directors, the additional compensation for their executive duties and other terms and conditions that must be included in their contracts.	X	

**B.1.15. State whether the Board of Directors approves a detailed compensation policy and specify the matters covered thereby:**

YES  NO

	YES	NO
Amount of fixed components, with a breakdown, if applicable, of fees payable for attendance at meetings of the Board and its Committees and estimated annual fixed compensation arising		X
Variable compensation items		X
Main characteristics of the social security systems, with an estimate of the amount thereof or equivalent annual cost .		X
Terms and conditions that must be included in the contracts with executive directors performing senior management duties, which will include		X

**B.1.16. State whether the Board submits a report on director compensation policy to the vote of the shareholders at a General Shareholders' Meeting for consultative purposes. If so, describe the relevant portions of the report regarding the compensation policy approved by the Board for the following years and the most significant changes experienced by such policies vis-à-vis the policy applied during the fiscal year, and provide an outline of the manner in which the compensation policy was applied during the fiscal year. Describe the role of the Compensation Commission and, if external advice has been provided, state the name of the external advisors that have given such advice:**

YES  NO

Matters covered by the report on compensation policy

Role of the Compensation Commission

	Yes	No
Has external advice been provided?		
Name of external advisors		

**B.1.17. 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:**

<u>Name of Director</u>	<u>Current Board Memberships</u>	<u>Designation</u>
Abajo, Mario	Otis Elevadores, Lda. [Portugal]	Chairman
	Otis L.L.C. [United Arab Emirates]	Chairman
	Otis S.p.A. [Italy]	Chairman
	Buga Otis Asansor Sanayi ve Ticaret A.S. [Turkey]	Deputy Chairman
	Zardoya Otis, S.A. [Spain]	CEO & Deputy Chairman
	C. Veremis Otis S.A. [Cyprus]	Director
	Melcorp South Africa (Pty) Ltd. [South Africa]	Director
	Otis Elevator Company Saudi Arabia Limited [Saudi Arabia]	Director
	Otis Elevator Overseas Ltd. [Channel Islands]	Director
	Technologie Liban S.A.L. [Lebanon]	Director
	Otis (Proprietary) Limited [South Africa]	Director
	Otis Elevator Company (Egypt) S.A.E. [Egypt]	Director
Messina, Angelo J.	Asia Pacific Elevator Company [Delaware, USA]	Director

	Atlantic Lifts, Inc. [Delaware, USA]	Director
	Elevator Export Trading Company [Delaware, USA]	Director
	Nippon Otis Elevator Company [Japan]	Director
	Otis Elevator Company [Delaware, USA]	Director
	Otis Elevator International, Inc. [Delaware, USA]	Director
	Otis Elevator Korea [Korea]	Director
	Otis Pacific Holdings B.V. [Netherlands]	Director
	United Technologies (Cayman) Holdings, Ltd. [Cayman Islands]	
	UTCL Investments B.V. [Netherlands]	Director
	Otis Investments, L.L.C. [Delaware, USA]	Deputy General Manager
Diehl, G. Sandy	OTIS Systèmes de Transport S.A.S. [France]	Chairman
	Otis Elevator International, Inc. [Delaware, USA]	Chairman
	Nippon Otis Elevator Company [Japan]	Director
	Otis Elevator Korea [Korea]	Director
Grob, Bruno	Otis [Switzerland]	Chairman
	Otis [Belgium]	Director
	Otis AB [Sweden]	Director
	Otis S.p.A. [Italy]	Director
	Otis B.V. [Netherlands]	Director
Zardoya García, F. Javier	Otis Elevadores Lda. (Portugal)	Director
Loizaga Viguri, José María	Otis elevator Lda. (Portugal)	Ddirector

**Explain, if applicable, any significant relationships, other than those mentioned in the preceding caption, between the members of the Board of Directors and the significant shareholders and/or companies belonging to their groups:**

<b>Name or Corporate Name of Director</b>	<b>Name or Corporate Name of Significant Shareholders</b>	<b>Description of Relationship</b>
Mesina, Ángelo J.	United Technologies Corporation	He is an executive of the United Technologies Corporation Group
Diehl, G. Sandy	United Technologies Corporation	He is an executive of the United Technologies Corporation Group
Grob, Bruno	United Technologies Corporation	He is an executive of the United Technologies Corporation Group
Otis Elevator Company	United Technologies Corporation	This company is controlled by United Technologies Corporation
Zardoya García, F. Javier	Euro-Syns, S.A.	Euro-Syns, S.A. is a company controlled by the Zardoya family
Bresla Investments, S.L.	Bresla Investments, S.L.	Bresla Investments, S.L. is a company controlled by the Zardoya family

**B.1.18. State, if applicable, any modifications made to the Regulations of the Board of Directors during the F.Y.**

YES  NO

Description of modifications

**B.1.19. 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 corporate By-Laws states that Directors will be designated by voting in accordance with the rules established by law.

According to the By-Laws, it is not necessary to be a shareholder in order to be appointed as a Director, except in the event of provisional appointment made by the Board of Directors itself pursuant to the provisions of article 138 of the Corporations Act.

In addition, article 13 of the Regulations of the Board of Directors states that Directors will be designated by the General Meeting or, provisionally, by the Board of Directors pursuant to the provisions of the Corporations Act.

Finally, article 15 of the Regulations of the Board of Directors states that Directors will leave their position on the Board when the period for which they were appointed has expired or when the General Meeting of Shareholders so decides using the attributions conferred upon it by law or in the By-Laws.

**B.1.20. State the circumstances in which Directors are obliged to resign.**

Article 15 of the Regulations of the Board of Directors states that directors should tender their resignation to the Board of Directors in the event that they are affected by any of the cases of incompatibility of prohibition provided for by law.

The Board of Directors meeting held on April 15, 2008 resolved to amend article 15 of the Regulations of the Board of Directors in order to meet recommendations 30 and 32 of the Unified Code of Good Governance and, for this purpose, it is provided that directors must tender their resignation to the Board under any of the following circumstances:

- (a) When they may damage the Company's prestige or reputation.
- (b) When they are accused or prosecuted or when a ruling for opening of an oral trial in ordinary proceedings or a conviction in abbreviated proceedings is issued against them for a serious offence, in particular, from among the offences mentioned in article 124 of the Corporations Act.
- (c) When they are seriously rebuked by the Audit Committee or for having infringed their duties as Directors.
- (d) When an external proprietary director transfers its shareholding in the Company or when the shareholder that proposed the appointment of the director to the Company sells its shareholding in full or reduces it to a level that requires the reduction or elimination of its proprietary directors.

**B.1.21. 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



Indicate and, if applicable, explain whether rules have been established whereby one of the independent directors is authorized to request that a meeting of the Board be called or that other items be included on the agenda, to coordinate and hear the concerns of external directors and to direct the evaluation by the Board of Directors

YES  NO

Description of the rules

**B.1.22. 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.1.23. Explain whether there exist specific requirements, other than those relating to Directors, to be appointed Chairman:**

YES  NO

Description of the requirements

**B.1.24. State whether the Chairman has a casting vote:**

YES  NO

Subjects for which the casting vote exists

**B.1.25. 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.1.26. 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.1.27. If the number of women directors is scant or nil, describe the reasons therefor as well as the initiatives adopted to correct such situation.**

Description of reasons and initiatives
<p>At the 2007 year end, to which this report refers, Zardoya Otis, S.A. had a low number of directors. Of the 9 Board members, 7 are proprietary directors, one is an executive director and the other is classified under "Other external directors" in accordance with recommendation 11 of the Unified Code of Good Governance.</p> <p>In its policy for choosing directors, Zardoya Otis, S.A. applies processes intended to avoid any discrimination that might limit the access of women to the posts on the Board of Directors. The By-Laws require that the Board of Directors ensures, to the extent of its competencies, that persons of recognized competence and prestige be chosen as candidates for director, regardless of their sex. Consequently, the Company does not rule out the possibility that, in the future, if there is a vacancy and a person with the appropriate profile and experience is identified, the appointment of a woman director be proposed to the General Meeting of Shareholders.</p>

**In particular, state whether the Nominating and Compensation Commission has established procedures which ensure that selection processes are free from any implied bias hindering the selection of women directors and which allow for the free search for women candidates that meet the required profile:**

YES  NO

Describe the main procedures
There is no Nominating and Compensation Commission and, therefore, this procedure is not applicable.

**B.1.28. Indicate whether there are formal procedures for proxy-voting at meetings of the Board of Directors. If so, briefly describe them.**

Article 22 of the By-Laws states that any Director may provide written authorization for another Director to represent him.

In addition, article 11 of the Regulations of the Board of Directors states that each director may authorize another director to represent him without any limit on the number of other directors that one director may represent at the Board meeting. Absent directors may authorize another director to represent them using any written means and telegrams, e-mails or faxes addressed to the Chairman of the Board of Directors are valid.

**B.1.29. 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	7
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	5
Number of meetings of the Nominating and Compensation Commission	0
Number of meetings of the Strategy and Investment Commission	0
Number of meetings of the Commission	0

**B.1.30. Indicate the number of meetings held by the Board of Directors during the fiscal year at which not all of its members have been in attendance. Proxies granted without specific instructions must be counted as absences:**

Number of absences of directors during the fiscal year	0
% of absences over total votes during the fiscal year	0

**B.1.31. 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.1.32. 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.**

The Board of Directors controls, through the Audit Committee, the whole process of drawing up and formulating the annual accounts of Zardoya Otis, S.A. and its Group. This control and permanent contact with the auditor are intended, among other things, to prevent qualifications in the audit report.

To date, the annual accounts (individual and consolidated) have never been submitted to the General Meeting with qualifications in the Audit Report.

The Board of Directors meeting held on April 15, 2008 resolved to amend article 12 of the Regulations of the Board of Directors in order to meet recommendation 53 of the Unified Code of Good Governance and, for this purpose, it states that the Board of Directors will endeavour to submit the accounts to the General Meeting of Shareholders without reservations or qualifications in the audit report and, in exceptional cases where these may exist, the Chairman of the Audit Committee and the auditors will provide the shareholders with clear explanations on the content and scope of said reservations or qualifications.

