

**ANNUAL CORPORATE GOVERNANCE REPORT  
FOR LISTED COMPANIES**

**DETAILS IDENTIFYING ISSUER**

**DATE OF END OF REPORTING PERIOD** Nov. 30, 2016

**TAX IDENTIFICATION NUMBER** A28011153

**CORPORATE NAME**

ZARDOYA OTIS S.A.

**REGISTERED ADDRESS**

CALLE GOLFO DE SALÓNICA 73

## 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
July 4, 2016	47,046,431,10	470,464,311	470,464,311

State whether there are different classes of shares to which different rights are associated:

Yes  No

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

Name or corporate name of shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct owner of the shareholding	Number of voting rights	
UNITED TECHNOLOGIES CORPORATION (UTC)	0	United Technologies Holdings, S.A.S.	235,279,377	50.01%

State the most significant movements in the shareholder structure that took place during the period:

There were no significant movements in the shareholder structure during the period.

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

Name or corporate name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct owner of the holding	Number of voting rights	
MR BERNARDO CALLEJA FERNANDEZ	1,300			0.00%
MR PIERRE DEJOUX	10			0.00%
MR MARK GEORGE	5			0.00%
MR ALBERTO ZARDOYA ARANA	119			0.00%
MR MARIO ABAJO GARCIA	762,092			0.16%

EURO-SYNS, S.A.	49,338,213	CENON INVESTMENTS, S.L.U.	4,464,562	11.436%
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<b>% of total voting rights held by the Board of Directors</b>	11.60 %
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Complete the following charts on the members of the Board of Directors of the company who hold rights over company shares:

No member of the Board of Directors of the Company holds rights over company shares.

- 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:

Related name or corporate name	Type of relationship	Brief description
Euro-Syns, S.A.	Family	This director is a company controlled by members of 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 and/or its group, unless they are of little relevance or are derived from ordinary business or trading:

Related name or corporate name	Type of relationship	Brief description
United Technologies Holdings, S.A.S.	Commercial Contractual Corporate	As of November 30, 2016, United Technologies Corporation (UTC) held 100% of the shares of Otis Elevator Company and 50.01% of the company's shares through United Technologies Holdings, S.A.S.  The Company has commercial and contractual relations with Otis Elevator Company and United Technologies Corporation (UTC). See Section D for further information.

- A.6 State whether any paracorporate (shareholders') agreements affecting the Company pursuant to the provisions of articles 530 and 531 of the Capital Companies Law have been reported to the Company. If so, briefly describe them and list the shareholders bound by the agreement:

Yes  No

State whether the company is aware of the existence of any actions that have been arranged between its shareholders. If so, briefly describe them:

Yes  No

In the event that there was any change or breach of said agreements or arranged actions during the period, state this expressly:

There was no change or breach of shareholders' agreements during the period ended November 30, 2016.

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 Securities Market Law. If so, identify them:

Yes  No

<b>Name or corporate name</b>
UNITED TECHNOLOGIES CORPORATION (UTC)
<b>Comments</b>

At November 30, 2016, it was the indirect owner (through the French company United Technologies Holdings S.A.S.) of 50.01% of the voting rights in the Company.

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

The Company did not hold any treasury shares in 2016.

Explain the significant variations, pursuant to the provisions of Royal Decree 1362/2007, that took place in the period:

<b>Explain the significant variations</b>
<p>At its meeting of May 19, 2016, the General Meeting of Shareholders authorized the Board of Directors, to acquire directly or indirectly treasury shares, within the limits and requisites established in article 147 of LSC (Spanish Corporation Law).</p> <p>Using the authorization granted by the General Meeting of Shareholders on May 19, 2016, the Board of Directors on the meeting held that same day, resolve to acquire treasury shares, in order to eventually used them in the acquisition of companies.</p> <p>As a consequence of the acquisition of a company, Zardoya Otis S.A. handed over 553,995 of its own share as payment on July 21, 2016.</p> <p>Likewise, as a consequence of the bonus issue in 2016 UNITED TECHNOLOGIES HOLDINGS, S.A.S. received 23,514 shares in the Company.</p> <p>When performing these transactions, the rules on this subject contained in the Company's Internal Code of Conduct and the Securities Market Law were observed.</p> <p>As of November 30, 2016, the Company did not hold any treasury shares (11,547 at the end of 2015).</p>

A.9 Give details of the conditions and/or periods of the authorization(s) provided by the General Shareholders' Meeting to the Board of Directors to issue, repurchase or transfer treasury stock:

The Ordinary General Shareholders' Meeting of Zardoya Otis, S.A. held on May 19, 2016 approved the proposal to authorize the Board of Directors to, without consulting the General Shareholders' Meeting beforehand, acquire, directly or indirectly, shares in Zardoya Otis, S.A. up to the maximum percentage of 10% of the share capital and for a maximum period of five years as from the date on which the aforementioned Ordinary General Shareholders' Meeting was held. The acquisition price of said shares may not be lower than 2 euros per share or higher than 25 euros per share and the Board is expressly authorized to set aside the reserves required under article 148 of the Capital Companies Law.

Furthermore, the Extraordinary General Shareholders' Meeting of Zardoya Otis, S.A. held on January 30, 2013 unanimously approved to authorize the Board of Directors to, pursuant to the provisions of article 149 of the current Capital Companies Law, either directly or through any group companies, accept its own shares as a pledge or any other type of guarantee, within the limits and meeting the same requirements as are applicable to the acquisition thereof. Specifically: (i) the maximum number of shares to be accepted as pledges must not exceed 10% of the Company's share capital; (ii) the shares accepted as pledges must be free from all charges and encumbrances, fully paid up and not attached to compliance with any obligation the beneficiary of which is not the Company; and (iii) the authorization will remain in force for the maximum period allowed by Law at any given moment (five years), as from the date of the aforementioned Extraordinary General Shareholders' Meeting (i.e. until January 30, 2018). This authorization supplements the authorization granted as per the preceding paragraph and does not change it.

In carrying out these transactions, the rules contained in the Company's Internal Code of Conduct and the Securities Market Law will also be observed.

A.9 bis Estimated floating capital:

	%
Estimated floating capital	38.39 %

A.10 State whether there is any restriction on the transferability of shares and/or any restrictions on voting rights. In particular, state the existence of any kind of restrictions that might hinder taking control of the company by acquiring shares therein in the market:

Yes  No

A.11 State whether the General Shareholders' Meeting has 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:

N/A

A.12 State whether the company has issued securities that are not traded on a regulated Community market:

Yes  No

If applicable, state the different classes of shares and, for each class of shares, the rights and obligations it confers:

N/A

## B. GENERAL SHAREHOLDERS' MEETING

B.1 State and, if applicable, describe whether there are any differences from the system of minimums provided for in the Capital Companies Law (LSC) regarding the quorum required to constitute a General Meeting:

Yes  No

	<b>Quorum % different from that established as a general rule in art. 193 LSC</b>	<b>Quorum % different from that established in art. 194 LSC for the special cases of art. 194 LSC</b>
Quorum required on 1st call	60.00%	66.66%
Quorum required on 2nd call	50.00%	50.00%

### Describe the differences

For general decisions, a quorum of 60% is required on the first call (the Capital Companies Law establishes 25%) and 50% on the second call (the Capital Companies Law does not fix a minimum).

For the decisions mentioned in article 194 of the Capital Companies Law (capital increase or reduction and any other amendment to the Bylaws, debenture issues, the elimination or limitation of pre-emption rights over new shares, a change in the type of company, merger, spin-off or the global assignment of assets and liabilities, and moving the registered office abroad), a quorum of 66.66% is required on the first call (the Capital Companies Law establishes 50%) and 50% on the second call (the Capital Companies Law establishes 25%).

B.2 State and, if applicable, describe whether the system for adopting corporate resolutions differs from the system provided for in the Capital Companies Law:

Yes  No

Describe the differences from the system provided for in the Capital Companies Law:

N/A

B.3 State the rules applicable to amending the corporate Bylaws. In particular, state the majorities required to amend the Bylaws and, if applicable, the rules that are in place to protect shareholder rights when the Bylaws are amended.

To amend the Company's Bylaws, the system set forth in article 285 et seq. of the Capital Companies Law and in the Company's Bylaws themselves will be applied.

According to article 14 of the Company's Bylaws, in order for a General Meeting (Ordinary or Extraordinary) to validly resolve to increase or decrease the capital or make any other amendment to the Bylaws, issue debentures, eliminate or limit pre-emption rights on new shares, change the type of Company, merge or spin off the Company or globally transfer its assets and liabilities, move its registered office abroad, or make any other amendment for which a qualified majority is legally required, it will be necessary, on the first call, for shareholders owning at least two thirds of the subscribed capital with voting rights to be present or represented. On the second call, it will be sufficient for 50% of said capital to be present or represented.

Additionally, in accordance with article 15 of the Company's Bylaws, a separate vote will be taken on each one of the items on the agenda and on those matters which, although they form part of the same item on the agenda, are substantially independent, in order for the shareholders to exercise their voting preferences separately. In particular, separate votes will be taken on the appointment, ratification, re-election or removal of each director and, in the event of amendments to the Company's Bylaws, separate votes will be taken on each article or group of articles that is substantially independent.

Resolutions concerning amendment of the Company's By-laws will be adopted by a majority of the capital present or represented at the General Shareholders' Meeting, in such a way that a resolution will be deemed to be passed when it obtains more votes in favour than against from the capital present or represented. In order to adopt the resolutions to which article 194 of the Capital Companies Law refers, however, the vote in favour of two thirds of the capital present or represented at the General Shareholders' Meeting will be required when, on the second call, shareholders are present representing twenty-five percent or more of the subscribed capital with voting rights but not reaching fifty percent. If the capital present or represented exceeds fifty percent, approval by absolute majority will be sufficient.

Likewise, in accordance with article 286 of the Capital Companies Law, the Board of Directors will prepare a written report explaining the proposal to amend the Bylaws. Thus, the Board of Directors proposed an amendment to the Bylaws to the Shareholders' Meeting held on May 19, 2016, submitting a report that explained the proposed amendments.

**B.4 State the attendance figures for the General Meetings held in the period to which this report refers and in the preceding period:**

Date of General Meeting	Attendance figures				Total
	% physically present	% represented	% distance votes		
			Electronic vote	Other	
05/26/2015	62.42%	8.95%	0.00%	0.00%	71.37%
05/19/2016	63.95%	9.85%	0.00%	0.00%	73.80%

**B.5 State whether the Bylaws contain a restriction establishing the minimum number of shares required to attend the General Meeting:**

Yes  No

**B.6 State whether it has been decided that certain decisions that involve a structural modification of the company (subsidiarization, purchase or sale of essential operating assets, operations equivalent to winding up the company, etc.) should be submitted to the approval of the General Shareholders' Meeting even though mercantile legislation does not expressly require this:**

Yes  No

**B.7 State the address and way to access the corporate governance information on the company's website, as well as other information on General Meetings that must be made available to shareholders through the company's website:**

The address of the corporate governance information on the Company's website is:

[www.otis.com/site/es-esl/Pages/InformacionparaAccionistasInversores.aspx](http://www.otis.com/site/es-esl/Pages/InformacionparaAccionistasInversores.aspx)

This site contains a "Corporate Governance" section, where notice of general meetings, proposed resolutions, rules for granting proxy and distance voting, the reports that are to be presented and any other documentation required by the Capital Companies Law, the Bylaws or the Regulations of the

General Shareholders' Meeting are published. Among other documents, the 2015 Annual Corporate Governance Report, which was published in March 2016, is included.

The Annual Corporate Governance Report for 2016 will be duly published on the website in March 2017.