**B.1.33. Is the Secretary of the Board of Directors a Director?**

YES  NO

**B.1.34. Describe the procedures for appointment and removal of the Secretary of the Board, stating whether the appointment and removal thereof have been reported upon by the Nominating Commission and approved by the full Board.**

Procedure for appointment and removal
In accordance with article 8 of the Regulations of the Board of Directors, the Secretary will be designated by the Board of Directors.
The Nominating Commission does not report on the appointment of the Secretary since no Nominating Commission exists.
Neither the By-Laws nor the Regulations of the Board of Directors provide for any specific procedure for removal of the Secretary and, therefore, he will leave his post when the term for which he was appointed expires or when the Board of Directors so resolves with the vote in favour of a majority of its members.

	YES	NO
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Does the Nominating Commission report on the appointment?		X
Does the Nominating Commission report on the removal?		X
Does the full Board approve the appointment?	X	
Does the full Board approve the removal?	X	

**Is the secretary of the Board responsible for specially ensuring compliance with good governance recommendations?**

YES  NO

Comments
<p>The Board of Directors meeting held on April 15, 2008 resolved to amend article 8 of the Regulations of the Board of Directors in order to meet recommendation 18 of the Unified Code of Good Governance and, for this purpose, it is expressly provided that the Secretary to the Board of Directors must ensure that the resolutions of the Board of Directors:</p> <p>(a) are in line with the letter and the spirit of the Laws and their implementing regulations, including those approved by the regulatory bodies;</p> <p>(b) are in accordance with the By-Laws of the Company and the Regulations of the General Meeting, the Board of Directors and any other body present in the Company; and</p> <p>(c) respect the rules or recommendations on good corporate governance in force at any given moment.</p>

**B.1.35. Indicate the mechanisms, if any, used by the Company to preserve the independence of the auditors, the financial analysts, the investment banks and the rating agencies.**

On July 30, 2004, Zardoya Otis, S.A. approved Internal Conduct Regulations on issues relating to the stock markets, in order to protect the investor by promoting measures for transparency and thus avoid abuse.

In addition, the Board of Directors meeting held on April 15, 2008 resolved to amend article 12 of the Regulations of the Board of Directors in order to meet recommendation 50.2.c) of the Unified Code of Good Governance and, for this purpose, it is provided that the Audit Committee must receive information on any questions that may place the independence of the external auditor at risk. In this respect:

- (i) The Company will notify the National Stock Market Commission of any change in the external Auditor and will accompany the notification with a statement on the possible existence of disagreements with the outgoing Auditor and, if these exist, on the contents thereof.
- (ii) The Audit Committee will ensure that the Company and the external Auditor respect current rules on the provision of services other than audit services, the limits on the Auditor's business concentration and, in general, any other rules in place to ensure auditor independence; and
- (iii) In the event that the external Auditor resigns, it will examine the circumstances that caused this.

**B.1.36. Indicate whether the Company has changed the external auditor during the fiscal year. If so, identify the incoming and the outgoing auditor:**

YES  NO

Outgoing auditor	Incoming auditor

If there has been any disagreement with the outgoing auditor, describe the content thereof:

YES  NO

Description of the disagreement

**B.1.37. 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.1.38. State whether the audit report on the Annual Financial Statements for the prior fiscal year has observations or qualifications. If so, state the reasons given by the Chairman of the Audit Committee to explain the content and scope of such observations or qualifications.**

YES  NO

Description of reasons

**B.1.39. 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 audited by the current audit firm in relation to the total number of years for which the annual accounts have been audited:**

	Company	Group
Number of consecutive years	18	18

	Company	Group
Number of years audited by the current audit firm / Number of years for which the company has been audited (%)	54.54	100.00

**B.1.40. 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
JOSE MARIA LOIZAGA VIGURI	ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A. (ACS)	0.100	DIRECTOR

**B.1.41. State whether any procedure exists that allows the Directors to obtain external advice and, if applicable, give details thereof:**

YES  NO

Details of procedure
<p>Article 17 of the Regulations of the Board of Directors states that the Board of Directors may, with the broadest authorization, obtain any information or advice it may require on any aspect of the Company whenever it so requires to perform its functions.</p> <p>In addition, the Board of Directors meeting held on April 15, 2008 resolved to amend article 17 of the Regulations of the Board of Directors in order to meet recommendation 24 of the Unified Code of Good Governance and, for this purpose, it is provided that any director may request the engagement, at the Company's expense, of legal, accounting, financial or commercial advisors or other experts. The engagement must necessarily refer to specific problems of certain importance and complexity that arise in carrying out the director's duties. The request for the engagement will be channelled through the Chairman or Secretary of the Board of Directors, who may make it subject to the Board's prior authorization, which may be refused when there are reasons to justify this, including the following circumstances:</p> <p>(a) When it is not necessary in order to correctly fulfil the functions entrusted to the directors.  (b) If the cost is not reasonable in the light of the importance of the problem and the Company's assets and income.  (c) If the technical assistance requested may be given adequately by experts and technical staff within the Company.  (d) If it may represent a risk to the confidentiality of the information that must be provided to the expert.</p> <p>Likewise, the Chairman may, as an exception, temporarily restrict access to certain information, informing the Board of this decision.</p>

**B.1.42. 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>Board meetings are, in practice, called 20 days in advance, although the minimum period included in article 10 of the Regulations of the Board of Directors is 10 days, enclosing the Agenda and providing the directors with the information required to prepare the items to be considered at each meeting. For matters in which the Audit Committee is involved, the latter will meet before the Board meeting, which it will subsequently inform, and will obtain such information, calling the persons from the Company, auditors, etc. that it deems necessary in order to fulfil its functions appropriately.</p> <p>Article 17 of the Regulations of the Board of Directors provides that any director will be entitled to receive the information the information he requests to be used for preparing the items to be considered at each Board of Directors meeting. The right to information covers subsidiaries, both national and foreign, and will be channelled through the Chairman of the Board of Directors, who will handle the requests of any director and provide the information directly, offering the appropriate contacts or taking any measures necessary for the examination requested.</p> <p>In addition, the Board of Directors meeting held on April 15, 2008 resolved to amend article 6 of the Regulations of the Board of Directors in order to meet recommendation 16 of the Unified Code of Good Governance and, for this purpose, it is expressly provided that the Chairman of the Board is responsible for ensuring that all the directors receive sufficient information to prepare the items to be discussed at each meeting of the Board of Directors..</p>

**B.1.43. State whether the Company has established any rules requiring Directors to inform the Company —and, if applicable, resign from their position— in cases in which the credit and reputation of the Company may be damaged. If so, describe such rules:**

YES  NO

Description of rules
<p>Until April 15, 2008, directors had to tender their resignation to the Board of Directors and formalize it if the latter saw fit in the following cases:</p> <ul style="list-style-type: none"><li>(a) When they were affected by any of the reasons for incompatibility or prohibition legally provided for.</li><li>(b) When, due to a wilful offence, a firm ruling for trial had been issued against them in ordinary proceedings for serious offences or a conviction in abbreviated proceedings.</li><li>(c) When they were seriously rebuked by the Audit Committee or for having breached their duties as directors.</li></ul> <p>The Board of Directors meeting held on April 15, 2008 resolved to amend articles 15 and 19 of the Regulations of the Board of Directors in order to meet recommendation 32 of the Unified Code of Good Governance, therefore;</p> <ul style="list-style-type: none"><li>(1) Resolved to amend article 15 of the Regulations of the Board of Directors, so that directors are obliged to tender their resignation to the Board of Directors and formalize it if the latter sees fit in the following cases:<ul style="list-style-type: none"><li>(a) When they are affected by any of the circumstances for incompatibility or prohibition provided for by law.</li><li>(b) When they may damage the Company's prestige or reputation.</li><li>(c) When they are accused or prosecuted or when a ruling for opening of an oral trial in ordinary proceedings or a conviction in abbreviated proceedings is issued against them for a serious offence, in particular, from among the offences mentioned in article 124 of the Corporations Act.</li><li>(d) When they are seriously rebuked by the Audit Committee or for having breached their duties as Directors.</li><li>(e) When an external proprietary director transfers its shareholding or when the shareholder that proposed the appointment of the director to the Company sells its shareholding in full or reduces it to a level that requires the reduction or elimination of its proprietary directors.</li></ul></li><li>(2) It resolved to amend article 19 of the Regulations of the Board of Directors so that the directors are obliged to notify the Board of Directors as soon as possible and, if applicable, resign, in the event that any of the circumstances that may affect them and may damage the Company's prestige and reputation arise, in particular, if they are prosecuted in criminal proceedings.</li></ul>

**B.1.44. State whether any member of the Board of Directors has informed the Company that he has become subject to an order for further criminal**

prosecution upon indictment or that an order for the commencement of an oral trial has been issued against him for the commission of any of the crimes contemplated in Section 124 of the Companies Law:

YES  NO

Name of Director	Criminal Case	Comments

Indicate whether the Board of Directors has analyzed the case. If so, provide a duly substantiated explanation of the decision adopted regarding whether or not the Director should remain in office .

YES  NO

Decision adopted	Duly substantiated explanation

**B.2. Commissions of the Board of Directors**

B.2.1. 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	Type of shareholder
MESSINA, Angelo J.	CHAIRMAN	PROPRIETARY
LOIZAGA, José María	MEMBER	OTHER EXTERNAL
GROB, Bruno	MEMBER	PROPRIETARY

**NOMINATING AND COMPENSATION COMMISSION**

Name	Position	Type of shareholder

**NOMINATING COMMISSION**

Name	Position	Type of shareholder

**COMPENSATION COMMISSION**

Name	Position	Type of shareholder

..... COMMISSION



Name	Position	Type of shareholder

**B.2.2. State whether the Audit Committee has the following duties:**

Name	YES	NO
To monitor the preparation and the integrity of the financial information relating to the company and, if appropriate, to the group, checking compliance with legal requirements, the appropriate demarcation of the scope of consolidation, and the correct application of accounting standards.	X	
Periodically review the internal control and risk management systems, in order for the main risks to be properly identified, managed and made known.	X	
Ensure the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of the internal audit service; propose the department's budget; receive regular reports on its activities; and verify that senior management takes into account the findings and recommendations of its reports.	X	
Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate, anonymously, potentially significant irregularities within the company that they detect, in particular financial or accounting irregularities.		X
Submit to the Board proposals for the selection, appointment, re-election and replacement of the external auditor, as well as the contractual terms under which it should be hired.	X	
Regularly receive from the external auditor information regarding the audit plan and the results of the implementation thereof, and verify that senior management takes its recommendations into account.	X	
Ensure the independence of the external auditor.	X	
In the case of groups of companies, favor the auditor of the Group as the auditor responsible for audit work at the companies that form part thereof.	X	

**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**

**Competencies**

Article 24-bis of the By-Laws states that the competencies of the Audit Committee are as follows:

- a) To inform, through the Chairman, at the General Meeting of Shareholders on issues raised thereat on subjects in which it is competent.
- b) To propose to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of the external auditor to which article 204 of the Corporations Act refers.
- c) To supervise the Company's internal audit services.
- d) To keep informed of the Company's financial information and internal control systems.
- e) To keep in contact with the Auditor to receive information on any issues that may place said Auditor's independence at risk and any other matters related to the process of conducting the account audit and to exchange the other communications provided for in account auditing legislation and technical auditing rules with the Auditor.

In addition, at the Board of Directors meeting held on April 15, 2008, the Board called a General Meeting of Shareholders, to be held on May 19, 2008 on the first call or on May 20, 2008 on the second call, which included, as point 7 on the Agenda, the amendment of, among others, article 24 bis of the By-Laws in order to include express reference to the fact that the Audit Committee has, not only the functions attributed thereto in the By-Laws, but also any other functions attributed to it in the Regulations of the Board of Directors.

Finally, the Board of Directors meeting held on April 15, 2008 resolved to amend article 12 of the Regulations of the Board of Directors in order to meet recommendations Nos. 45, 48, 49, 50, 51, 52 and 53 of the Unified Code of Good Governance. According to the new wording of article 12 of the Regulations of the Board of Directors, the competencies of the Audit Committee are as follows:

- (a) To inform, through the Chairman, at the General Meeting of Shareholders on issues raised thereat on subjects in which it is competent.
- (b) To put to the Board of Directors, for submission to the General Meeting of Shareholders, proposals for selecting, appointing, reappointing and replacing the external Account Auditor to which article 204 of the Corporations Act refers, together with the engagement conditions.
- (c) To supervise the Company's internal audit services and, in particular, to: (i) ensure the independence and efficiency of the internal audit function; (ii) propose the selection, appointment, reappointment and removal of the head of the internal audit service; (iii) propose the budget for this service; (iv) receive periodic information on its activities; (v) review the annual work plan of internal audit and its annual activity report; (vi) be kept informed on any incidents that may arise in carrying out the annual internal audit work plan and (vii) check that senior management take the findings and recommendations into account in their reports.
- (d) To be kept informed of and supervise the process of preparing the financial information on the Company and, if applicable, the Group, and the integrity thereof, reviewing compliance with legal requirements, the correct delimitation of the consolidated group and the correct application of accounting principles.
- (e) To periodically review the internal control and risk management systems, so that the main risks are identified, managed and made known appropriately. In particular, the control and risk management policy will identify at least:
  - (i) The different types of risk (operating, technological, financial, legal, reputation, etc.) that the Company faces, including, among the financial and economic risks, contingent liabilities and other off-balance-sheet items;
  - (ii) Fixing the risk level that the Company considers acceptable;
  - (iii) The measures in place to mitigate the impact of the risks identified in the event they materialize; and
  - (iv) The information and internal control systems that will be used to control and manage said risks, including the aforementioned contingent liabilities and off-balance-sheet items.
- (f) To keep in contact with the external Account Auditor to receive information on issues related to conducting the account audit, such as the audit plan and the results of executing it, to exchange with the external Account Auditor the other communications provided for in account auditing legislation and other technical auditing rules and check that the Company's senior management take the Auditor's recommendations into account. Likewise, to receive information on any other questions that might place the external Account Auditor's independence at risk. For this purpose:
  - (i) the Company will notify any change in the external Account Auditor to the National Stock Market Commission as a relevant fact, accompanying the notification with a statement on the possible existence of disagreements with the outgoing auditor and, if any exist, the contents thereof;
  - (ii) the Audit Committee will ensure that the Company and the external Auditor respect current rules on the provision of services other than

- audit services, the limits on the Auditor's business concentration and, in general, any other rules in place to ensure auditor independence; and
- (iii) in the event that the external Auditor resigns, it will examine the circumstances that caused this.
- (g) To favour the group Account Auditor's assuming responsibility for the audits of the companies that form the Group.
- (h) To establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate, anonymously, potentially significant irregularities that they detect within the Company in particular financial or accounting irregularities. The Chairman of the Audit Committee will inform the Board of Directors of the communications received at the first Board meeting subsequent to receipt of the communications.
- (i) To supervise compliance with internal codes of conduct and the good corporate governance rules and recommendations in place at any given moment.
- (j) To inform the Board of Directors, prior to its adoption of the pertinent resolutions, on:
- (i) the financial information that the Company must periodically make public. The Committee should ensure that interim accounts are prepared under the same accounting standards as the annual accounts and, to this end, consider whether a limited review by the external auditor is appropriate.
- (ii) the creation or acquisition of shares or interests in special-purpose entities or entities resident in countries or territories regarded as tax havens, together with any other transactions or operations of a similar nature that, due to their complexity, might impair the transparency of the Group; and
- (iii) related transactions.
- (k) And any other competencies provided for in the By-Laws or these Regulations.

### **Rules of Operation**

Pursuant to article 24 bis of the By-Laws, the rules of operation of the Audit Committee are as follows:

1. The Audit Committee will meet at least once a quarter or whenever the Chairman sees fit or a meeting is requested by at least two Committee members.
2. The Audit Committee is a collegiate body and its decisions will be adopted by a majority of its members. Resolutions adopted by the Audit Committee will be notified to the Board of Directors by sending the full contents of the Minutes of the meetings of this Committee.
3. The Audit Committee may require the presence at any of its meetings of the external Auditor, the advisory lawyer of the Board of Directors, a member of the Company's Management or an employee. In the last of these cases, the requirement of attendance must be made through the General Manager.
4. The Committee will review the financial information that is sent to the National Stock Market Commission on a quarterly basis.
5. The Board of Directors is competent to develop, expand and complete the rules on the composition, operation and competencies of the Audit Committee in all aspects not specified in these By-Laws by drawing up internal Audit Committee Regulations, which must respect the provisions contained in these By-Laws and the Law.

In addition, at the Board of Directors meeting held on April 15, 2008, the Board called a General Meeting of Shareholders, to be held on May 19, 2008 on the first call or on May 20, 2008 on the second call, which included, as point 7 on the Agenda, the amendment of, among others, article 24 bis of the By-Laws, in order to amend the wording of operating rule No. 3 as follows:

3. The Audit Committee may require the presence at any of its meetings of any employee or member of management (and also require them to appear without the presence of any member of management, in which case the requirement for attendance must be made through the General Manager), of any executive Director, the Account Auditor or the Advisory Lawyer to the Board of Directors.

Finally, the Board of Directors meeting held on April 15, 2008 resolved to amend article 12 of the Regulations of the Board of Directors, in order to meet recommendations Nos. 44 and 51 of the Unified Code of Good Governance, the rules of operation of the Audit Committee being as follows:

- (a) The Audit Committee will meet at least once a quarter or whenever the Chairman sees fit or a meeting is requested by at least two Committee members.
- (b) The Committee is a collegiate body and its decisions will be adopted by a majority of its members. Minutes will be taken of the Audit Committee meetings and a copy will be sent to all the Directors and to the Board of Directors by sending the full contents of the Minutes of the meetings of said Committee.
- (c) The Committee may require the presence at any of its meetings of any employee or member of management (and also require them to appear without the presence of any member of management, in which case the requirement for attendance must be made through the General Manager), of any executive Director, the Account Auditor or the Advisory Lawyer to the Board of Directors.
- (d) The Chairman of the Audit Committee will, if applicable, inform on any resolutions that have been adopted or significant facts that have arisen at the first meeting of the Board of Directors subsequent to the Committee meeting.
- (e) The Committee will review the financial information sent to the National Stock Market Commission on a quarterly basis.

**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
Audit Committee	<p><b>Advice:</b> the Audit Committee may obtain external advice when it deems this necessary in order to carry out its functions.</p> <p><b>Consultation:</b> the Committee may require the presence at any of its meetings of any employee or member of management (and also require them to appear without the presence of any member of management, in which case the requirement for attendance must be made through the</p>

	General Manager), of any executive Director, the Account Auditor or the Advisor Lawyer to the Board of Directors. <b>Delegations:</b> the Audit Committee does not hold any powers delegated by the Board of Directors.
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**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 operating rules (transcribed above) have been established for the Audit Committee and these did not change in 2007. The year-end Annual Accounts 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 website in the section Corporate Governance, Commissions of the Board.

In addition, as explained above, at its meeting held on April 15, 2008, the Board of Directors resolved:

1. To propose certain amendments to article 24 bis (Audit Committee) of the By-Laws, so that it reflects that fact that the competencies of the Audit Committee are not only those described in this article, but may be complemented by the provisions of the Regulations of the Board of Directors.
2. To amend article 12 (Creation of Committees), so that it includes the contents of recommendations 44, 45, 48, 49, 50, 52 and 53 of the Unified Code of Good Governance.

The text of these resolutions has been made available to shareholders on the Company's website and at the registered office. Once the amendments to the By-Laws are approved, a consolidated version thereof will be made publicly available on the website.

**B.2.6. 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

<b>C</b>	<b>RELATED TRANSACTIONS</b>
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**C.1. State whether the Board in full has reserved the power to approve, after a favorable report of the Audit Committee or any other committee entrusted with such duty, transactions carried out by the Company with Directors, with significant shareholders or shareholders represented on the Board, or with persons related thereto:**

YES  NO

**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 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 SA	OTIS ELEVATOR COMPANY	Contractual	License Agreements	22,654

**C.3. 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.4. 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)	48,679
OTIS ELEVATOR GROUP	EXPORTS (TO)	68,605
OTIS ELEVATOR GROUP	FINANCIAL INCOME (FROM)	1,313
OTIS ELEVATOR GROUP	INVOICING (TO) R&D OF ZARDOYA OTIS	618

**C.5. Identify, if applicable, any situations of conflicts of interest that affect the company's Directors, as provided for in article 127 ter of the Spanish Corporations Act.**

YES  NO

Name or corporate name of the director	Description of the conflict of interest situation
Messrs. Angelo Messina, Sandy Diehl, Bruno Grob and Mario Abajo García and Otis Elevator Company (represented by Mr. Johan Bill)	Since the mentioned Directors were appointed at the proposal of United Technologies Holdings, S.A., they absented themselves from the meeting of the Board of Directors held on March 30, 2007 at which the acquisition of 51% of the capital of Otis Maroc, S.A. was approved. Their absence was because the seller of 51% of the capital of Otis Maroc, S.A. is a company held indirectly by United Technologies Corporation, which is the parent company of United Technologies Holdings, S.A.