## C. STRUCTURE OF THE COMPANY'S GOVERNING BODIES

### C.1 Board of Directors

C.1.1 Maximum and minimum number of Directors provided for in the Bylaws:

<b>Maximum number of directors</b>	15
<b>Minimum number of directors</b>	3

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

Name or corporate name of director	Representative	Type of director	Position on the Board	Date of first appointment	Date of latest appointment	Election procedure
MR MARIO ABAJO GARCIA		OTHER EXTERNAL	CHAIRMAN	05/31/1985	05/26/2015	RESOLUTION GENERAL SHAREHOLDERS' MEETING
MR JOSE MARIA LOIZAGA VIGURI		INDEPENDENT	DEPUTY CHAIRMAN	02/23/1973	05/27/2013	RESOLUTION GENERAL SHAREHOLDERS' MEETING
MR BERNARDO CALLEJA FERNANDEZ		EXECUTIVE	CEO	02/28/2012 (co-option)	05/19/2016	RESOLUTION GENERAL SHAREHOLDERS' MEETING
MR PIERRE DEJOUX		PROPRIETARY	DIRECTOR	01/26/2012	05/19/2016	RESOLUTION GENERAL SHAREHOLDERS' MEETING
MR MARK GEORGE		PROPRIETARY	DIRECTOR	02/26/2014 (co-option)	05/26/2014	RESOLUTION GENERAL SHAREHOLDERS' MEETING
MR ALBERTO ZARDOYA ARANA		PROPRIETARY	DIRECTOR	02/26/2013 (co-option)	05/27/2013	RESOLUTION GENERAL SHAREHOLDERS' MEETING
MR PHILIPPE DELPECH		PROPRIETARY	DIRECTOR	05/26/2014	05/26/2014	RESOLUTION GENERAL SHAREHOLDERS' MEETING
EURO-SYNS S.A.	MR PEDRO SAINZ DE BARANDA RIVA	PROPRIETARY	DIRECTOR	05/31/1996	05/26/2015	RESOLUTION GENERAL SHAREHOLDERS' MEETING

OTIS ELEVATOR COMPANY	MS NORA LA FRENIERE (*)	PROPRIETARY	DIRECTOR	05/30/1984	05/26/2015	RESOLUTION GENERAL SHAREHOLDERS' MEETING
MR JOSÉ MIGUEL ANDRÉS TORRECILLAS		INDEPENDENT	DIRECTOR	05/26/2015	05/26/2015	RESOLUTION GENERAL SHAREHOLDERS' MEETING
MR PATRICK BLETHON		PROPRIETARY	DIRECTOR	05/26/2015	05/26/2015	RESOLUTION GENERAL SHAREHOLDERS' MEETING

<b>Total number of directors</b>	11
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(\*) Otis Elevator Company changed its personal representative on February 8, 2016 and the appointment was noted at the General Shareholders' Meeting of May 19, 2016.

State any Directors who left the Board during the reporting period:

No director left the Board in the period ended November 30, 2016.

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

**EXECUTIVE DIRECTORS**

Name or corporate name of director	Position in the company's organization chart
MR BERNARDO CALLEJA FERNANDEZ	CEO

<b>Total number of executive directors</b>	1
<b>% of total Board</b>	9.09%

**EXTERNAL PROPRIETARY DIRECTORS**

Name or corporate name of director	Name or corporate name of significant shareholder represented or that proposed his/her appointment

MR PIERRE DEJOUX	UNITED TECHNOLOGIES HOLDINGS, S.A.S.
MR MARK GEORGE	UNITED TECHNOLOGIES HOLDINGS, S.A.S.
MR ALBERTO ZARDOYA ARANA	EURO-SYNS, S.A.
MR PHILIPPE DELPECH	UNITED TECHNOLOGIES HOLDINGS, S.A.S.
EURO-SYNS, S.A.	EURO-SYNS, S.A.
OTIS ELEVATOR COMPANY	UNITED TECHNOLOGIES HOLDINGS, S.A.S.
MR PATRICK BLETHON	UNITED TECHNOLOGIES HOLDINGS, S.A.S.

<b>Total number of proprietary directors</b>	7
<b>% of total Board</b>	63.64%

### **INDEPENDENT EXTERNAL DIRECTORS**

<b>Name or corporate name of director</b>	<b>Profile</b>
MR JOSE MARIA LOIZAGA VIGURI	<p>He commenced his career with Banco Vizcaya in various executive positions. In 1968, he became the General Manager of Zardoya and played a leading role in the merger with Schneider Otis in 1972. Until 1980, he was responsible for Otis Elevator in Southern Europe.</p> <p>In 1980, he founded Banco Hispano Industrial (BHA Group) and, in 1982, he was appointed Deputy Chairman and CEO of Banco Unión, which he merged with Banco Urquijo, where he remained until 1985.</p> <p>In 1985, he founded Mercápital, S.A. and chaired the Group until 2008.</p> <p>Among other positions, he has been Chairman of Cartera Industrial Rea, Chairman of Bodegas Lan and Bodegas Barón de Ley and a director of Banque Privée Edmond de Rothschild, Suez International, Otis International, Amorim Investment, Lácteos Ga Baquero, Unión Fenosa, etc.</p> <p>Currently, he is a director and the Deputy Chairman of ACS, Chairman of Cartera Industrial Rea, director and Deputy Chairman of Zardoya Otis, S.A.,</p>

Name or corporate name of director	Profile
	<p>Deputy Chairman of the Audit Committee and Chairman of the Nominating and Compensation Commission of Zardoya Otis, S.A. and a director of Otis Elevadores (Portugal).</p> <p>He is Commandeur de l'Ordre de Léopold II.</p>
<p>MR JOSÉ MIGUEL ANDRÉS TORRECILLAS</p>	<p>José Miguel Andrés Torrecillas holds a degree in Economics and Business Studies from the <i>Universidad Complutense de Madrid</i>. He has postgraduate studies in Management Programs from IESE in Madrid, Harvard and IMD.</p> <p>He has spent most of his professional career with Ernst &amp; Young, where he was Partner/Director General of the Audit and Advisory practices and Chairman of Ernst &amp; Young Spain until 2014.</p> <p>In March 2015, José Miguel Andrés Torrecillas was appointed as an independent director by the General Shareholders' Meeting of Banco Bilbao Vizcaya Argentaria, S.A.</p> <p>He is a member of the Registro Oficial de Auditores de Cuentas (ROAC – Official Account Auditors Register); the Registro de Economistas Auditores (REA – Economist/Auditor Register); the Board of Directors of Instituto Español de Analistas Financieros (Spanish Institute of Financial Analysts); the Fundación Empresa y Sociedad (Company and Society Foundation); the Instituto de Censores Jurados de Cuentas de España (Institute of Chartered Accountants of Spain); the Advisory Board to the Instituto de Auditores Internos (Internal Auditors Institute), the Institute of Chartered Accounts in England &amp; Wales (the ICAEW); the Board of Deusto Business School (DBS); and a patron of the SERES Foundation.</p> <p>He is classified as an “independent director” and holds the positions of Chairman of the Audit Committee and member of the Nominating and Compensation Commission of Zardoya Otis, S.A.</p>

<b>Total number of independent Directors</b>	2
<b>% of total Board</b>	18.18%

State whether any director classified as independent receives from the company or its group any amount or benefit for an item other than director remuneration or maintains or maintained in the last reporting period a business relationship with the company or any company belonging to its group, either in his/her own name or as a significant shareholder, director or member of senior management of an entity that maintains or has maintained such a relationship.

No.

If applicable, provide a statement explaining the Board's reasons for considering that said Director can perform his/her functions as an independent director.

N/A

### OTHER EXTERNAL DIRECTORS

Identify other external directors and give details of the reasons why they cannot be deemed to be proprietary or independent directors and of their ties with the company, its management or its shareholders:

Name or corporate name of director	Reasons	Company, manager or shareholder to which/whom he/she is related
MR MARIO ABAJO GARCIA	<p>Mr Abajo cannot be considered an independent director since, as of November 30, 2016, he has held office as a director of the Company for a continuous period of more than 12 years. Neither can he be considered a proprietary director because he does not hold a significant shareholding, was not appointed because he was a shareholder and does not represent any of the aforementioned shareholders.</p> <p>As clarification, it is expressly stated that Mr Abajo holds the status of "other external director" in accordance with the Capital Companies Law.</p>	The Company (Zardoya Otis, S.A.)

<b>Total number of external directors</b>	1
<b>% of total Board</b>	9.09 %

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

There were no changes in the classification of the directors during the period.

C.1.4 Complete the following chart with information on the number of women directors over the last 4 reporting periods and the classification of said women directors:

	Number of women directors				% of total directors of each type			
	2016	2015	2014	2013	2016	2015	2014	2013
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	1(*)	1	2	1	9.09%	9.09%	22.22%	11.11%

<b>Independent</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Other External</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	1	1	2	1	9.09%	9.09%	22.22%	11.11%

(\*) This information refers to Ms Nora La Freniere, the personal representative of the director Otis Elevator Company.

**C.1.5 Explain any measures that have been adopted to try to include a number of women on the Board of Directors sufficient to allow a balanced presence of men and women.**

<b>Explanation of the measures</b>
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The Board of Directors and the Nominating and Compensation Commission are aware of the importance of promoting gender diversity on the Board of Directors and are working to increase the presence of women. Article 5 of the Regulations of the Board of Directors states that the Board of Directors must ensure that the procedures for selecting its members favour diversity of gender, experience and knowledge and are not affected by any implied bias that might suggest some kind of discrimination and, in particular, should not hinder the selection of women directors.

Likewise, article 12 B) 2 i) of the Regulations of the Board of Directors states that one of the duties of the Nominating and Compensation Commission Committee is to ensure that, when covering new vacancies or new directors are appointed, the selection procedures do not contain any implied bias that might suggest some kind of discrimination and to report to the Board on gender diversity issues.

At the end of the 2016 period, seven of the eleven members of the Board of Directors were proprietary directors, two were independent, one was executive and one was an "other external director". Ms Nora La Freniere was the personal representative of the director Otis Elevator Company.

At its meeting of December 13, 2016, the Nominating and Compensation Commission decided that, when new vacancies on the Board of Directors arise, they will try to fill them with people who meet the requirements of competence, experience and merits, promoting, as far as possible, an increase in the presence of women on the Board of Directors in order to progress towards a Board with a more balanced composition.

To do this, the Commission itself will ensure that the policies for selecting Board members apply exclusively criteria of merit and capacity, avoiding any bias that might imply gender discrimination that hinders the selection of women directors.

This decision was notified to the Board of Directors by the Chairman of the Nominating and Compensation Commission at the Board meeting on the same day.

**C.1.6 Explain any measures that the Nominating Commission has established to ensure that selection processes are free from any implied bias hindering the selection of women directors and that the company deliberately seeks women with the appropriate professional profile and includes them among the potential candidates:**

<b>Explanation of the measures</b>
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At its meeting of December 13, 2016, the Nominating and Compensation Commission decided that, when new vacancies on the Board of Directors arise, they will try to fill them with people who meet the requirements of competence, experience and merits, promoting, as far as possible, an increase in the presence of women on the Board of Directors in order to progress towards a Board with a more balanced composition.

To do this, the Commission itself will ensure that the policies for selecting Board members apply exclusively criteria of merit and capacity, avoiding any bias that might imply gender discrimination that hinders the selection of women directors.

This decision was notified to the Board of Directors by the Chairman of the Nominating and Compensation Commission at the Board meeting held on the same day.

Notwithstanding, as regards the appointment of new directors, no proposals were made in 2016, since no vacancies arose.

When, in spite of any measures that have been adopted, the number of women directors is scant or nil, explain the reasons that justify this:

<b>Explanation of the reasons</b>
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The appointment of new directors depends basically on whether any vacancies on the Board arise or if it is decided to increase the number of Board members. In 2015, the number of directors was increased to 11 and, in 2016, Ms Nora La Freniere was appointed as the personal representative of Otis Elevator Company.

See sections C.1.5 and C.1.6 above.

**C.1.6 bis Explain the conclusions of the Nominating Commission on the verification of compliance with the director selection policy. In particular, explain how said policy is promoting the target of a number of women directors that represents at least 30% of the total members of the Board of Directors by 2020.**

The Nominating and Compensation Commission is aware of the importance of promoting gender diversity on the Board of Directors and is working to increase the presence of women. To do this, at its meeting of December 13, 2016, the Nominating and Compensation Commission decided that, when new vacancies on the Board of Directors arise, they will try to fill them with people who meet the requirements of competence, experience and merits, promoting, as far as possible, an increase in the presence of women on the Board of Directors, in order to progress towards a Board with a more balanced composition.