**C.6. Give details of the any mechanisms 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.**

In accordance with article 127 *ter.* of the Corporation Act, directors affected by a conflict of interests refrain from participating in the debate and subsequent voting, absenting themselves from the meeting at which the relevant resolution is adopted.

Article 7.3 of the Internal Conduct Regulations on matters relating to the Stock Markets states that directors, members of management and significant shareholders are obliged to inform the Secretary to the Board of Directors on any possible conflicts of interests to which they may be subject. Any doubt on the possibility of a conflict of interests must be

consulted with the Secretary to the Board of Directors before any decision that may be affected by said conflict is adopted.

The Secretary is responsible for keeping an updated register of conflicts of interests. The Secretary may periodically request the persons subject to the Internal Conduct Regulations on matters relating to the Stock Markets to provide written confirmation that no conflicts of interests exist or that no new conflicts have arisen.

In the event of a conflict of interests that the Secretary has been unable to solve and that requires authorized intervention, it will be submitted to the Board of Directors, which will take the following rules into account in order to decide:

- In the event of conflict between the directors, members of management or significant shareholders and Zardoya Otis, S.A., the interests of the Company will prevail.
- In the event of conflict between Zardoya Otis, S.A. and a shareholder or customer or between the two latter, the fair criterion of the Board will be applicable.

At any event, persons affected by a conflict must govern their conduct by the principles of abstention and independence.

In addition, the Board of Directors meeting held on April 15, 2008 resolved to amend article 19 of the Regulations of the Board of Directors, in order to formally include the directors' obligation to abstain if a situation arises in which their personal interests and those of the Company enter into conflict.

**C.7. Is more than one company of the Group listed in Spain?**

YES  NO

**Identify the subsidiaries listed in Spain:**

Listed subsidiaries

**State whether they have publicly and accurately defined their respective areas of activity and any possible business relationships among them, as well as those between the listed dependent company and the other companies within the Group:**

YES  NO

Describe the possible business relationships between the parent company and the listed subsidiary, and between the subsidiary and the other companies within the Group

**Describe the mechanisms established to resolve possible conflicts of interest between the listed subsidiary and the other companies within the Group:**

Mechanisms for the resolution of possible conflicts of interest

<b>D</b>	<b>RISK CONTROL SYSTEMS</b>
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**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.**

In accordance with article 24 bis c) of the By-Laws, the Audit Committee is responsible for supervising the Company's internal audit services. The Audit Committee has put in place and supervised the control devices that allow the main potential risks of the Company and

its Group to be evaluated and the evaluation of the risk control systems, adopted to the risk profile of the Company and its Group.

In addition, the Board of Directors meeting held on April 15, 2008 resolved to amend article 3 of the Regulations of the Board of Directors, in order to meet recommendation 8 of the Unified Code of Good Governance, to which end the Audit Committee must supervise the Company's internal audit services and, in particular:

- (i) ensure the independence and efficiency of the internal audit function;
- (ii) propose the selection, appointment, reappointment and removal of the head of the internal audit service;
- (iii) propose the budget for this service;
- (iv) receive periodic information on its activities;
- (v) review the annual work plan of internal audit and its annual activity report;
- (vi) be kept informed on any incidents that may arise in carrying out the annual internal audit work plan; and
- (vii) check that senior management take the findings and recommendations into account in their reports.

Finally, pursuant to the wording of article 12 of the Regulations of the Board of Directors approved by the Board of Directors on April 15, 2008, the Audit Committee must periodically review the internal control and risk management systems, so that the main risks are identified, managed and made known appropriately. In particular, the control and risk management policy will identify at least:

- (i) The different types of risk (operating, technological, financial, legal, reputation, etc.) that the Company faces, including, among the financial and economic risks, contingent liabilities and other off-balance-sheet risks;
- (ii) Fixing the risk level that the Company considers acceptable;
- (iii) The measures in place to mitigate the impact of the risks identified in the event they materialize; and
- (iv) The information and internal control systems that will be used to control and manage said risks, including the aforementioned contingent liabilities and off-balance-sheet items.

**D.2. Indicate whether any of the various types of risks (operational, technological, financial, legal, reputational, tax-related, etc.) affecting the Company and/or its Group materialized during the fiscal year.**

YES  NO

**If so, indicate the circumstances giving rise to them and whether the established control systems have worked:**

Risk that occurred during the fiscal year	Circumstances giving rise There to	Performance of control systems

**D.3. Indicate whether there is any committee or other decision-making body in charge of establishing and supervising these control mechanisms.**

YES  NO

**If so, describe its duties:**

Name of Committee or other Body	Description of duties
Board of Directors	The Board of Directors is responsible for approving the risk management and control policy and for periodic monitoring of the internal information and control systems.



Audit Committee	The Audit Committee is responsible for periodically reviewing the internal control and risk management systems, so that the main risks are identified, managed and made known appropriately.
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**D.4. Identification and description of processes for compliance with the different regulations that affect your company and/or its group.**

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

**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 Spanish Corporations Act.**

YES  NO

	Quorum % different from that established as a general rule in article 102 of Corporations Act	Quorum % different from that established in article 103 of the Corporations Act for the special cases set forth in such article 103
Required quorum upon 1st call	60%	2/3 (66.66%)
Required quorum upon 2nd call	50%	50%

Description of differences
The qualified quorums mentioned in the previous chart are required.

**E.2. Explain the regime for adopting corporate resolutions. Describe how it differs from the system provided for in the Corporations Act.**

YES  NO

**Describe the differences**

	Qualified majority other than that established in Section 103.2 of the Companies Law for the cases set Forth in section 103.1	Other cases of qualified majority
% established by the entity for the adoption of resolutions		
<b>Describe the differences</b>		

**E.3. List any shareholders' rights in relation to the General Meetings that differ from those provided for in the Spanish Corporations Act.**

There are no shareholder rights in relation to General Meetings other than those

provided for in the Corporations Act.

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

All the shareholders of Zardoya Otis, S.A. may attend the General Meeting of Shareholders pursuant to the provisions of article 5 of the Regulations of the General Meeting. Likewise, in accordance with article 10 of the Regulations of the General Meeting, all shareholders are entitled to participate, with voice and vote, in the deliberations at the General Meeting, with no type of limitation on the use of voting rights.

In addition to the rights to request a meeting be called, to attend and to designate a representative included in the By-Laws, Zardoya Otis, S.A. applies a policy of encouraging shareholders to participate in the General Meeting of Shareholders with the following measures:

- The General Meeting of Shareholders takes place on premises with the best conditions for holding and following the meeting, with a large capacity, located in the centre of the city where the registered office is located.
- All the documentation necessary for preparing the General Meeting of Shareholders is made available to the shareholders, both on the Company's website and at the registered office.

Finally, in accordance with article 16 of the By-Laws, the Chairman of the General Meeting is responsible for chairing the deliberations, yielding the floor, in strict order, to all the shareholders who have so requested in writing and then to those who request it orally.

**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
<p>To ensure that the General Meeting of Shareholders is conducted in an orderly manner, the relevant measures of caution and protection are in place, including access control systems and other measures necessary to ensure that the meeting runs correctly.</p> <p>In accordance with the Article 8 of the Regulations for the General Meeting of Shareholders, the Chairman will preside and fix the order of the deliberations and speeches, decide on the manner in which votes are taken on the resolutions, handle any queries, clarifications or claims that arise in relation to the Agenda, the list of attendees, share ownership, delegations or representatives, the requirements for a valid quorum and/or the adoption of resolutions by the Meeting, or on the limit on voting rights in the By-Laws. Likewise, the Chairman will yield the floor to the shareholders who so request, withdrawing the right to speak or not granting it and concluding the debates when he considers the subject thereof to have been discussed sufficiently.</p>

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

There were no amendments to the Regulations of the General Meeting during F.Y. 2007.

Notwithstanding, the Board of Directors meeting held on April 15, 2008 called an Ordinary General Shareholders Meeting, including, as point 8 on the Agenda, the amendment of articles 4 (Notice), 5 (Shareholder rights), 8 (The presiding officials at the General Meeting) and 10 (Deliberations and adoption of resolutions) of the Regulations of the

General Meeting with the main purpose of adapting them to recommendations 4, 5 and 6 of the Unified Code of Good Governance.

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

Date of General Meeting	Attendance Figures				Total %
	% physically present	% represented	% distance votes		
			Electronic voting	Other	
04-24-2007	65.27	6.72	0.00	0.00	71.99

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

The sole General Meeting held in 2007, was held in second call on April 24, 2007 and the Agenda was as follows:

- 1) Approval of Annual Accounts and Management Reports for the Year 2006.
- 2) Application of the profit for 2006.
- 3) Approval of the Board of Directors' performance and distribution of dividends charged to the profit for 2006.
- 4) Appointment of Auditors for 2007.
- 5) Bonus issue in the ratio of one new shares for every ten existing shares charged to the Voluntary Reserve.
- 6) Authorization of the Board to acquire treasury stock pursuant to Art. 75 and similar of the Spanish Corporations Law.
- 7) Requests and questions.
- 8) Delegation of powers for formalization of resolutions
- 9) 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.**

YES  NO

Number of shares required to attend the General Meeting	1
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**E.10. State and justify the policies followed by the company in relation to the delegation of votes at the General Meeting.**

According to article 15 of the By-Laws and 6 of the Regulations of the General Meeting, any shareholder may be represented at the General Meeting of Shareholders by another person, who need not be a shareholder, provided said authorization to represent is conferred in writing specifically for each General Meeting of Shareholders, meeting the requirements contained in articles 106 onwards of the Corporations Act.

Each shareholder may vote in person if he attends the General Meeting of Shareholders or by means of his duly-authorized representative.

In addition, the Board of Directors has called an Ordinary General Meeting of Shareholder to be held, on the first call, on May 19, 2008 or, on the second call, on May 20, 2008, including, as point 8 on the Agenda, the amendment of article 10 (Deliberations and adoption of resolutions), among others, so that, whenever legally possible, if the

necessary guarantees of transparency and security exist in the opinion of the Board of Directors, the financial intermediaries who are legitimated as shareholders but acting on behalf of different clients may fraction their votes in accordance with the instructions of said clients.

**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](http://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. 2006, published in May 2007. The Report for the F.Y. 2007 will be published on April 16, 2008.

<b>F</b>	<b>DEGREE TO WHICH THE CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED</b>
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**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.**

**1. The By-Laws of listed companies do not limit the maximum number of votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of the acquisition of its shares on the market**

See Sections: A.9 , B.1.22 , B.1.23 y E.1 , E.2.

Complies  Explain

**2. When both the parent company and a company controlled by it are listed companies, they both provide detailed public disclosure on:**

**a) Their respective areas of activity, and any business dealings between them, as well as between the controlled listed company and other companies belonging to the group;**

**b) The mechanisms in place to resolve any conflicts of interest that may arise.**

See Sections: C.4 y C.7

Complies  Complies in part  Explain  Not applicable

Only Zardoya Otis, S.A. is a listed company on an official Spanish secondary market. Its

ultimate parent, the United States company United Technologies Corporation, is listed on the New York Stock Exchange (United States of America).

United Technologies Corporation is a holding company that carries on no activity other than holding and managing the shares of its subsidiaries, which include Carrier Corporation, Hamilton Sunstrand Corporation, International Comfort Products Corporation, Pratt & Whitney Auto Air, Inc., Sikorsky Aircraft Company and Otis Elevator Company.

United Technologies Corporation is a holding company that has the following Divisions (Business Units): Sikorsky, UTC FIRE & Security, Hamilton Sundstrand, Otis Elevator, Carrier, Pratt & Whitney, UTC Power.

No formal mechanism for solving potential conflicts of interests between Zardoya Otis, S.A. and its parent has been put in place, although, when these situations arise, the directors appointed at the request of United Technologies Corporation abstain from voting on the relevant resolution, as provided for in article 127 ter of the Spanish Corporations Act, and the Audit Committee must inform the Board of Directors, before any decision is adopted, of the related transactions between the Company and its shareholders, directors or senior management. Likewise, the procedure described in point C.6 above will be applicable.

**3. Even if not expressly required under applicable commercial Laws, transactions involving a structural change of the company and, in particular, the following, are submitted to the shareholders at the General Shareholders' Meeting for approval:**

- a) **The transformation of listed companies into holding companies through "subsidiarization", i.e., reallocating core activities to controlled entities that were previously carried out by the company itself, even if the latter retains full ownership of the former;**
- b) **The acquisition or disposal of key operating assets, when it involves an actual change in the corporate purpose;**
- c) **Transactions whose effect is tantamount to the liquidation of the company.**

Complies  Complies in part  Explain

At the Board of Directors meeting held on April 15, 2008, the Board called a General Meeting of Shareholders, to be held on May 19, 2008 on the first call or on May 20, 2008 on the second call, which included, as point 7 on the Agenda, the amendment of article 17 (Attributions and Competencies of the General Meeting) of the By-Laws, in order adapt the contents thereof to this recommendation. Notwithstanding, the Board of Directors does not expect any of these situations to arise in the near future.

**4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information to which recommendation 28 refers, are made public at the time of publication of the notice of call to the General Shareholders' Meeting.**

Complies  Explain

At the Board of Directors meeting held on April 15, 2008, the Board called a General Meeting of Shareholders, to be held on May 19, 2008 on the first call or on May 20, 2008 on the second call, which included, as point 7 on the Agenda, the amendment of article 13 (Notice) of the By-Laws and, as point 8 on the Agenda, the amendment of article 4

(Notice) of the Regulations of the General Meeting of Shareholders, in order adapt the contents thereof to this recommendation.

**5. Matters that are substantially independent are voted on separately at the General Shareholders' Meeting, in order to allow the shareholders to express their voting preferences separately. This rule applies, in particular:**

- a) **To the appointment or ratification of directors, which shall be voted on individually;**
- b) **In the event of amendments of the By-Laws, to each article or group of articles that are substantially independent of one another.**

See Section: E.6

Complies  Complies in part  Explain

Although the Company has been applying this recommendation in practice, at the Board of Directors meeting held on April 15, 2008, the Board called a General Meeting of Shareholders, to be held on May 19, 2008 on the first call or on May 20, 2008 on the second call, which included, as point 7 on the Agenda, the amendment of article 16 (Presiding officials. Deliberations. Adoption of resolutions) of the By-Laws and, as point 8 on the Agenda, the amendment of article 10 (Deliberations and Adoption of resolutions) of the Regulations of the General Meeting of Shareholders, in order adapt the contents thereof to this recommendation.

**6. Companies allow split votes so financial intermediaries who are recorded as having shareholder status but act for the account of different clients can divide their votes in accordance with the instructions given by such clients.**

See Section: E.6

Complies  Explain

Although the Company has been applying this recommendation in practice, the Board of Directors meeting held on April 15, 2008, called an Ordinary General Shareholders Meeting, to be held on May 19, 2008 on the first call or on May 20, 2008 on the second call, which included, as point 8 of the Agenda the amendment of Article 10 (Deliberations and adoptions of resolutions) of the Regulations of the General Meeting of Shareholders, in order to adapt its content to this recommendation.

**7. The Board performs its duties with a unity of purpose and independent judgment, affording equal treatment to all shareholders in furtherance of the corporate interests, which shall be understood to mean the optimization, in a sustained fashion, of the financial value of the Company.**

**It likewise ensures that in its dealings with stakeholders, the Company abides by the laws and regulations, fulfils its obligations and contracts in good faith, respects the customs and good practices of the industries and territories in which it carries on its business, and upholds any other social responsibility standards to which it has voluntarily adhered.**

Complies  Complies in part  Explain

Although the Company has been applying this recommendation in practice, the Board of Directors meeting held on April 15, 2008 resolved to amend article 3 (Functions) of the Regulations of the Board of Directors in order to adapt the contents thereof to this

recommendation.

8. **The Board assumes responsibility, as its core mission, for approving the company's strategy and the organization required to put it into practice, and to ensure that Management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the full Board reserves for itself the right to approve:**

- a) **The company's policies and general lines of strategy, and in particular:**
- i) **The strategic or business Plan as well as the management targets and annual budgets;**
  - ii) **The investment and financing policy;**
  - iii) **The design of the structure of the corporate group;**
  - iv) **The corporate governance policy;**
  - v) **The corporate social responsibility policy;**
  - vi) **The policy for compensation and assessment of the performance of senior managers;**
  - vii) **The risk control and management policy, as well as the periodic monitoring of internal information and control systems.**
  - viii) **The dividend policy and the policy regarding treasury stock and, especially, the limits thereto.**

See Sections: B.1.10, B.1.13, B.1.14 and D.3

- b) **The following decisions:**

- i) **At the proposal of the chief executive of the Company, the appointment and, if applicable, removal of senior managers, as well as their severance packages.**

See Section: B.1.14.

- ii) **The compensation of directors and, in the case of executive directors, the additional compensation to be paid for their executive duties and other terms of their contracts.**

See Section: B.1.14.

- iii) **The financial information that the Company must periodically make public due to its status as listed company.**
- iv) **Investments or transactions of all kinds which are strategic in nature due to the large amount or special characteristics thereof, unless approval thereof falls upon the shareholders at the General Shareholders' Meeting.**
- v) **The creation or acquisition of interests in special -purpose entities or entities registered in countries or territories regarded as tax havens, as**

well as any other transactions or operations of a similar nature whose complexity might impair the transparency of the group.

- c) Transactions made by the company with directors, with significant shareholders or shareholders with Board representation, or with other persons related thereto (“related-party transactions”).

However, Board authorization need not be required in connection with related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard-form agreements applied on an across-the-board basis to a large number of clients;
2. They are conducted at prices or rates generally set by the party acting as supplier of the goods or services in question;
3. The amount thereof is no more than 1% of the Company’s annual revenues.

It is recommended that related-party transactions only be approved by the Board upon the prior favorable report of the Audit Committee or such other committee handling the same function; and that the directors affected thereby should neither exercise nor delegate their votes, and should withdraw from the meeting room while the Board deliberates and votes on the transaction.

It is recommended that the powers granted herein to the Board are conferred without the power of delegation, except for those mentioned under b) and c) above, which may, for urgent reasons, be adopted by the Executive Committee subject to subsequent ratification by the full Board.

See Sections: C.1 and C.6

Complies  Complies in part  Explain

The Board of Directors meeting held on April 15, 2008 resolved to amend article 3 (Functions) of the Regulations of the Board of Directors in order to partially adapt the contents thereof to this recommendation.

Notwithstanding, article 3 (Functions) of the Regulations of the Board of Directors imposes on the Chief Executive Officer the obligation to inform the full Board of Directors of any decisions that he has taken that affect the subjects mentioned in sections 8. a) i), ii), iii), v) and vi).

9. In order to operate effectively and in a participatory manner, the Board ideally is comprised of no few than five and no more than fifteen members.

See Section: B.1.1

Complies  Explain

10. External directors, proprietary and independent, occupy an ample majority of the Board and the number of executive directors is the minimum necessary number, bearing in mind the complexity of the corporate group and the percentage interest held by the executive directors in the Company’s share capital.



See Sections: A.2 , A.3, B.1.3 y B.1.14.

Complies  Complies in part  Explain

- 11. If there is an external director who cannot be deemed either proprietary or independent, the company explains such circumstance and the links such director maintains with the company or its managers or with its shareholders.**

See Section: B.1.3

Complies  Explain  Not applicable

To date, given the composition of the Company's shareholders, the only independent director was Mr. José María Loizaga Viguri. Since the Unified Code of Good Governance came into force, Mr. Loizaga cannot be considered an independent director for the purposes of said Unified Code of Good Governance, since he meets all the requirements contained in section II, number 5 of the Unified Code of Good Governance except the requirement stating that the appointment must be proposed by the Nominating Commission, since the Company has not created this Commission. Therefore, Mr. Loizaga falls within the category of "other external directors".