As stated above, in 2016, no proposals were made, since no vacancies arose.

The Company has not adopted the Good Governance Code recommendation that the number of women directors should represent at least 30% of total Board members by 2020.

**C.1.7 Explain how owners of significant holdings are represented on the Board.**

As stated in points A2 and A3 above, the two principal direct owners of significant shareholders were United Technologies Holdings, S.A.S. (UTH) and Euro-Syns, S.A.

At November 30, 2015, United Technologies Holdings, S.A.S. (UTH) and Euro-Syns, S.A. were represented on the Board of Directors as follows:

**1. United Technologies Holdings, S.A.S. (UTH)**

- Otis Elevator Company has been a Director since May 31, 1996 and was most recently re-elected at the General Shareholders' Meeting held on May 26, 2015 at the proposal of the significant shareholder United Technologies Holdings, S.A.S. (UTH).

- Mark George was co-opted to the Board of Directors on February 26, 2014 and was ratified by the Ordinary General Shareholders' Meeting held on May 26, 2014 at the proposal of the significant shareholder United Technologies Holdings, S.A.S. (UTH).

- Philippe Delpech is a director and was elected by the Ordinary General Shareholders' Meeting held on May 26, 2014 at the proposal of the shareholder United Technologies Holdings, S.A.S. (UTH).

- Pierre Dejoux has been a director since January 26, 2012 and was most recently re-elected by the Ordinary General Shareholders' Meeting held on May 24, 2012 at the proposal of the shareholder United Technologies Holdings, S.A.S. (UTH).

- Patrick Blethon was appointed as a director by the Ordinary General Shareholders' Meeting of May 26, 2015 at the proposal of the shareholder United Technologies Holdings, S.A.S (UTH).

**2. Euro-Syns, S.A.**

- Euro-Syns, S.A. has been a Director since May 31, 1996 and was most recently re-elected at the Ordinary General Shareholders' Meeting held on May 26, 2015.

- Alberto Zardoya Arana was co-opted to the Board of Directors on February 26, 2013 and was ratified by the Ordinary General Shareholders' Meeting held on May 27, 2013 at the proposal of the shareholder Euro-Syns, S.A.

**C.1.8 Explain, 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:**

No proprietary directors were appointed at the proposal of shareholders whose shareholding interest was less than 5% in the period ended November 30, 2016.

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

**C.1.9 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:**

No director left the Board before the end of his/her term of office in the period ended November 30, 2016.

**C.1.10 State the powers, if any, that are delegated to the Chief Executive Officer/s:**

Name or corporate name of director	Brief description
MR BERNARDO CALLEJA FERNANDEZ	The CEO holds all the powers that can be delegated in accordance with the law or Bylaws, with the exception of the purchase/sale of real estate (article 7 of the Regulations of the Board of Directors) as well as the financial disbursement faculty, limited to joint powers for 50 million euros per transaction

**C.1.11 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	Does he/she have executive duties?
MR MARIO ABAJO GARCIA	OTIS ELEVADORES LDA. (PORTUGAL)	DIRECTOR	NO



MR JOSE MARIA LOIZAGA VIGURI	OTIS ELEVADORES LDA. (PORTUGAL)	DIRECTOR	NO
MR BERNARDO CALLEJA FERNANDEZ	UNITED TECHNOLOGIES CORPORATION	MEMBER OF MANAGEMENT	NO
MR BERNARDO CALLEJA FERNANDEZ	OTIS ELEVADORES LDA. (PORTUGAL)	CHAIRMAN OF BOARD OF DIRECTORS	NO
MR BERNARDO CALLEJA FERNANDEZ	OTIS MAROC S.A.	CHAIRMAN	NO
MR BERNARDO CALLEJA FERNANDEZ	ACRESA-CARDELLACH, S.L.	CHAIRMAN	NO
MR BERNARDO CALLEJA FERNANDEZ	ASCENSORES SERRA, S.A.	DIRECTOR	NO
MR BERNARDO CALLEJA FERNANDEZ	MONTES TALLON, S.A.	DIRECTOR	NO
MR ALBERTO ZARDOYA ARANA	EURO-SYNS S.A.	DIRECTOR	NO

Also see C.1.17

C.1.12 Identify, if applicable, the directors of your company who are members of the Board of Directors of other companies outside your group listed on official stock markets, when this has been notified to the company:

Name or corporate name of director	Corporate name of company	Position
MR JOSE MARIA LOIZAGA VIGURI	ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A. (ACS)	DIRECTOR DEPUTY CHAIRMAN
MR JOSE MARIA LOIZAGA VIGURI	CARTERA INDUSTRIAL REA. S.A.	DIRECTOR
MR JOSÉ MIGUEL ANDRES TORRECILLAS	BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	DIRECTOR

C.1.13 State and, if applicable, explain whether the company has established rules regarding the number of boards of which its directors may be members:

Yes  No

#### Explanation of rules

Article 19.1 of the Regulations of the Board of Directors expressly establishes the directors' obligation to devote sufficient time and adopt the measures necessary for proper management and control of the Company.

Notwithstanding, it has not been seen fit to limit the number of Boards of Directors of which the directors may form party, since a large number of the proprietary directors are executives of the parent group,

United Technologies Corporation, and, therefore, are members of Boards of Directors of other group companies.

**C.1.14 State 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	

**C.1.15 State the aggregated compensation of the Board of Directors:**

<b>Compensation of the Board of Directors (thousands of euros)</b>	1,619
<b>Aggregated amount of rights accumulated by the Directors in relation to pensions (thousands of euros)</b>	57
<b>Aggregated compensation of the Board of Directors (thousands of euros)</b>	1,676

**C.1.16 Identify the members of senior management who are not also executive directors and state the aggregated compensation accrued in their favour in the period:**

<b>Name or corporate name</b>	<b>Position</b>
MR FRANCISCO JAVIER BARQUIN	GENERAL MANAGER
MR DOMINGOS EDMUNDO DA ASCENÇÃO OLIVEIRA	GENERAL MANAGER
MR MAURIZIO GENTILE	GENERAL MANAGER

<b>Total compensation of senior management (thousands of</b>	626
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C.1.17 State, if applicable, the identity of the members of the Board who are also members of the Boards of Directors of companies that hold significant shareholders and/or companies belonging to their groups:

<b>Name or corporate name of director</b>	<b>Name or corporate name of significant shareholder</b>	<b>Position</b>
Mario Abajo	Otis Elevadores Lda. (Portugal)	Director
Mark George	Atlantic Lifts. Inc (Delaware, U.S.A.)	Director
	Elevator Export Trading Corporation (Delaware, U.S.A.)	Director
	Otis Elevator Company (New Jersey, U.S.A.)	Director
	Otis Elevator Company (Delaware U.S.A.)	Director
	Otis Elevator International Inc (Delaware, U.S.A.)	Director
Bernardo Calleja Fernandez	Ascensores Serra S.A.	Director
	Buga Otis Asansor Sanayi ve Ticaret A.S. (Turkey)	Director
	Acresa Cardellach, S.L.	Chairman
	C. Veremis Otis S.A. (Greece)	Director
	Otis Elevadores, Lda.(Portugal)	Chairman
	Montes Tallon S.L.	Director
	Otis Servizi S.r.l.(Italy)	Chairman
	Mototracción Eléctrica Latierro, S.A.	Personal representative of director (Zardoya Otis S.A.)
	Otis Maroc, S.A. (Morocco)	Personal representative of director (Zardoya Otis S.A.)

Philippe Delpech	Otis Elevator Company (New Jersey, U.S.A.)	Director
	Otis Elevator Company Saudi Arabia Limited	Director
Patrick Blethon	Otis Management GmbH (Germany)	Director
	Zayani Otis Elevator Company W.L.L. (Bahrain)	Director
	Beijing Sigma Elevator Service Company (China)	Director
	Buga Otis Asansor Sanayi ve Ticaret A.S. (Turkey)	Director
	Chengdu Sigma Elevator Company (China)	Director
	Otis Elevator Company Kuwait	Director
	Otis Elevator Company Saudi Arabia Limited	Director
Alberto Zardoya Arana	Otis Elevadores, Lda.(Portugal)	Director
José María Loizaga Viguri	Otis Elevadores Lda. (Portugal)	Director
Pedro Sainz de Baranda (personal representative of the director Euro-Syns, S.A.)	Otis Elevadores Lda. (Portugal)	Director

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 related director</b>	<b>Name or corporate name of related significant shareholder</b>	<b>Description of relationship</b>
MR BERNARDO CALLEJA FERNANDEZ	UNITED TECHNOLOGIES CORPORATION (UTC)	He is an executive of the United Technologies Corporation Group

MR PIERRE DEJOUX	UNITED TECHNOLOGIES CORPORATION (UTC)	He is an executive of the United Technologies Corporation Group
MR MARK GEORGE	UNITED TECHNOLOGIES CORPORATION (UTC)	He is an executive of the United Technologies Corporation Group
MR PHILIPPE DELPECH	UNITED TECHNOLOGIES CORPORATION (UTC)	He is an executive of the United Technologies Corporation Group. Specifically, he is Chief Executive of the worldwide operations of Otis Elevator
MR PATRICK BLETHON	UNITED TECHNOLOGIES CORPORATION (UTC)	He is an executive of the United Technologies Corporation Group
OTIS ELEVATOR COMPANY	UNITED TECHNOLOGIES CORPORATION (UTC)	It is a company controlled by United Technologies Corporation
EURO-SYNS, S.A.	EURO-SYNS, S.A.	Shareholder and director are the same company
MR ALBERTO ZARDOYA	EURO-SYNS, S.A.	Euro-Syns, S.A. is a company controlled by the Zardoya family

C.1.18 State, if applicable, any modifications made to the Regulations of the Board of Directors during the reporting period:

Yes  No

<b>Description of modifications</b>
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On April 4, 2016, the Board of Directors approved the amendment of the Regulations of the Board of Directors with the main objective of adapting the text to the new Good Governance Code and, to a lesser extent, to the new Audit Law, which modifies certain aspects of the organization of the Audit Committee.

The amendment of the Regulations of the Board of Directors was supplemented by the amendment of the Bylaws and the Regulations of the General Shareholders' Meeting, in order to ensure that the corporate documentation was consistent.

The amendments affected the following articles: article 3 (Functions); article 5 (Characteristics and types of directors); article 6 (Chairman of the Board and Chief Executive Officer of the Company); article 10 (Meetings of the Board of Directors); article 12 (Formation of Committees); article 15 (Resignation of directors), article 18 Bis (Annual director compensation report), article 20 (Relations with the markets) and article 21 Bis (Corporate social responsibility).

The Board of Directors prepared a written report explaining the reasons for the amendment. This report was made available to the shareholders for information purposes when notice was given of the General Meeting held in May 2016

**C.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 one of the procedures.**

**1. SELECTION, APPOINTMENT AND RE-ELECTION OF DIRECTORS**

According to article 20 of the Bylaws, directors will be designated by voting pursuant to the rules established by law.

In this respect, 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 244 of the Capital Companies Law.

In addition, article 13 of the Board of Directors Regulations states that directors will be designated by the General Meeting or, provisionally, by the Board of Directors, pursuant to the provisions of the Capital Companies Law and the By-Laws.

Likewise, article 5 of the Board of Directors Regulations states that the Board of Directors must ensure that procedures to select its members favour diversity of gender, experience and knowledge and are not affected by implied bias that might suggest some kind of discrimination and, in particular, that they do not hinder the selection of women directors.

The Nominating and Compensation Commission is responsible for proposing the appointment or re-election of independent Directors. The appointment or re-election proposal must, in all cases, be accompanied by an explanatory report from the Board of Directors in which the competences, experience and merits of the proposed candidate are evaluated and which will be attached to the minutes of the General Shareholders' Meeting or the meeting of the Board of Directors itself. The foregoing will likewise be applicable to the natural persons who are designated as personal representatives of a legal person. The Nominating and Compensation Commission must report on the proposal of a personal representative.