- 12. Among external directors, the relation between the number of proprietary directors and independent directors reflects the proportion existing between the share capital of the company represented by proprietary directors and the rest of its capital.**

**This strict proportionality standard can be relaxed so that the weight of proprietary directors is greater than would correspond to the total percentage of the share capital that they represent:**

- 1. In large cap companies where few or no equity stakes attain the legal threshold as significant, but there are shareholders holding interests with a high absolute value.**
- 2. In companies with a plurality of shareholders represented on the Board but not otherwise related.**

See Sections: B.1.3 , A.2 and A.3

Complies  Explain

The Regulations of the Board of Directors do not require the Board to include a minimum number of independent directors. The composition of the Board of Directors is appropriate to the composition of the shareholders and, at any event, meets the provisions of the Regulations of the Board of Directors and the By-Laws.

- 13. The number of independent directors represents at least one-third of the total number of directors.**

See Section: B.1.3

Complies  Explain

The Regulations of the Board of Directors do not require the Board to be formed by a minimum number of independent directors. The composition of the Board of Directors is

considered appropriate to the composition of the shareholders and, at any event, meets the provisions of the Regulations of the Board of Directors and the By-Laws.

- 14. The status of each director is explained by the Board at the General Shareholders' Meeting at which the shareholders are to make or ratify their appointment and that such status is confirmed or reviewed, as the case may be, annually in the Annual Corporate Governance Report, after verification by the Nominating Commission. Said report also discloses the reasons for the appointment of proprietary directors at the proposal of shareholders controlling less than 5% of the share capital, as well as the reasons for not having accommodated formal petitions, if any, for presence on the Board from shareholders whose equity stake is equal to or greater than that others at whose proposal proprietary directors have been appointed.**

See Sections: B.1.3 and B.1.4

Complies  Complies in part  Explain

The Board of Directors explains to the General Meeting of Shareholders the status of each director whose appointment or ratification has been proposed. Zardoya Otis, S.A. has not created a Nominating Commission. In F.Y. 2007, no formal requests for presence on the Board of Directors were received from shareholders with a stake of less than 5%, except the request for the appointment of Bresla Investments, S.L. Said company has been appointed an external proprietary director to replace Investment, S.A., one of the Company's former directors. Bresla Investments, S.L. is controlled by the Zardoya family.

- 15. When women directors are few or non-existent, the Board explains the reasons for this situation and the measures taken to correct it ; and in particular, the Nominating Commission takes steps to ensure that, when new vacancies are filled:**
- a) **Selection procedures do not have an implied bias that hinders the selection of women directors;**
  - b) **The company deliberately looks for women with the target professional profile and includes them among the potential candidates.**

See Sections: B.1.2, B.1.27 and B.2.3.

Complies  Complies in part  Explain  Not applicable

At the 2007 year end, to which this report refers, Zardoya Otis, S.A. had a low number of directors. Of the 9 Board members, 7 are proprietary directors, one is an executive director and the other is classified under "Other external directors" in accordance with recommendation 11 of the Unified Code of Good Governance.

In its policy for choosing directors, Zardoya Otis, S.A. applies processes intended to avoid any discrimination that might limit the access of women to the posts on the Board of Directors. The By-Laws require that the Board of Directors ensure, to the extent of its competencies, that persons of recognized competence and prestige be chosen as candidates for director, regardless of their sex. Consequently, the Company does not rule out the possibility that, in the future, if there is a vacancy and a person with the appropriate profile and experience is identified, the appointment of a woman director be proposed to the General Meeting of Shareholders.

- 16. The Chairman, as the person responsible for the effective operation of the Board, ensures that directors receive adequate information in advance of Board meetings; promotes debate and the active involvement of directors during Board meetings;**

**safeguards their rights to freely take a position and express their opinion; and, working with the chairmen of the appropriate committees, organizes and coordinates regular evaluations of the Board and, where appropriate, the Chief Executive Officer.**

See Section: B.1.42

Complies  Complies in part  Explain

According to article 11 of the Regulations of the Board of Directors, the Chairman is responsible for organizing the debate at the Board of Directors meetings and encouraging the participation of all the directors in the Board's deliberations. Likewise, according to the Regulations of the Board of Directors, he must ensure that the directors receive sufficient information to prepare the items on the agenda at the Board meetings and channel any information requests submitted by directors.

Notwithstanding, given the shareholder composition and the structure of the Board (on which 7 of the 9 directors are proprietary directors, one is an executive director and the other belongs to the category of "other external directors"), the Board of Directors has not seen fit to date to make any formal evaluation of its performance, notwithstanding the supervision inherent to a company that forms part of the United Technologies Corporation Group.

- 17. When the Chairman of the Board is also the chief executive of the company, one of the independent directors is authorized to request the calling of a Board meeting or the inclusion of new business on the agenda; to coordinate and hear the concerns of external directors; and to lead the Board's evaluation of the Chairman.**

See Section: B.1.21

Complies  Complies in part  Explain  Not applicable

- 18. The Secretary of the Board takes particular care to ensure that the Board's actions:**

- a) Adhere to the letter and the spirit of laws and their implementing regulations, including those approved by the regulatory authorities;**
- b) Comply with the company's bylaws and the Regulations for the General Shareholders' Meeting, the Regulations of the Board and other regulations of the company;**
- c) Are informed by those good governance recommendations included in this Unified Code as the company has subscribed to.**

**And, in order to safeguard the independence, impartiality and professionalism of the Secretary, his appointment and removal are reported by the Nominating Commission and approved by the full Board; and that such appointment and removal procedures are set forth in the Regulations of the Board.**

See Section: B.1.34

Complies  Complies in part  Explain

The Board of Directors meeting held on April 15, 2008 resolved to amend article 8 (The Secretary to the Board of Directors) of the Regulations of the Board of Directors in order to adapt the contents thereof to this recommendation. Notwithstanding, since no Nominating Commission has been created, Zardoya Otis does not fully apply this

recommendation.

19. **The Board meets with the frequency required to perform its duties efficiently, in accordance with the calendar and agendas set at the beginning of the fiscal year, and that each Director is entitled to propose items of the agenda that were not originally included therein.**

See Section: B.1.29

Complies  Complies in part  Explain

20. **Directors' absences are limited to unavoidable cases and quantified in the Annual Corporate Governance Report. And when there is no choice but to grant a proxy, it is granted with instructions.**

See Sections: B.1.28 and B.1.30

Complies  Complies in part  Explain

21. **When directors or the Secretary express concerns about a proposal or, in the case of the directors, regarding the running of the company, and such concerns have not been resolved at a Board meeting, such concerns are recorded in the minutes at the request of the person expressing them.**

Complies  Complies in part  Explain  Not applicable

22. **The full Board evaluates the following on a yearly basis:**

- a) **The quality and efficiency of the Board's operation;**
- b) **On the basis of a report submitted to it by the Nominating Commission, how well the Chairman and chief executive of the company have carried out their duties;**
- c) **The performance of its Committees, on the basis of the reports furnished by them.**

See Section: B.1.19

Complies  Complies in part  Explain

Given the shareholder composition and the structure of the Board (on which 7 of the 9 directors are proprietary directors, one is an executive director and the other belongs to the category of "other external directors"), the Board of Directors has not seen fit to date to make any formal evaluation of its performance, notwithstanding the supervision inherent to a company that forms part of the United Technologies Corporation Group.

23. **All directors are able to exercise the right to request any additional information they require on matters within the Board's competence. Unless the By-laws or the Regulations of the Board provide otherwise, such requests are addressed to the Chairman or the Secretary of the Board.**

See Section: B.1.31

Complies  Explain

24. All directors are entitled to call on the company for the advice they need to carry out their duties. The company provides suitable channels for the exercise of this right, which, in special circumstances, may include external advice at the company's expense.

See Section: B.1.41

Complies  Explain

25. Companies organize induction programs for new Directors to rapidly and adequately acquaint them with the Company and its corporate governance rules. Directors are also offered refresher training programs when circumstances so advise.

Complies  Complies in part  Explain

26. Companies require that directors devote sufficient time and effort to perform their duties efficiently, and, as such:

- a) Directors apprise the Nominating Commission of their other professional duties, in case they might detract from the necessary dedication;
- b) Companies lay down rules about the number of boards on which their directors may sit.

See Sections: B.1.8, B.1.9 and B.1.17

Complies  Complies in part  Explain

Given the shareholder composition and the structure of the Board (on which 7 of the 9 directors are proprietary directors, one is an executive director and the other belongs to the category of "other external directors"), the Board of Directors has not seen fit to create a Nominating Commission to date. Neither has it felt it advisable to limit the number of Boards of Directors upon which the directors may sit, in particular, because a large number of the proprietary directors are executives of the parent group, United Technologies Corporation, and, consequently, members of the Boards of Directors of other Group companies.

27. The proposal for the appointment or re-election of directors that the Board submits to the shareholders at the General Shareholders' Meeting, as well as the interim appointment of directors to fill vacancies, are approved by the Board:

- a) On the proposal of the Nominating Commission, in the case of independent directors.
- b) Subject to a prior report from the Nominating Commission, in the case of other directors.

See Section: B.1.2, B.1.19, B.2.3 and B.2.4

Complies  Complies in part  Explain

Given the shareholder composition and the structure of the Board (on which 7 of the 9 directors are proprietary directors, one is an executive director and the other belongs to the category of "other external directors"), the Board of Directors has not seen fit to

create a Nominating Commission to date.

**28. Companies post the following director information on their websites, and keep such information updated:**

- a) Professional and biographical profile;
- b) Other Boards of Directors of listed or unlisted companies on which they sit
- c) Indication of the director's classification, specifying, for proprietary directors, the shareholder they represent or to whom they are related.
- d) Date of their first and subsequent appointments as a company director; and
- e) Shares held in the company and options thereon held by them.

Complies  Complies in part  Explain

Zardoya Otis, S.A. posts the information described in this recommendation on its website and keeps it updated, except for the biographical profiles, which, to date, it has not been seen fit to post for confidentiality-related reasons.

**29. Independent directors do not hold office as such for a continuous period of more than 12 years.**

See Section: B.1.2

Complies  Explain

The Regulations of the Board of Directors do not provide for this limitation at present. In addition, as stated previously, currently, none of the directors fully meet the requirements contained in section III, number 5 of the Unified Code of Good Governance.

**30. Proprietary directors tender their resignation when the shareholder they represent sells its entire shareholding interest. The appropriate number of them do likewise when such shareholder reduces its interest to a level that requires the reduction of the number of its proprietary directors.**

See Sections: A.2 and B.1.2

Complies  Complies in part  Explain

**31. The Board of Directors does not propose the removal of any independent director prior to the expiration of the term, set by the bylaws, for which he was appointed, except for good cause is found by the Board upon a prior report of the Nominating Commission. In particular, good cause shall be deemed to exist whenever the director has failed to perform the duties inherent in his position or comes under any of the circumstances described in section III.5 (Definitions) of this Code.**

The removal of independent directors may also be proposed as a result of Tender Offers, mergers or other similar corporate transactions that entail a change in the equity structure of the Company, when such changes in the structure of the Board follow from the proportionality standard mentioned in Recommendation 12.

See Sections: B.1.2, B.1.5 and B.1.26

Complies  Explain

The Regulations of the Board of Directors do not require a minimum number of independent directors. In addition, the Board of Directors has not created a Nominating Commission because the Company has no independent directors and one of the essential characteristics of the Nominating Commission is that it is composed by a majority of independent directors.

32. **Companies establish rules obliging directors to report and, if appropriate, to resign in those instances as a result of which the credit and reputation of the company might be damaged and, in particular, they require that such directors report to the Board any criminal charges brought against them, and the progress of any subsequent proceedings.**

If a director is indicted or tried for any of the crimes described in Section 124 of the Corporations Act, the Board examines the matter as soon as practicable and, in view of the particular circumstances thereof, decides whether or not it is appropriate for the director to continue to hold office. And the Board provides a substantiated account thereof in the Annual Corporate Governance Report.

See Sections: B.1.43, B.1.44

Complies  Complies in part  Explain

33. **All directors clearly express their opposition when they feel that any proposed resolution submitted to the Board might be contrary to the best interests of the company. And in particular, independent directors and the other directors not affected by the potential conflict of interest do likewise in the case of decisions that could be detrimental to the shareholders lacking Board representation.**

When the Board adopts material or reiterated resolutions about which a director has expressed serious reservations, such director draws the pertinent conclusions and, if he chooses to resign, sets out the reasons in the letter referred to in the next Recommendation.

This Recommendation also applies to the Secretary of the Board, even if he is not a director.

Complies  Complies in part  Explain  Not applicable

34. **Directors who give up their place before their tenure expires, through resignation or otherwise, explain the reasons in a letter sent to all members of the Board. Without prejudice to such withdrawal being communicated as a significant event, the reason for the withdrawal is explained in the Annual Corporate Governance Report.**

See Section: B.1.5

Complies  Complies in part  Explain  Not applicable

The Company does not see fit to impose the obligation to explain the reasons for their resignation upon the directors, notwithstanding their right to make the reasons for such resignation public.

35. The compensation policy approved by the Board specifies at least the following points.
- a) The amount of the fixed components, with a breakdown showing the fees, if any, for attending the meetings of the Board and its Committees and an estimate of the fixed annual fixed compensation they give rise to;
  - b) Variable compensation items, including, in particular:
    - i) The classes of directors to which they apply, as well as an explanation of the relative weight of variable to fixed compensation
    - ii) Performance evaluation criteria used to calculate entitlement to compensation in shares, share options or any other variable component;
    - iii) Main parameters and grounds for any system of annual bonuses or other non-cash benefits; and
    - iv) An estimate of the absolute amount of variable compensation arising from the proposed compensation plan, as a function of the degree of compliance with benchmark assumptions or targets.
  - c) The main characteristics of pension systems (for example, supplementary pensions, life insurance and similar systems), with an estimate of the amount thereof or the equivalent annual cost.
  - d) Terms and conditions that must be included in the contracts of executive directors performing senior management duties, which will include:
    - i) Duration;
    - ii) Notice periods; and
    - iii) Any other provisions relating to hiring bonuses, as well as indemnity or “golden parachute” provisions in the event of early or other termination of the contractual relationship between the company and the executive director.

See Section: B.1.15

Complies  Complies in part  Explain

36. Compensation paid by means of delivery of shares in the company or companies that are members of the group, share options or instruments indexed to the price of the shares, and variable compensation linked to the company' s performance or pension schemes is confined to executive directors.

This recommendation shall not apply to the delivery of shares when such delivery is subjected to the condition that the directors hold the shares until they cease to hold office as directors.

See Sections: A.3, B.1.3

Complies  Explain

The compensation policy of Zardoya Otis, S.A. does not include the delivery of shares.



37. The compensation of external directors is such as is necessary to compensate them for the dedication, qualifications and responsibility required by their position, but is not so high as to compromise their independence

Complies  Explain

38. The compensation linked to company earnings takes into account any qualifications included in the external auditor's report that reduce such earnings.

Complies  Explain  Not applicable

39. In the case of variable compensation, compensation policies include technical safeguards to ensure that such compensation reflects the professional performance of the beneficiaries thereof and not simply the general performance of the markets or of the industry in which the company does business or circumstances of this kind.

Complies  Explain  Not applicable

The variable compensation considered in the compensation policy of Zardoya Otis, S.A. is related only to the attendance to the meetings of the Board of Directors.

40. The Board submits a report on director compensation policy to the vote of the shareholders at a General Shareholders' Meeting, as a separate item on the agenda and for advisory purposes. This report is made available to the shareholders separately or in any other manner that the Company deems appropriate.

Such report shall focus especially on the compensation policy the Board has approved for the current year, as well as on the policy, if any, established for future years. It will address all the points referred to in Recommendation 35, except those potentially entailing the disclosure of commercially sensitive information. It will emphasize the most significant changes in such policies with respect to the policy applied during the fiscal year prior to that to which the General Shareholders' Meeting refers. It shall also include an outline of the manner in which the compensation policy was applied in such prior fiscal year.

The Board also reports on the role played by the Compensation Commission in the preparation of the compensation policy and, if external advice was provided, it states the name of the external advisors that have given such advice.

See Section: B.1.16

Complies  Complies in part  Explain

The maximum amount of the directors' compensation is fixed in article 24 of the By-Laws and it is paid on the condition that a minimum dividend is paid to the shareholders and the legal reserves and those provided for in the By-Laws are met. In practice, the compensation is always lower than the sum provided for in the By-Laws. The mechanism for fixing the maximum compensation of the directors is described in more detail in section B.1.16 above.

Therefore, given that Spanish legislation does not provide for consultative voting at the General Meeting of Shareholders (the highest decision-making body in mercantile companies), the Board of Directors has considered that the foregoing means that it is not necessary to submit a report on compensation policy to a consultative vote.

Apart from the above, the Board of Directors makes its compensation policy public in the Annual Corporate Governance Report.

41. The Notes to the Financial Statements list the individual directors' compensation during the fiscal year, including:

- a) A breakdown of the compensation of each director, to include where appropriate.
- i) Attendance fees or other fixed compensation received as a director;
  - ii) The additional compensation received as chairman or member of a Board committee;
  - iii) Any compensation received under profit-sharing or bonus schemes, and the reason for the accrual thereof;
  - iv) Contributions on the director's behalf to defined-contribution pension plans; or any increase in the director's vested rights, in the case of contributions to defined-benefit plans;
  - v) Any severance package agreed or paid;
  - vi) Any compensation received as a director of other companies in the group.
  - vii) Compensation for the performance of senior management duties by executive directors;
  - viii) Any item of compensation other than those listed above, of whatever nature and provenance within the group, especially when it is deemed to be a related-party transaction or when the omission thereof detracts from a true and fair view of the total compensation received by the director.
- b) A breakdown of any delivery to directors of shares, share options or any other instrument indexed to the price of the shares, specifying:
- i) Number of shares or options awarded during the year, and the terms and conditions for the exercise thereof;
  - ii) Number of options exercised during the year, specifying the number of shares involved and the exercise price;
  - iii) Number of options outstanding at the end of the year, specifying their price, date and other requirements for exercise;
  - iv) Any change during the year in the terms for the exercise of previously-awarded options.
- c) Information on the relationship, in such past fiscal year, between the compensation received by executive directors and the profits or other measures of performance of the company.

Complies  Complies in part  Explain

Zardoya Otis has not seen fit to make more information public regarding its directors' compensation than that required by the Annual Corporate Governance Report, thus

complying with legal obligations and respecting the directors' privacy.

42. **When there is an Executive Committee (hereinafter, "Executive Committee"), the breakdown of its members by director category is similar to that of the Board, and its secretary is the Secretary of the Board.**

See Sections: B.2.1 and B.2.6

Complies  Complies in part  Explain  Not applicable

43. **The Board is always kept informed of the matters dealt with and the resolutions adopted by the Executive Committee, and all members of the Board receive a copy of the minutes of the meetings of the Executive Committee.**

Complies  Explain  Not applicable

44. **In addition to the Audit Committee mandatory under the Stock Market Act, the Board of Directors forms a single Nominating and Compensation Commission as a separate committee of the Board, or a Nominating Commission and a Compensation Commission.**

The rules governing the make-up and operation of the Audit Committee and the Nominating and Compensation Commission or committees are set forth in the Regulations of the Board, and include the following:

- a) **The Board appoints the members of such Committees, taking into account the background knowledge, qualifications and experience of the Directors and the responsibilities of each Committee, discusses its proposals and reports, and receives a report, at the first meeting of the full Board following the meetings of such committees, on their activities and the work.**
- b) **These Committees are formed exclusively of external directors and have a minimum of three members. The foregoing is without prejudice to the attendance of executive directors or senior managers, when expressly resolved by the members of the Committee.**
- c) **Committee Chairmen are independent directors.**
- d) **They may receive external advice, whenever they feel this is necessary for the discharge of their duties.**
- e) **Minutes are prepared of their meetings, and a copy sent to all Board members.**

See Sections: B.2.1 and B.2.3

Complies  Complies in part  Explain

Given the shareholder composition and the structure of the Board (on which 7 of the 9 directors are proprietary directors, one is an executive director and the other belongs to the category of "other external directors"), the Board of Directors has not created a Nominating Commission to date.