Article 13 of the Regulations of the Board of Directors states that the Board of Directors (i) will endeavour to ensure that the candidates elected are persons with recognized competence and experience; (ii) will establish a guidance program for new directors to provide them swiftly with sufficient knowledge of the Company and its corporate governance rules; and (iii) will likewise have programs to update knowledge when the circumstances make this advisable.

Article 14 of the Board of Directors Regulations states the Directors will hold office for an initial term of four years, in accordance with the Bylaws, and may be renewed, on one or more occasions, for successive periods of up to a maximum of four years. Directors appointed by co-option will hold office until the date of the first General Meeting held after they are appointed.

Notwithstanding the foregoing, the Company is applying the Transitional Additional Provision of Law 311/2014 of December 3, whereby the Capital Companies Law was modified to improve corporate governance. This provision states that directors appointed earlier than January 1, 2014 may complete their terms of office even if they exceed the period of four years.

**2. EVALUATION OF DIRECTORS**

According to article 12 bis of the Board of Directors Regulations, the Board of Directors must conduct an annual evaluation of its own performance and of that of its commissions and, on the basis of the result, prepare an action plan to correct the deficiencies noted in accordance with the Law. Also see C.1.20 Bis.

### 3. REMOVAL OF DIRECTORS

Article 15 of the Regulations of the Board of Directors states that directors will leave office when the term for which they were appointed has elapsed or when the General Shareholders' Meeting so decides using the attributions conferred on it by law or the Bylaws.

The Board of Directors will not propose the removal of independent directors before the term for which they were appointed has elapsed, except where the Board finds just cause, based on a report from the Nominating and Compensation Commission. Just cause will be deemed to exist when directors take up new posts or responsibilities that prevent them from devoting sufficient time to their work as board member, or are in breach of their fiduciary duties or are disqualified from acting as an independent according to the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar transaction alters the Company's capital structure due to the proportionality principle.

Directors must place their position at the disposal of the Board of Directors and, if the latter sees fit, resign in the following cases:

- (a) When they are affected by any of the circumstances of incompatibility or prohibition legally provided for.
- (b) When they may harm the Company's good name or reputation.
- (c) When they are investigated, prosecuted, in the process of a trial in ordinary proceedings or found guilty in summary criminal proceedings for any serious crime, in particular, any of the crimes stated in article 213 of the Capital Companies Law. In these cases, the Board of Directors will investigate the case as soon as possible and, in the light of the specific circumstances, will decide whether or not the director should remain in office. The Board of Directors will inform of any such decisions in the Annual Corporate Governance Report.
- (d) When they have been seriously admonished by the Audit Committee or because they have infringed their duties as directors.
- (e) When an external proprietary director transfers his or her shareholding in the Company or when the shareholder which proposed his appointment to the Company sells its entire shareholding interest or reduces it to a level that requires the reduction or removal of its proprietary directors.

Members of any Committees or Commissions that may exist will automatically resign when they cease to be directors.

The Nominating and Compensation Commission will report to the Board of Directors on any proposals to remove directors, in accordance with article 12 (B) 2 (c) of the Regulations of the Board of Directors.

#### C.1.20 Explain the extent to which the annual evaluation of the Board has led to important changes in internal organization and the procedures applicable to its activities.

As a consequence of the 2016 annual self-evaluation, the Board evaluated favourably the operation of both the Board itself and its commissions, identifying, however, the possibility of improvement in several aspects. To date, none of these issues has required important changes in the Board's internal organization or in the procedures applicable to its activities.

#### C.1.20.Bis. Describe the evaluation process and the areas evaluated by the Board of Directors, assisted, if applicable, by an external consultant, regarding the diversity of its composition and capacities, the operation and composition of its commissions, the performance of the chairman of the Board of Directors and the chief executive of the Company and the performance and contribution of each director.

In accordance with article 529 nonies of the Capital Companies Law and article 12 bis of the Regulations of the Board of Directors, at its meeting of February 23, 2016, the Board of Directors carried out an annual evaluation of

its own operation and that of its commissions during 2015, sending a questionnaire with almost a hundred questions to the directors.

This questionnaire included questions on the operation and composition of the Board of Directors and the work and performance of the Chairman of the Board of Directors and the Secretary of the Board of Directors. Likewise, the questionnaire asked about the operation of the Audit Committee and Nominating and Compensation Commission.

Likewise, the Audit Committee and Nominating and Compensation Commission prepared reports on their own evaluation and, in the case of the Nominating and Compensation Commission, on the operation of the Board of Directors, all of which was in compliance with Recommendation 36 of the Good Governance Code.

As a result of the foregoing, the Board of Directors approved an action plan for 2016, which corrected the weaknesses detected. Subsequently, the Board of Directors reviewed the status of compliance with said plan, the objectives attained during 2016 and the issues that could be improved in the following period.

**C.1.20** *ter* State, if applicable, the business dealings that the consultant or any company belonging to its group maintain with the company or any company belonging to its group.

The Board of Directors of the Company decided not to engage any consultant or external advisor for this purpose in 2016.

**C.1.21** State the circumstances in which directors are obliged to resign.

Article 15 of the Regulations of the Board of Directors states that directors must place their position at the disposal of the Board of Directors and, if the latter sees fit, resign in the following cases:

- (a) When they are affected by any of the circumstances of incompatibility or prohibition legally provided for.
- (b) When they may harm the Company's good name or reputation.
- (c) When they are investigated, prosecuted, in the process of a trial in ordinary proceedings or found guilty in summary criminal proceedings for any serious crime, in particular, any of the crimes stated in article 213 of the Capital Companies Law. In these cases, the Board of Directors will investigate the case as soon as possible and, in the light of the specific circumstances, will decide whether or not the director should remain in office. The Board of Directors will inform of any such decisions in the Annual Corporate Governance Report.
- (d) When they have been seriously admonished by the Audit Committee or because they have infringed their duties as directors.
- (e) When an external proprietary director transfers his or her shareholding in the Company or when the shareholder which proposed his appointment to the Company sells its entire shareholding interest or reduces it to a level that requires the reduction or removal of its proprietary directors.

Members of any Committees or Commissions that may exist will automatically resign when they cease to be directors.

**C.1.22** Section repealed.

**C.1.23** Are qualified majorities, other than those legally provided for, required for any type of decision?:

Yes  No

If applicable, describe the differences:

N/A



C.1.24 Explain whether there exist specific requirements, other than those relating to directors, to be appointed chairman of the Board of Directors:

Yes  No

C.1.25 State whether the Chairman has a casting vote:

Yes  No

C.1.26 State whether the Bylaws or the Regulations of the Board of Directors fix any age limit for Directors:

Yes  No

C.1.27 State whether the Bylaws or the Regulations of the Board of Directors fix a limited term of office for independent Directors, other than that established by law:

Yes  No

C.1.28 State whether the Bylaws or the Regulations of the Board of Directors fix any specific rules for proxy-voting at meetings of the Board of Directors, the way in which this is done and, in particular, the maximum number of proxy votes that a Director may hold, as well as whether it is compulsory to delegate to a Director with the same classification. If applicable, briefly describe these rules:.

Article 22 of the Bylaws states that any director may grant written proxy to any other director.

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 proxies that one director may hold at a 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.

Likewise, non-executive directors may only grant proxy to other non-executive directors.

C.1.29 State the number of meetings held by the Board of Directors during the period Likewise, if applicable, state the number of times that the Board met without the presence of the Chairman. Proxies granted with specific instructions must be counted as presences:

<b>Number of Board meetings</b>	13
<b>Number of Board meetings without the presence of the Chairman</b>	0

If the chairman is an executive director, state the number of meetings held under the chairmanship of the coordinating director without any executive director being present or represented:

<b>Number of meetings</b>	N/A
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State the number of meetings held by the different board commissions in the period

Number of meetings of the AUDIT COMMITTEE	9
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Number of meetings of the NOMINATING AND COMPENSATION COMMISSION	5
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C.1.30 State the number of meetings held by the Board of Directors during the period at which not all of its members were in attendance. Proxies granted with specific instructions must be counted as presences:

<b>Attendances of directors</b>	12
<b>% of attendances of total votes during the period</b>	99.30 %

C.1.31 State whether the individual and consolidated annual financial statements 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 financial statements to be formulated by the Board:

N/A

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements 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 financial statements of the Company S.A. and its Group.

The last paragraph of article 12 A) 3 of the Regulations of the Board of Directors states that the Board of Directors will endeavour to submit the financial statements to the General Shareholders' Meeting 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.

C.1.33 Is the secretary of the Board of Directors a director?

Yes  No

If the secretary is not a director, complete the following chart:

<b>Name or corporate name of secretary</b>	<b>Representative</b>
Alberto Fernández-Ibarburu Arocena	N/A

C.1.34 Section repealed.

C.1.35 State 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.

### 1. INDEPENDENCE OF THE EXTERNAL AUDITORS

Article 12 A) 2 f) of the Regulations of the Board of Directors states that the Audit Committee must receive information on any other questions that might jeopardize the Independence of the external account auditor in order to examine them.

Likewise, the Regulations of the Board of Directors state that the Audit Committee must propose to the Board of Directors, for submission to the General Shareholders' Meeting, the selection, appointment, reappointment and replacement of the external account auditor, in accordance with the applicable legislation, being responsible for the selection process, and must also propose its engagement conditions. Furthermore, the Audit Committee must regularly obtain from the external auditor information on the audit plan and its execution, preserving its independence in the performance of its duties.

To this effect:

- (i) the Company must notify any change of auditor to the National Securities Market Commission (CNMV) as a relevant fact, accompanied by a statement of any disagreements that may have arisen with the outgoing auditor and, if such disagreements exist, the contents thereof;
- (ii) the Company must ensure that it and the external account auditor respect the current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, the other requirements designed to safeguard auditor independence;
- (iii) the Company must establish appropriate contacts with the account auditor to receive information on any questions which might place the latter's Independence at risk, which will be examined by the Audit Committee, and when authorization of non-audit services other than those prohibited is required, in the terms contained in account auditing legislation, as well as any other matters provided for in account auditing legislation and audit rules and, in particular, the Audit Committee will receive from the account auditors, on an annual basis, written confirmation of their independence in relation to the Company or any companies that may be directly or indirectly related thereto, as well as detailed information on the individual additional services of any kind provided to said companies and the fees received from these entities by the auditors or by persons or entities related to the auditors, in accordance with the provisions of the Account Auditing Law.
- (iv) if the external account auditor resigns, it will investigate the issues that gave rise to said resignation;
- (v) prior to issuance of the audit report, the Audit Committee must issue an annual report expressing an opinion as to whether the Independence of the account auditors has been compromised. Said report must express an opinion on the provision of additional services to which point (iii) above refers, considered individually and overall, other than the statutory audit, in relation to the system of independence or the legislation that regulates the activity of account auditing.
- (vi) the Audit Committee must ensure that the remuneration of the external auditor does not compromise either its quality or its independence
- (vii) the Audit Committee must ensure that that external auditor has a yearly meeting with the Board of Directors in full to inform it of the work undertaken and developments in the Company's risk and accounting positions.

## **2. INDEPENDENCE OF FINANCIAL ANALYSTS, INVESTMENT BANKS AND RATING AGENCIES**

With regard to relations with financial analysts, the Company applies the principle of transparency, no discrimination and reliability of the information provided to the market. The Company has several communication channels, always complying with securities market legislation:

- E-mail on the corporate website ([info.accionista@otis.com](mailto:info.accionista@otis.com))

- Contact person for information to shareholders:

Joao Penedo

Zardoya Otis

C/ Golfo de Salónica, 73

28033-Madrid

Tel.: 91 343 51 05

Fax: 91 343 51 89

Said information is available on the website in the section "Channels of Communication with the Company".