45. **Supervising compliance with internal codes of conduct and corporate governance rules is entrusted to the Audit Committee, the Nominating Commission or, if they exist separately, to the Compliance or Corporate Governance Committee.**

Complies  Explain

In practice, Zardoya Otis, S.A. complies with most of this recommendation. Notwithstanding, the Board of Directors meeting held on April 15, 2008 resolved to amend article 12 (Creation of Committees) of the Regulations of the Board of Directors, in order to partially adapt the contents thereof to, among others, this recommendation. Therefore, the Audit Committee will be competent to supervise compliance with internal codes of conduct and the rules and recommendations for good corporate governance in force at any given moment.

46. **The members of the Audit Committee and, particularly, the Chairman thereof, are appointed taking into account their background knowledge and experience in accounting, auditing and risk management matters.**

Complies  Explain

47. **Listed companies have an internal audit function which, under the supervision of the Audit Committee, to ensure the smooth operation of the information and internal control systems.**

Complies  Explain

48. **The head of internal audit presents an annual work plan to the Audit Committee; reports to it directly on any issues arising in the execution of such plan; and submits an activities report to it at the end of each fiscal year.**

Complies  Complies in part  Explain

In practice, Zardoya Otis, S.A. complies with most of this recommendation. Notwithstanding, the Board of Directors meeting held on April 15, 2008 resolved to amend article 12 (Creation of Committees) of the Regulations of the Board of Directors, in order to partially adapt the contents thereof to, among others, this recommendation. As a result of this amendment, the Audit Committee will supervise the Company's internal audit services and, in particular, will: (i) ensure the independence and efficiency of the internal audit function; (ii) propose the choice, appointment, reappointment and removal of the head of the internal audit service; (iii) propose the budget for this service; (iv) receive periodic information on its activities; (v) review the annual work plan of internal audit and its annual activity report; (vi) be kept informed on any incidents that may arise in carrying out the annual internal audit work plan and (vii) check that senior management take the findings and recommendations into account in their reports.

49. **Risk control and management policy specifies at least:**

- a) **The different types of risk (operational, technological, financial, legal, reputational, etc.) the company is exposed to, including contingent liabilities and other off-balance sheet risks among financial or economic**
- b) **The determination of the risk level the company sees as acceptable;**
- c) **Measures in place designed to mitigate the impact of the risks identified, should they materialize;**
- e) **The internal reporting and control systems to be used to monitor and manage the above risks, including contingent liabilities and off-balance sheet risks.**

See Section: D

Complies  Complies in part  Explain

In practice, Zardoya Otis, S.A. complies with most of this recommendation. Notwithstanding, the Board of Directors meeting held on April 15, 2008 resolved to amend article 12 (Creation of Committees) of the Regulations of the Board of Directors, in order to partially adapt the contents thereof to, among others, this recommendation. As a result of this amendment, the Audit Committee will periodically review the internal control and risk management systems, so that the main risks are identified, managed and made known appropriately. In particular, the control and risk management policy will identify at least:

- (i) The different types of risk (operating, technological, financial, legal, reputation, etc.) that the Company faces, including, among the financial and economic risks, contingent liabilities and other off-balance-sheet items;
- (ii) Fixing the risk level that the Company considers acceptable;
- (iii) The measures in place to mitigate the impact of the risks identified in the event they materialize; and
- (iv) The information and internal control systems that will be used to control and manage said risks, including the aforementioned contingent liabilities and off-balance-sheet items.

**50. The Audit Committee's role is:**

**1. With respect to the internal control and reporting systems:**

- a) **To monitor the preparation and the integrity of the financial information relating to the company and, if appropriate, to the group, checking compliance with legal requirements, the appropriate demarcation of the scope of consolidation, and the correct application of accounting standards.**
- b) **To periodically review internal control and risk management systems so main risks are properly identified, managed and disclosed.**
- c) **To ensure the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of the internal audit service; propose the department's budget; receive regular reports on its activities; and verify that senior management takes into account the findings and recommendations of its reports.**
- d) **To establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate, anonymously, potentially significant irregularities within the company that they detect, in particular financial or accounting irregularities.**

**2. With respect to the external auditor:**

- a) **To make recommendations to the Board for the selection, appointment, reappointment and replacement of the external auditor, and the terms of its engagement.**

- b) To receive regular information from the external auditor on the audit plan and the results of the implementation thereof, and check that senior management takes its recommendations into account.
- c) To monitor the independence of the external auditor, to which end:
  - i) The company reports a change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements with the outgoing auditor and the reasons for the same.
  - ii) The Committee ensures that the company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, all other regulations established to safeguard the independence of the auditors;
  - iii) In the event of resignation of the external auditor, the Committee investigates the circumstances that may have given rise thereto.
- d) In the case of groups, the Committee favors the auditor of the group assuming responsibility for the audits of the companies that form part thereof.

See Sections: B.1.35, B.2.2, B.2.3, B.2.4 and D.3

Complies  Complies in part  Explain

In F.Y. 2007, Zardoya Otis, S.A. complied with most of this recommendation. In addition, the Board of Directors meeting held on April 15, 2008 resolved to amend article 12 (Creation of Committees) of the Regulations of the Board of Directors, in order to partially adapt the contents thereof to, among others, this recommendation.

51. The Audit Committee may cause any company employee or manager to appear before it, and even order their appearance without the presence of any other manager.

Complies  Explain

52. The Audit Committee reports to the Board, prior to the adoption thereby of the corresponding decisions, on the following matters specified in Recommendation 8:

- a) The financial information that the Company must periodically make public due to its status as a listed company. The Committee should ensure that interim financial statements are prepared under the same accounting standards as the annual financial statements and, to this end, consider whether a limited review by the external auditor is appropriate.
- b) The creation or acquisition of interests in special -purpose entities or entities registered in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.
- c) Related-party transactions, unless such prior reporting duty has been assigned to another supervision and control committee.

See Sections: B.2.2 y B.2.3

Complies  Complies in part  Explain

In F.Y. 2007, Zardoya Otis, S.A. met the obligation contained in letter a) of this recommendation. In addition, the Board of Directors meeting held on April 15, 2008 resolved to amend article 12 (Creation of Committees) of the Regulations of the Board of Directors, in order to partially adapt the contents thereof to, among others, this recommendation.

- 53. The Board of Directors seeks to present the financial statements to the shareholders at the General Shareholders' Meeting without reservations or qualifications in the auditor's report and, in the exceptional instances where they do exist, both the Chairman of the Audit Committee and the auditors give a clear account to the shareholders of the content and scope of such reservations or qualifications.**

See Section: B.1.38

Complies  Complies in part  Explain

- 54. The majority of the members of the Nominating Commission –or of the Nominating and Compensation Commission, if one and the same– are independent directors.**

See Section: B.2.1

Complies  Explain  Not applicable

Given the shareholder composition and the structure of the Board (on which 7 of the 9 directors are proprietary directors, one is an executive director and the other belongs to the category of "other external directors"), the Board of Directors has not created a Nominating Commission.

- 55. The Nominating Commission has the following duties, in addition to those stated in the earlier Recommendations:**

- a) To assess the qualifications, background knowledge and experience necessary to sit on the Board, defining, accordingly, the duties and qualifications required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.
- b) To examine or organize, in the manner it deems appropriate, the succession of the Chairman and the chief executive and, if appropriate, make proposals to the Board for such succession to take place in an orderly and well-planned manner.
- c) To report on senior manager appointments and removals that the chief executive proposes to the Board.
- d) To report to the Board on the gender diversity issues discussed in Recommendation 14 of this Code.

See Section: B.2.3 and B.2.4

Complies  Complies in part  Explain  Not applicable

Given the shareholder composition and the structure of the Board (on which 7 of the 9 directors are proprietary directors, one is an executive director and the other belongs to the category of "other external directors"), the Board of Directors has not created a Nominating Commission.

**56. The Nominating Commission consults with the Company' s Chairman and chief executive, especially on matters relating to executive directors.**

**And that any board member may request that the Nominating Commission consider possible candidates to fill vacancies for the position of director, if it finds them suitably qualified.**

Complies  Complies in part  Explain  Not applicable

Given the shareholder composition and the structure of the Board (on which 7 of the 9 directors are proprietary directors, one is an executive director and the other belongs to the category of "other external directors"), the Board of Directors has not created a Nominating Commission.

**57. The Compensation Commission is responsible for the following duties, in addition to those set forth in the earlier recommendations:**

**a) To propose to the Board of Directors:**

- i) The compensation policy for directors and senior managers;**
- ii) The individual compensation of executive directors and other terms of their contracts.**
- iii) The basic terms and conditions of the contracts with senior managers.**

**b) To ensure compliance with the compensation policy set by the company.**

See Sections: B.1.14, B.2.3

Complies  Complies in part  Explain  Not applicable

Given the shareholder composition and the structure of the Board (on which 7 of the 9 directors are proprietary directors, one is an executive director and the other belongs to the category of "other external directors"), the Board of Directors has not created a Compensation Commission.

**58. The Compensation Commission consults with the Chairman and chief executive of the Company, especially on matters relating to executive directors and senior managers.**

Complies  Explain  Not applicable

Given the shareholder composition and the structure of the Board (on which 7 of the 9 directors are proprietary directors, one is an executive director and the other belongs to the category of "other external directors"), the Board of Directors has not created a Compensation Commission.



G	<b>OTHER INFORMATION OF INTEREST</b>
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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.

**Binding definition of independent director:**

Indicate whether any of the independent directors has or has had any relationship with the company, its significant shareholders or its managers which, had it been sufficiently significant or important, would have resulted in the director not qualifying for consideration as independent pursuant to the definition set forth in sub-section 5 of the Unified Code of Good Governance.

YES                       NO

Name of the director	Type of relationship	Explanation

This annual corporate governance report was approved by the company's Board of Directors at its meeting held on April 15, 2008.

State the Directors who voted against approval of the present Report or abstained in relation hereto.

YES                       NO

Name or corporate name of the director that did not vote in favor of the approval of this report	Reasons (opposed, abstained, absent)	Explain the reasons

**ZARDOYA OTIS S.A.**

Golfo de Salónica, 73- 28033 Madrid - Spain  
Telf: 91 343 51 00 fax: 91 343 51 41 - [www.otis.com](http://www.otis.com)