In addition, the Company has an internal Code of Conduct that establishes the guidelines that the Company must follow and the "Obligated Persons" (directors, managers, employees, advisors, etc.) in the treatment of inside and relevant information, thus protecting the interests of those who invest in the Company's securities (the "**Internal Code of Conduct**"). This Internal Code of Conduct was amended on February 21, 2017 in order to adapt its contents to Royal Legislative Decree 4/2015 of October 23, whereby the revised text of the Securities Market Law was approved, Regulation (EU) No. 596/2014 of the European Parliament and of the Council, of April 16 (the Market Abuse Regulation) and their implementing legislation.

The Internal Code of Conduct may be consulted on the Company's website.

Any investment banks or rating agencies that advise the Company and have access to inside information are considered as "External Advisors" and, therefore, "Obligated Persons". Consequently, the Secretary of the Board will warn the persons who must be included on the "Obligated Persons" Register as "Obligated Persons" that the information is inside information and of their duty of confidentiality and the prohibition on the use of said information, as well as the infringements and penalties derived from the improper use thereof. "Obligated Persons" must provide a declaration stating that they undertake to comply with the obligations contained in the Internal Code of Conduct.

**C.1.36 State whether the Company has changed the external auditor during the reporting period. If so, identify the incoming and the outgoing auditor:**

Yes  No

At the General Shareholders' Meeting of May 19, 2016, a resolution was passed to reappoint the Company's account auditor (PriceWaterhouseCoopers Auditores, S.L.).

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

N/A

**C.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

	<b>Company</b>	<b>Group</b>	<b>Total</b>
<b>Amount of work other than audit work (thousands of euros)</b>	161,2	0	161,2
<b>Amount of work other than audit work (thousands of euros) / total amount billed by the audit firm (%)</b>	46,94	0	30,57

**C.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

C.1.39 State the number of years for which the current audit firm has been uninterruptedly auditing the annual financial statements 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 financial statements have been audited:

	Company	Group
<b>Number of consecutive years</b>	29	29
<b>Number of years audited by the current audit firm / Number of years for which the company has been audited (%)</b>	69.04%	100.00%

C.1.40 State whether any procedure exists that allows the Directors to obtain external advice and, if applicable, give details thereof:

Yes  No

Details of procedure
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Article 17 of the Regulations of the Board of Directors states that the Board has the broadest authorization to obtain any information that is appropriate and necessary, as well as any advice it requires on any aspect of the Company, whenever it so requires in order to perform its duties. The right to information extends to subsidiary companies, both national and foreign, and will be channelled through the Chairman, who will handle the director's requests, providing him/her with the information directly, offering any appropriate contacts or arranging any measures that may be necessary for the examination requested.

Likewise, the second paragraph of the aforementioned Article 17 of Board of Directors regulations, states, that in order be assisted in performing his/her duties, any director may request legal, accounting, technical financial or commercial advisors or other experts. The engagement must necessarily be related to specific problems of certain complexity arising in the course of his/her 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:

- (i) When it is not necessary in order to properly perform the duties entrusted to the directors.
- (ii) If the cost is not reasonable in the light of the importance of the problem and the assets and income of the Company.
- (iii) If the technical assistance requested may be given adequately by experts and technical staff within the Company or its Group.
- (iv) If it may represent a risk to the confidentiality of the information that must be provided to the expert.

The Audit Committee and Nominating and Compensation Commission may obtain external advice when they deem this necessary in order to perform their duties.

Likewise, the Chairman may, as an exception, temporarily restrict access to certain information, informing the Board of this decision.

C.1.41 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

<b>Details of procedure</b>
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In accordance with article 10 of the Regulations of the Board of Directors, Board meetings are called by sending a letter, e-mail, telegram or fax to each one of the directors, at the address he/she has previously provided for this purpose, at least ten days before the date fixed for the meeting, attaching the agenda for the meeting.

Thus, unless a Board meeting is held or called under exceptional circumstances for urgent reasons, the directors should previously have the information to enable necessary for deliberations and the passing of resolutions on the matters to be discussed sufficient time in advance. The Chairman of the Board of Directors, with the assistance of the Secretary, must ensure compliance with this right.

When, under exceptional circumstances, for urgent reasons, the Chairman wishes to submit decisions or resolutions of items that are not included on the agenda to the approval of the Board, the consent of a majority of the directors present will be required, which will be duly recorded in the minutes.

Article 6 of the Regulations of the Board of Directors expressly states that the Chairman of the Board of Directors is responsible for ensuring that all the directors receive sufficient information in advance to allow deliberations on the items on the agenda.

Finally, article 17 of the Regulations of the Board of Directors states that any director has the duty to require and the right to obtain, with the broadest authorization, any information or advice they he/she requires on any aspect of the Company, whenever this is required in order to perform his/her duties. 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.

C.1.42 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 good name and reputation of the Company may be damaged. If so, describe such rules:

Yes  No

<b>Explain the rules</b>
--------------------------

Article 15 of the Regulations of the Board of Directors states that directors must place their position at the disposal of the Board of Directors and, if the latter sees fit, resign in the following cases:

- (i) When they are affected by any of the circumstances of incompatibility or prohibition legally provided for.
- (ii) When they may harm the Company's good name or reputation.
- (iii) When they are investigated, prosecuted, in the process of a trial in ordinary proceedings or found guilty in summary criminal proceedings for any serious crime, in particular, any of the crimes stated in article 213 of the Capital Companies Law. In these cases, the Board of Directors will investigate the case as soon as possible and, in the light of the specific circumstances, will decide whether or not the director should remain in office. The Board of Directors will inform of any such decisions in the Annual Corporate Governance Report.
- (iv) When they have been seriously admonished by the Audit Committee or because they have infringed their duties as directors.

- (v) When an external proprietary director transfers his or her shareholding in the Company or when the shareholder which proposed his appointment to the Company sells its entire shareholding interest or reduces it to a level that requires the reduction or removal of its proprietary directors.

Article 19.5 (f) of the Regulations of the Board of Directors states that directors must notify the Board of Directors as soon as possible and, if appropriate, resign if any circumstances affect them that might damage the good name and reputation of the Company, in particular when they are investigated in relation to criminal offences.

C.1.43 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 article 213 of the Capital Companies Law:

Yes  No

State whether the Board of Directors has analysed the case. If so, provide a duly substantiated explanation of the decision adopted regarding whether or not the director should remain in office or, if applicable, set forth the actions taken by the Board of Directors up to the date of this report or those it plans to take hereafter:

N/A

C.1.44 Provide details of any significant agreements into which the company has entered that come into force, are modified or conclude in the event of a change in the control of the company as a result of a public tender offer and the effects of said entry into force, modification or conclusion:

There are no agreements of this nature.

C.1.45 State, on an aggregated basis, and describe in detail, any agreements between the company and its directors, managers or employees that provide for indemnities or contain any guarantee or protective clauses in the event that they resign or are unfairly dismissed or if the contractual relationship concludes as the result of a public tender offer or any other type of transaction:

<b>Number of beneficiaries</b>	1
<b>Type of beneficiary</b>	<b>Description of agreement</b> In the event that his contract terminates, an indemnity is established consisting of a certain number of days' compensation per year of service
<b>Chief Executive Officer</b>	The legal indemnity is established

State whether these contracts must be notified to and/or approved by the governing body/ies of the company or its group:

	<b>Board of Directors</b>	<b>General Meeting</b>
<b>Body authorizing the clauses</b>	Yes	No

	Yes	No
Is the General Meeting informed of the clauses?		NO

## C.2 Commissions of the Board of Directors

C.2.1 Give details of all the commissions of the Board of Directors, their members and the proportion of proprietary, independent and other external directors that sit on them:

### AUDIT COMMITTEE

Name	Position	Type
MR JOSÉ MIGUEL ANDRÉS TORRECILLAS	CHAIRMAN	Independent
MR JOSE MARIA LOIZAGA VIGURI	DEPUTY CHAIRMAN	Independent
MR MARK GEORGE	MEMBER	Proprietary

% of executive directors	0.00%
% of proprietary directors	33.33%
% of independent directors	66.66%
% of external directors	0.00%

Explain the duties of this commission, describe its organizational procedures and rules and summarize its most important activities during the period:

Duties, organizational procedures and rules and most important activities during the period
<p>Article 12, section A, of the Regulations of the Board of Directors contains all the information on the composition, operation and duties of the Audit Committee:</p> <p><b>1. Composition</b></p> <p>The Board of Directors will form a permanent Audit Committee.</p> <p>The Audit Committee will be formed by three directors, appointed by the Board of Directors from among the non-executive directors. Its members must include a majority of independent directors. The Audit Committee as a whole must have sufficient technical knowledge on the sector in which the Company operates.</p>



The Board of Directors will likewise appoint a Chairman from among its members and a Secretary, who need not be a director, at the proposal of the Nominating and Compensation Commission. The Chairman of the Audit Committee will be appointed by the Board of Directors from among its independent members and will be changed every four years, although the same chairman may be reappointed one year after his/her removal.

The members of the Audit Committee, especially its Chairman, must have knowledge and experience in accounting, auditing or risk management.

The directors who sit on the Audit Committee will hold office while they remain in office as directors of the Company and maintain the status of external directors, unless the Board of Directors decides otherwise.

The appointment, reappointment and removal from office of the directors who form the Committee will be governed by the decisions of the Board of Directors.

The directors sitting on the Audit Committee who are re-elected as directors of the Company in a resolution adopted by the General Shareholders' Meeting will continue to hold office on the Committee without the need to be reappointed thereto, unless the Board of Directors decides otherwise.

## **2. Functions**

The Audit Committee will have the following functions:

- (a) To report, through its Chairman, to the General Shareholders' Meeting with respect to matters relating to its functions raised thereat by the shareholders and, in particular, on the result of the audit process, explaining how the auditor has contributed to the integrity of the financial information and the Audit Committee's role in the process.
- (b) To propose to the Board of Directors, for submission to the General Shareholders' Meeting, the recommendations for the selection, appointment, reappointment and removal of the external account auditor, in accordance with the applicable legislation, being responsible for the selection process and also proposing its engagement conditions. Furthermore, the Audit Committee must regularly obtain from the external auditor information on the audit plan and its execution, preserving its independence in the performance of its duties.
- (c) To supervise the efficacy of the Company's internal control, internal audit and risk control systems, including tax risks, and, in particular: i) to ensure the independence and efficacy in its functions of the internal audit service and, in particular, monitor the independence of the unit handling the internal audit function; (ii) to propose the selection, appointment, reappointment and removal of the head of the internal audit service; (iii) to propose the budget for said service; (iv) to approve its priorities and work programs, ensuring that it focuses primarily on the main risks the Company is exposed to; (v) to receive regular report-backs on its activities; (vi) to review the annual work program and the yearly activities report of the internal audit service; (vii) to be informed of any incidents arising during the implementation of the internal audit service's yearly work program; (viii) to verify that senior management acts in accordance with the conclusions and recommendations contained in its reports; and (ix) to discuss any significant weaknesses detected in the internal control system in the course of the audit with the account auditors, all of which must not diminish its impartiality. For this purpose, the Audit Committee may submit recommendations or suggestions to the Board of Directors and the corresponding deadline for the follow-up.
- (d) To be informed of and to monitor the mandatory financial information of the Company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidated group and the correct application of accounting principles, ensuring the integrity thereof, and submit recommendations or suggestions to the Board of Directors aimed to ensure their integrity.
- (e) To review internal control and risk management systems on a regular basis, so that main risks

are properly identified, managed and disclosed. In particular, control and risk management policy must identify, at least:

- (i) the different types of risk (operational, technological, financial, legal, reputational, social, environmental, political, etc.) the Company is exposed to, including contingent liabilities and other off-balance sheet risks among the financial and economic risks;
  - (ii) the determination of the risk level the Company sees as acceptable;
  - (iii) the measures in place to mitigate the impact of the risks identified, should they materialize; and
  - (iv) the internal reporting and control systems which will be used to control and manage said risks, including the aforementioned contingent liabilities and off-balance sheet risks.
- (f) To be in contact with the external account auditor in order to receive information on any matters related to the process of performing the account audit, such as the progress and findings of the audit program, to maintain with the external account auditor any other communications required by the account auditing legislation and technical audit rules and check that the Company's senior management is acting in accordance with its recommendations. Likewise, to receive information on any issues which may place the external account auditor's independence at risk for review by the Committee. To this effect:
- (i) the Company will notify any change of auditor to the Spanish National Securities Market Commission (CMNV) as a significant event, accompanied by a statement of any disagreements that may have arisen with the outgoing auditor and, if such disagreements exist, the contents thereof;
  - (ii) the Audit Committee will ensure that the Company and the external account auditor respects current rules on the provision of non-audit services, limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditor independence;
  - (iii) the Company must establish appropriate contacts with the account auditor to receive information on any questions which might place the latter's Independence at risk, which will be examined by the Audit Committee, and when authorization of non-audit services other than those prohibited is required, in the terms contained in account auditing legislation, as well as any other matters provided for in account auditing legislation and audit rules and, in particular, the Audit Committee will receive from the account auditors, on an annual basis, written confirmation of their independence in relation to the Company or any companies that may be directly or indirectly related thereto, as well as detailed information on the individual additional services of any kind provided to said companies and the fees received from these entities by the auditors or by persons or entities related to the auditors, in accordance with the provisions of the Account Auditing Law.
  - (iv) if the external account auditor resigns, it will investigate the issues that gave rise to said resignation;
  - (v) prior to issuance of the audit report, the Audit Committee must issue an annual report expressing an opinion as to whether the Independence of the account auditors has been compromised. Said report must express an opinion on the provision of additional services to which point (iii) above refers, considered individually and overall, other than the statutory audit, in relation to the system of independence or the legislation that regulates the activity of account auditing.
  - (vi) the Audit Committee must ensure that the remuneration of the external auditor does not compromise its quality or independence;
  - (vii) the Audit Committee must ensure that that external auditor has a yearly meeting with the

Board of Directors in full to inform it of the work undertaken and developments in the Company's risk and accounting positions.

- (g) Encourage the group auditor to take on the auditing of all the Group companies.
- (h) To establish and supervise a mechanism whereby employees can report, confidentially and, if seen fit, anonymously, any potentially serious irregularities that they note within the Company, especially financial and accounting irregularities. The Chairman of the Audit Committee will inform the Board of Directors on any reports received at the first Board meeting following receipt thereof.
- (i) To supervise compliance with the internal codes of conduct and corporate governance rules and recommendations in force at any given moment.
- (j) To inform the Board of Directors, before the decision-making, on all the issues foreseen in the Law, the Company's Bylaws and these Regulations and, in particular, on the following issues:
  - (i) the financial information that the Company must periodically disclose. The Committee will ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review;
  - (ii) the creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of an analogous nature whose complexity may detract from the transparency of the Group;
  - (iii) any structural changes or corporate transactions the company is planning and, in particular, on their economic conditions and accounting impact and, when applicable, the exchange ratio proposed; and
  - (iv) related-party transactions.
- (k) Any others that may be attributed to them by the Bylaws, these Regulations, the Board of Directors or the law.

### **3. Rules of operation**

In the performance of its activities, the Audit Committee will be governed by the following rules of operation:

- (a) The Audit Committee will meet at least quarterly and whenever the Chairman considers convenient or at least two members of the Committee so request.
- (b) Meetings of the Audit Committee will reach a quorum when a majority of the members are present or represented. Its decisions will likewise be adopted by a majority of the members.
- (c) The Chief Executive Officer will provide the Audit Committee with the information it requires to perform its duties in relation to the directors and senior management of the principal companies in which interests are held.
- (d) The Audit Committee will have free access to any kind of information or documentation held by or available to the Company that it considers necessary in order to perform its duties.
- (e) The Committee may require the presence at any of its meetings of any employee or officer (and may order them to appear without the presence of any other officer, in which case, their attendance will be requested through the General Manager), any executive director, the external account auditor and/or the legal advisor to the Board of Directors.
- (f) Minutes of Audit Committee meetings will be taken and a copy will be sent to all the members

of the Board and to the Board of Directors, sending the full contents of the minutes of the Committee meetings. Furthermore, the Chairman of the Audit Committee will, if applicable, report on any decisions and/or significant events that may have occurred at the Committee meetings at the first Board meeting to take place after the Committee meeting in question.

- (g) The Committee will review the financial information that is sent on a quarterly basis to the CNMV.
- (h) The Board of Directors will discuss the proposals and/or reports presented by the Audit Committee.

In the absence of any specific rule, the provisions of the Regulations on the operation of the Board of Directors will be applicable to the Audit Committee to the extent that they are not incompatible with the nature thereof, in particular, the rules on calling the meetings, granting proxy to another director, universal meetings, written ballots without holding a meeting, the persons acting as chairman and secretary of the meetings and the approval of the minutes.

The Audit Committee will strive to ensure that the Board of Directors seeks to present the annual statements to the General Shareholders' Meeting without reservations or qualifications in the audit report, and in the exceptional case that these may be included, the Chairman of the Audit Committee and the auditors will give a clear explanation to the shareholders on the content and extent of said reservations and qualifications.

#### **4. Internal audit**

The Company will set up, under the supervision of the Audit Committee, a unit to carry out internal audit function to monitor the effectiveness of reporting and control systems.

The head of the unit described above will present an annual work program to the Audit Committee, will inform it directly of any incidents arising during its implementation and will submit an activities report at the end of each reporting period.

#### **5. Risk control and management function**

Under the supervision of the Audit Committee or of a specialized committee of the Board of Directors, there will be an internal department of the Company in charge of the risk control and management function which will have the following duties:

- (a) To ensure that risk control and management systems are functioning correctly and, specifically, that major risks the Company is exposed to are correctly identified, managed and quantified.
- (b) To participate actively in the preparation of risk strategies and in key decisions about their management.
- (c) To ensure that risk control and management systems are mitigating risks effectively in the framework of the policy drawn up by the Board of Directors.

The Audit Committee met on 9 occasions in 2016.

In compliance with the functions set out in the Regulations of the Board of Directors, in 2016, the Audit Committee performed the functions assigned to it, which, among others, were as follows: supervise the financial information, supervise the efficacy of the Company's internal control, report on the different corporate and strategic policies approved in 2016, review the management objectives, meet the Company's external auditor, report on the external auditor's independence, report on the distribution of dividends, capital increase, etc.

When the 2017 Ordinary General Shareholders' Meeting is called, a report on the operation of the Audit Committee during the period ended November 30, 2016 will be placed at the shareholders' disposal.

Identify the member of the audit commission who has been appointed due to his/her knowledge and experience in accounting, auditing or both and state the number of years for which the chairman of this commission has been in said position:

<b>Name of the director with experience</b>	MR JOSÉ MIGUEL ANDRÉS TORRECILLAS (Chairman)  MR. JOSE MARIA LOIZAGA VIGURI  MR MARK GEORGE
<b>No. of years of chairman in position</b>	1

**NOMINATING AND COMPENSATION COMMISSION**

Name	Position	Type
MR JOSE MARIA LOIZAGA VIGURI	CHAIRMAN	Independent
MR PHILIPPE DELPECH	DEPUTY CHAIRMAN	Proprietary
MR JOSÉ MIGUEL ANDRÉS TORRECILLAS	MEMBER	Independent
OTIS ELEVATOR COMPANY	MEMBER	Proprietary
MR PIERRE DEJOUX	MEMBER	Proprietary

<b>% of executive directors</b>	0.00%
<b>% of proprietary directors</b>	60.00%
<b>% of independent directors</b>	40.00%
<b>% of other external directors</b>	0.00%

Explain the duties of this commission, describe its organizational procedures and rules and summarize its most important activities during the period:

<b>Duties, organizational procedures and rules and most important activities during the period</b>
Article 12, section B of the Regulations of the Board of Directors contains all the information on the

composition, operation and duties of the Nominating and Compensation Commission:

## **1. Composition**

The Board of Directors will create a permanent Nominating and Compensation Commission.

The Nominating and Compensation Commission will be formed by five directors, appointed by the Board of Directors from among the non-executive directors. At least two of its members must be independent. The Board of Directors will likewise appoint a Chairman from among the members, who must be independent, and a Secretary, who need not be a director, at the proposal of the Nominating and Compensation Commission itself.

The Board of Directors will try to ensure that the directors who form part of the Nominating and Compensation Commission have appropriate knowledge, capacities and experience for the functions they are to perform.

The directors who form part of the Nominating and Compensation Commission will hold office while they remain in office as directors of the Company and maintain the status of external directors, unless the Board of Directors decides otherwise.

The appointment, re-election and removal from office of the directors who form the Commission will be governed by the decisions of the Board of Directors.

Directors forming part of the Nominating and Compensation Commission who are re-elected as directors of the Company in a resolution adopted by the General Shareholders' Meeting will continue to hold office on the Commission without the need to be re-elected thereto, unless the Board of Directors resolves otherwise.

## **2. Functions**

The Nominating and Compensation Commission will have the following functions:

- (a) To assess the competence, knowledge and experience necessary on the Board and, in consequence, to define the functions and capacities necessary in the candidates who are to cover any vacancies and assess the time and effort required for them to carry out their duties properly.
- (b) To establish a representation target for the gender that is less represented in the Board of Directors and prepare guidelines on how to reach such target.
- (c) To report on the proposals for appointment of independent directors in order for them to be appointed by co-option or for their appointment to be submitted to the decision of the General Meeting, as well as proposals for the re-election or removal of said directors by the General Meeting.
- (d) To report on the proposals for appointment of other directors in order for them to be appointed by co-option or for their appointment to be submitted to the decision of the General Meeting, as well as proposals for the re-election or removal of said directors by the General Meeting.
- (e) To report on proposals for filling the internal positions on the Board of Directors.
- (f) To propose the members of each committee to the Board of Directors.
- (g) To report to the Board of Directors on the appointments and removals of members of senior management and propose and report to the Board of Directors on the basic conditions of their contracts.
- (h) To examine or organize, in the manner seen fit, the succession of the Chairman and the CEO and, if applicable, make proposals to the Board so that said succession takes place in an

orderly and well-planned manner.

- (i) To ensure that, when filling new vacancies or appointing new directors, the selection processes are not marred by any implicit bias that could imply any kind of discrimination and to report to the Board on gender diversity issues.
- (j) To propose to the Board of Directors the compensation policy for directors and general managers or persons who perform senior management duties and report directly to the Board, executive commissions or the CEO, as well as the individual compensation and other conditions of the contracts of executive directors, ensuring that they are respected. This policy will be reviewed periodically, including the systems of compensation with shares and the application thereof.

The Nominating and Compensation Commission will ensure that the individual compensation of directors and members of senior management is proportionate to the amounts paid to other directors and managers in the Company.

- (k) To ensure that any potential conflicts of interest do not undermine the Independence of any external advice provided to the Commission.
- (l) To verify the information on the compensation of directors and members of senior management contained in the various corporate documents, including the Annual Director Compensation Report.
- (m) To ensure that non-executive directors have sufficient time available to perform their duties properly.
- (n) Any others that may be attributed to it in the Bylaws, the Regulations of the Board of Directors or, if applicable, the law.

The Nominating and Compensation Commission will consult the Chairman and the Company's CEO, especially in relation to issues concerning the executive directors and members of senior management.

Any director may request the Nominating and Compensation Commission to consider potential candidates to cover vacancies on the Board, so that it may decide on their suitability.

### **3. Rules of operation**

In performing its activities, the Nominating and Compensation Commission will operate independently and will be governed by the following rules of operation:

- (a) The Nominating and Compensation Commission will meet before any Board of Directors meeting at which a proposal is to be put to the General Shareholders' Meeting for the appointment, removal from office, re-election or ratification of a director and before any Board of Directors meeting at which it is planned to co-opt a director to cover a vacancy. The Nominating and Compensation Commission will likewise meet whenever the Chairman considers it necessary or when at least two members of the Commission so request.
- (b) Meetings of the Nominating and Compensation Commission will reach a quorum when a majority of the members are present or represented. Its decisions will likewise be adopted by a majority of the members.
- (c) The CEO will provide the Nominating and Compensation Commission with the information it requires to perform its duties in relation to the directors and senior management of the principal companies in which interests are held.
- (d) The Commission will have free access to any kind of information or documentation held by or available to the Company that it considers necessary in order to perform its duties.

- (e) The Commission may require the collaboration of any director, member of senior management or employee of the Company and/or its group to enable it to better perform its functions.
- (f) Minutes of Nominating and Compensation Commission meetings will be taken and a copy will be sent to all Board members and to the Board of Directors itself, sending Nominating and Compensation Commission will, if applicable, report on any decisions and/or significant events that may have taken place at Commission meetings at the first Board meeting to take place after the Commission meeting in question.

In the absence of any specific rule, the provisions of the Regulations of the Board of Directors on the operation of the Board of Directors will be applicable to the Nominating and Compensation Commission to the extent that they are not incompatible with the nature thereof, in particular, the rules on calling the meetings, granting proxy to another director, universal meetings, written ballots without holding a meeting, the persons acting as chairman and secretary of the meetings and the approval of the minutes thereof.

The Nominating and Compensation Commission met on 5 occasions in 2016.

In compliance with the functions set out in the Regulations of the Board of Directors, in 2016, the Nominating and Compensation Commission performed the functions assigned to it, which, among others, were as follows: report on proposals for the appointment of directors in order for them to be submitted to the decision of the General Meeting, prepare gender diversity guidelines, etc.

When the 2017 Ordinary General Shareholders' Meeting is called, a report on the operation of the Nominating and Compensation Commission during the period ended November 30, 2016 will be placed at the shareholders' disposal.

**C.2.2 Complete the following chart with the information on the number of women directors who have formed part of board committees over the last four reporting periods:**

	Number of women directors							
	2016		2015		2014		2013	
	No.	%	No.	%	No.	%	No.	%
AUDIT COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
NOMINATING AND COMPENSATION COMMISSION	1	20.00%	1	20.00%	1	20.00%	0	0.00%

(\*) The information refers to the personal representative of the director Otis Elevator Company.

**C.2.3 Section repealed.**

**C.2.4 Section repealed.**

**C.2.5 State, if applicable, whether rules exist for the Board commissions, where they are available to be consulted and the amendments made to them during the period. Likewise, state whether any annual report on the activities of each commission has been prepared on a voluntary basis:**



The rules on the organization, operation and duties of the two committees (Audit Commission and Nominating and Compensation Commission) are included in the Regulations of the Board of Directors and may be consulted on the Company's website: (<http://www.otis.com/site/es-esl/pages/Ascensores-Otis-Informacion-para-accionistas-e-inversores.aspx>).

When the General Shareholders' Meeting is called, reports on the activities conducted by the Audit Committee and the Nominating and Compensation Commission in the preceding reporting period are published. It is planned to prepare annual reports on their activities in 2016 to be published when the 2017 General Shareholders' Meeting is called.

In 2016, as a consequence of the publication of the new Good Governance Code and, to a lesser extent, the new Audit Law, which changes certain aspects of the organization of the Audit Committee, on April 4, 2016, it was decided to amend the Regulations of the Board of Directors. Likewise, on May 19, 2016, the Company's Board of Directors proposed the amendment of certain articles of the Bylaws to the Ordinary General Shareholders' Meeting. These amendments affect the composition and functions of the committees.

#### C.2.6 Section repealed.

## D. RELATED-PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

D.1 Explain, if applicable, the procedure for approval of related-party and intragroup transactions:

<b>Procedure for approval of related transactions</b>
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According to article 12 (A) 2 (j) of the Board of Directors Regulations, the Audit Committee will provide a report to the Board of Directors prior to the latter's adoption of decisions on related transactions.

According to article 11 of the Board of Directors Regulations, the Board of Directors will adopt its decisions, including, therefore, the approval of related transactions, by an absolute majority of all the directors present or represented at the meeting.

Likewise, the directors' obligation to abstain in the event of a conflict of interest should be taken into account (see section D.6).

D.2 Give details of any transactions that are significant because of their amount or relevant because of their content that have been performed between the company or companies belonging to its group and significant shareholders of the company:

<b>Name of corporate name of significant shareholder</b>	<b>Name or corporate name of the company or company belonging to its group</b>	<b>Nature of the relationship</b>	<b>Type of transaction</b>	<b>Amount (thousands of euros)</b>
UNITED TECHNOLOGIES CORPORATION (UTC)	OTIS ELEVATOR COMPANY	Contractual	License agreements	17,949
[UNITED TECHNOLOGIES CORPORATION (UTC)	ZARDOYA OTIS, S.A.	Contractual	Long term incentive on UTC shares	789
UNITED TECHNOLOGIES CORPORATION (UTC)	Otis Elevator Worldwide Sprl	Corporate Service Agreement	Service agreement under which Otis Elevator Worldwide Sprl provides certain financial, management, human resources, legal, marketing, communication, operational, compliance, technological and business development services to certain companies, including the Company (service receiver).	484

UNITED TECHNOLOGIES CORPORATION (UTC)	Otis Elevator Worldwide Sprl	Corporate Services Agreement	Service agreement under which certain companies (including the Company) provide certain financial, management, human resources, legal, marketing, communication, operational, compliance, technological and business development services to Otis Elevator Worldwide Sprl	2,693
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D.3 Give details of any transactions that are significant because of their amount or content that have been performed between the company or companies belonging to its group and the directors of the company or its management staff:

Name or corporate name of the directors or managers	Name or corporate name of the related party	Nature of the relationship	Type of transaction	Amount (thousands of euros)
OTIS ELEVATOR COMPANY		Director	Imports (from) Otis Elevator Company	35,737
OTIS ELEVATOR COMPANY		Director	Exports (to) Otis Elevator Company	165,914
OTIS ELEVATOR COMPANY		Director	Invoicing of the Company's R&D (to) Otis Elevator Company	3,374

D.4 Give details of any significant transactions performed by the company with other companies belonging to the same group when these are not eliminated in the process of preparing consolidated financial statements and do not form part of the company's ordinary trade in terms of their purpose and conditions.

Include any intragroup transaction performed with companies in countries or territories considered as tax havens:

Corporate name of group company	Brief description of transaction	Amount
Otis Elevator Company	Imports (from) Otis Elevator Company	35,737
Otis Elevator Company	Exports (to) Otis Elevator Company	165,914
Otis Elevator Company	Invoicing of the Company's R&D (to) Otis Elevator Company	3,374
Otis Elevator Worldwide Sprl	Corporate Services Agreement	484
Otis Elevator Worldwide Sprl	Corporate Services Agreement	2,693

## D.5 State the amount of the transactions performed with other related parties.

N/A

## D.6 Give details of 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 229 of the Capital Companies Act, directors affected by a conflict of interest must refrain from participating in resolutions or decisions that concern the transaction to which the conflict refers.

Article 19 of the Board of Directors Regulations formally establishes the obligation for the directors to refrain from participating in the deliberations or voting on resolutions or decisions in which he/she or a related person have a direct or indirect conflict of interest. The aforementioned obligation to refrain from participating will exclude any resolutions or decisions that affect him/her in his capacity as a director, such as his designation for positions on the Board of Directors, or the revocation thereof, or any others of a similar nature.

Likewise, article 19 of the Board of Directors Regulations states that the duty to avoid situations of conflict of interest obliges the director (without prejudice to the dispensation system provided for in the Capital Companies Law), to refrain from:

- (a) Performing transactions with the Company, except ordinary transactions carried out under standard conditions for customers and of little significance, defined as those on which information is not necessary in order to give a true and fair view of the Company's equity, financial situation and results.
- (b) Using the name of the Company or mentioning his/her status as a director to unduly influence the performance of private transactions.
- (c) Using the Company's assets, including the Company's confidential information, for private purposes.
- (d) Taking advantage of the Company's business opportunities.
- (e) Obtaining benefit or remuneration from third parties other than the Company and its group associated to holding office, except when they are matters of mere courtesy.
- (f) Carrying on activities, for his/her own account or for the account of third parties, that involve effective real or potential competition with the Company or that, in any other way, place him/her in permanent conflict with the Company's interests.

The above prohibitions will also be applicable in the event that the beneficiary of the prohibited actions or activities is a person related to the director.

At any event, directors must notify the other directors and the Board of Directors of any situation of direct or indirect conflict with the Company's interests that they or persons related to them may have.

Additionally, article 9 of the Internal Code of Conduct on issues relating to the securities markets (amended recently) states that directors, members of management and significant shareholders are obliged to inform the Secretary of the Board of Directors on any possible conflicts of interest to which they are subject. Any doubt on the possibility of a conflict of interest must be consulted with the Secretary of 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 Code of Conduct on issues relating to the securities markets to provide written confirmation that no conflicts of interest exist or that no new conflicts have arisen.

According to article 9.4 of the Internal Code of Conduct, in the event of a conflict of interest 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: (i) in the event of conflict between directors, members of management or significant shareholders and the Company, the interests of the Company will prevail;

and (ii) in the event of conflict between the Company and a shareholder or customer or between the a shareholder and a customer, the fair criterion of the Board will be applicable.

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

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

Yes  No

Identify the subsidiaries listed in Spain:

N/A

State whether the respective areas of activity and any business relations between them and those of the listed subsidiary with other group companies have been defined publicly and accurately:

N/A

Identify the mechanisms in place to solve any conflicts of interest between the listed subsidiary and other group companies:

N/A

## **E RISK CONTROL AND MANAGEMENT SYSTEMS**

### **E.1 Explain the scope of the company's risk management system, including tax risks:**

Section F of this Annual Corporate Governance Report presents a description of the main features of the internal control and risk management systems in relation to the financial reporting process. In particular, the risk policy of the Company and its consolidated group is described.

The risk control and management policy contains:

- The different types of risk (operating, technological, financial, legal, reputational, etc.) to which the Company is exposed, including financial or economic risk, contingent liabilities and other off-balance-sheet risks;
- Fixing the level of risk that the Company considers acceptable;
- The measures in place to mitigate the impact of the risks identified, in the event that they materialize; and
- The internal reporting and control systems that are used to control and manage the aforementioned risks, including the contingent liabilities and off-balance-sheet risks mentioned above.

On December 13, 2016, the Company's Board of Directors formally approved a risk control and management system (including tax risks).

### **E.2 Identify the company bodies responsible for preparing and executing the Risk Management System, including tax risks:**

Article 3 of the Regulations of the Board of Directors states that the Board of Directors is competent to approve the risk control and management system, including tax risks, and supervise the internal information and control systems.

Likewise, the Company has a unit that carries out the internal audit function and ensures the proper operation of the information and internal control systems under the supervision of the Audit Commission.

The person responsible for said unit will submit its annual work program to the Audit Committee, report directly on any incidents that arise that arise in the course of its work and submit report on its activities at the end of each reporting period.

Article 12 (A) 2 (c) of the Regulations of the Board of Directors entrusts the Audit Committee with the function of supervising the efficacy of the Company internal control, internal audit and risk control systems, including tax risks, and, in particular:

- ensuring the independence and efficacy of the internal audit service and, in particular, monitoring the independence of the unit handling the internal audit;
- proposing the selection, appointment, reappointment and removal of the head of the internal audit service;
- proposing the budget for this service;
- approving the priorities and work programs, ensuring that its focuses principally on the main risks the Company is exposed to;
- receiving regular report-backs on its activities;
- reviewing the internal audit service's annual work program and yearly activities report; and
- being informed of any incidents arising during the implementation of the internal audit service's yearly work program.

Likewise, article 12 (A) 2 (e) of the Regulations of the Board of Directors states that the Audit Committee must regularly review the internal control and risk management systems, so that the main risks are properly identified, managed and disclosed.

Risk management is controlled by company Management and the Internal Audit Department in accordance with policies approved by the Board of Directors. Management and the internal audit service assess and hedge financial risks, in close co-operation with the operating units of the rest of the Group, in order to:

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

Likewise, from a tax standpoint, there is a series of special transactions that must be approved specifically by the Company's Board of Directors.

### E.3 State the main risks that may affect attainment of the business objectives.

As mentioned in point E1 above, the risk control and management policy approved by the Board of Directors fixes the different types of risk, among which the principal ones are

- Operational and technological,
- Legal and tax,
- Reputational and financial, and
- Crime risks.

From the financial point of view, the activities of the Company and the Group are exposed to a number of financial risks: market risk (including exchange rate risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk). The Company's global risk management program concentrates on the uncertainty in the financial markets and tries to minimize any potential adverse effects on the Company's financial profitability. In Note 4 of the Individual Annual Financial Statements and Note 3 of the Consolidated Annual Financial Statements, management of each one of the financial risks is explained.

### E.4 State whether the company has a risk tolerance level, including tax risk:

As stated in point E1 above, the risk control and management policy fixes the level of risk that the Company considers acceptable.

### E.5 State the risks, including tax risks, that materialized during the reporting period:

As in the preceding reporting periods, the risks that materialized in the period referred to trade receivables.

- Circumstances that caused this: deterioration in the national economic situation.
- Operation of the control systems: both the Company and the Group have customer credit analysis policies and regular debt monitoring procedures performed by the departments involved in collection management.

### E.6 Explain the response and supervision plans for the company's main risks:

As mentioned in section E2 above, the Company has an Internal Audit Department, with systems and processes that are intended to assess, monitor, mitigate or reduce the main risks of the Company and its consolidated group by preventive measures and alert of possible situations of risk. The Company has the risks that affect assets and liability covered by the appropriate insurance policies. Likewise, the Company and its consolidated group have processes that ensure control of any risk that may stem from trading operations.

Section F of this Annual Corporate Governance Report describes the internal control and risk management systems in greater detail.



## F INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO FINANCIAL REPORTING (ICFR)

Describe the mechanisms that form the risk control and management systems in relation to financial reporting (ICFR) in the company.

### F.1 The company's control environment

Describe, stating the main characteristics, at least:

#### F.1.1. The bodies and/or functions that are responsible for: (i) the existence and maintenance of an appropriate and effective ICFR, (ii) the implementation thereof, and (iii) the supervision thereof:

Article 3 of the Board of Directors Regulations states that the Board of Directors is competent to approve the risk control and management policy, including tax risks, as well as to regularly monitor the internal reporting and control systems.

According to article 12 (A) 2 (c) of the Regulations of the Board of Directors, the Audit Committee is competent to supervise the efficacy of the Company's internal control, internal audit and risk control systems, including tax risks, and, in particular: i) to ensure the independence and efficacy in its functions of the internal audit service and, in particular, monitor the independence of the unit handling the internal audit function; (ii) to propose the selection, appointment, reappointment and removal of the head of the internal audit service; (iii) to propose the budget for said service; (iv) to approve its priorities and work programs, ensuring that it focuses primarily on the main risks the Company is exposed to; (v) to receive regular report-backs on its activities; (vi) to review the annual work program and the yearly activities report of the internal audit service; (vii) to be informed of any incidents arising during the implementation of the internal audit service's yearly work program; (viii) to verify that senior management acts in accordance with the conclusions and recommendations contained in its reports; and (ix) to discuss any significant weaknesses detected in the internal control system (the "**Internal Control System**") in the course of the audit with the account auditors, all of which must not diminish its impartiality.

In addition, the Audit Committee has the function of receiving information on and supervising the process of preparation of the mandatory financial reporting of the Company and the Group, checking compliance with legal requirements, the appropriate demarcation of the scope of consolidation, and the correct application of accounting policies, ensuring its integrity.

Lastly, article 12 (A) 2. (e) of the Regulations of the Board of Directors states that the Audit Committee must periodically review the internal control and management systems in order for the principal risks to be properly identified, managed and disclosed. In particular, the risk control and management policy must identify at least:

- The different types of risk (operating, technological, financial, legal, reputational, tax etc.) to which the Company is exposed, including the aforementioned financial or economic risk, contingent liabilities and other off-balance-sheet risks;
- Fixing the level of risk that the Company considers acceptable;
- The measures in place to mitigate the impact of the risks identified, in the event that they materialize; and
- The internal reporting and control systems that are used to control and manage the aforementioned risks, including the contingent liabilities and off-balance-sheet risks mentioned above.

The Company's Audit Committee is formed by three Directors: (i) Mr José Miguel Andrés Torrecillas (independent director), who is also the Chairman of the Audit Committee; (ii) Mr José María Loizaga Viguri (independent director), who is the Deputy Chairman of the audit Committee; and (iii) Mr Mark George (proprietary director).

F.1.2. State whether the following elements exist, especially in relation to the financial reporting:

Departments and/or mechanisms responsible for: (i) the design and review of the organizational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) the existence of sufficient procedures for these to be correctly known within the company.

The design and review of the organizational structure is the responsibility of the Human Resources Department and, ultimately, the CEO, within his duties as an executive director.

More detailed definition of resource needs is carried out by the area in question, together with Human Resources, including, therefore, the areas related to the process of preparing the financial reporting and the rest of the Group's operational areas.

The Company and the Group have an organization chart including all the functional areas.

In relation to sufficient procedures for the information to be correctly known, all the information on the organization chart and organizational structure is in the Group intranet (the "**Intranet**"), to which all employees have access.

In addition, the Group Financial Department (the "**Financial Department**"), responsible for preparing the financial reporting, has a system of responsibilities and segregation of functions that fixes the different levels for approval for each one of the activities and processes of the financial and operating departments.

Code of conduct, approving body, degree to which it is known and explained, principles and values included (stating whether there are specific references to the operations register and financial reporting), body responsible for analysing non-compliances and proposing corrective actions and penalties.

The Company and the Group have an Internal Code of Conduct on issues relating to the securities markets, approved by the Board of Directors, and a Code of Ethics (the "**Code of Ethics**"), notified to all the members of the organization through the intranet. Likewise, courses are held in this respect. They must be completed by new recruits and include annual updates for all Company and Group employees.

The Code of Ethics is based on the following essential principles: (i) compliance with legal requirements; (ii) correct preparation of the financial statements, which must be complete and accurate; and (iii) fair treatment of customers and other interested parties. Thus, the Code of Ethics does not merely require compliance with the law, but represents a commitment to positive behaviour that forges trust, promotes respect and shows integrity.

The principles established in the Code of Ethics are: (i) loyalty to the Company; (ii) meeting commitments; (iii) acting bona fides; (iii) respect towards others; (v) accurate and true information; (vi) not to jeopardize safety or quality; and (iv) to help to detect and avoid bad practices.

The Group has a Good Business Practice Manager, responsible for implementing the Code of Ethics and ensuring compliance therewith.

The Audit Committee makes an annual review of the plan for compliance with the Code of Ethics for each reporting period, covering the actions, those responsible for them, dates and current status, likewise obtaining information on the training and updating courses that each one of the organization's members must attend.

As stated in article 12 (A) 2. (i) of the Company's Regulations of the Board of Directors, mentioned in article 11 of the Internal Code of Conduct, the Audit Committee is responsible for supervising effective compliance with the obligations established in the Internal Code of Conduct.

In particular, as provided in article 10 of the Internal Code of Conduct, the Audit Committee must:

- Comply and ensure compliance with the securities market rules on conduct and the rules contained in the Internal Code of Conduct, the procedures thereof and any other present or future supplementary rules.
- Promote knowledge of the Internal Code of Conduct and other securities market rules on conduct on the part of the obliged persons, insiders and the Group..
- Develop, if applicable, the procedures and implementing rules deemed appropriate in order to apply the Internal Code of Conduct.
- Interpret the rules contained in the Internal Code of Conduct and solve any queries or issues raised by those subject to it and/or insiders.
- Conduct disciplinary procedures against obliged persons and insiders due to failure to comply with the rules of the Code of Conduct.
- Propose to the Company's Board of Directors any revisions or improvements to the Internal Code of Conduct.

Complaints channel that allows any financial or accounting irregularities, in addition to any breaches of the code of conduct and/or irregular activities in the organization to be reported to the Audit Committee, stating, if applicable, whether this channel is confidential.

The Group has a confidential communication channel that allows all Group employees to make suggestions and place complaints in such a way that their concerns can be heard swiftly, neutrally and in the strictest confidence.

The program provides:

- Confidentiality: the identity of the person making a communication is protected.
- Neutrality: support is given neither to Management nor to the employee.
- Independence: there is no hierarchical relationship between the person responsible for the program and Management.
- Quality: the system operates as an intermediary between the employees and Management, while ensuring that communication is clear and comprehensible.

Thus, employees may make communications as follows:

- Through a free telephone call.
- By completing a form and sending it to the relevant centre by mail or fax.
- Using the program application from anywhere with Internet access.

Training programs and regular updates for employees involved in preparing and reviewing the financial information and in the assessment of the ICFR, covering at least accounting rules, auditing, internal control and risk management.

The employees involved in preparing and reviewing the financial information have a sound knowledge of financial and accounting matters. Additionally, the Group has a training program for its employees, supervised by the Human Resources Department.

Furthermore, courses, seminars and work groups related to updates of the accounting legislation, auditing, internal control and risk management are organized, since the Group holds agreements for regular training with a supplier specialized in the accounting, financial, legal, tax and labour areas, among others.

## F.2 Assessment of financial reporting risks

Provide information on at least:

F.2.1. The principal characteristics of the risk identification process, including the risks of error or fraud, in respect of:

Whether the process exists and is documented:

The Group has a risk management system (the “**Risk Map**”), which is conducted by the Group’s different operating and functional units and submitted for review by the Audit Committee and Board of Directors. The Risk Map is based on integrated management of each and every one of the business processes and an appropriate segregation of the levels of risk, in order to achieve compliance with the strategic objectives fixed by the Group.

Whether the process covers the whole of the financial reporting objectives (existence and occurrence; integrity; measurement, presentation, breakdown and comparability; and rights and obligations. Whether it is updated and how often:

All the risks that could affect the financial reporting (principally operational risks) are assessed and quantified in order to carry out regular supervision of the controls designed to mitigate the risks identified. Operational risks cover the objectives of existence, occurrence, integrity, measurement, presentation, breakdown and comparability, and rights and obligations.

Risk management is based on dynamic analyses for each one of the processes that comprise the business units, meaning that those responsible for each one of the organization’s areas or departments identify and assess the potential risks.

The existence of a process to identify the scope of the consolidated group, taking into account, among other aspects, the possible existence of complex corporate structures and instrumental entities or special-purpose vehicles:

The Group does not have a complex corporate structure. As may be seen from the consolidated annual financial statements, all the subsidiaries are consolidated. The Financial Department, through its Consolidation Department, carries out the consolidation process. In close collaboration with the Legal Department, on the basis of the decisions adopted by the Board of Directors on corporate transactions for acquisitions, business combinations, disposals and mergers, among others, the scope of the consolidation and the percentage interests held by each company in its subsidiaries are determined.

Following the best corporate governance practices, in order to comply with article 12 (A) 2. (j). (ii) of the Regulations of the Board of Directors, among the duties of the Audit Committee is included the need to provide a report to the Board of Directors before the latter adopts any decisions on the creation or acquisition of shares or interests in special-purpose vehicles or entities resident in countries or territories considered tax havens, as well as any other similar transactions or operations that, given their complexity, could impair the Group’s transparency.

Whether the process takes into account the effects of other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements:

The different type of risk that comprise the Group risk management system are grouped principally into the following categories:

- Operational,
- Technological,
- Financial,

- Legal and tax,
- Reputational.

Each one of these categories has controls and mitigating actions, which are reviewed and included in annual work plan of the internal audit department's (the "**Internal Audit Department**").

#### Which of the company's governing bodies supervises the process:

El Audit Committee, in relation to the ICFR System, is responsible for periodically reviewing the internal control and risk management systems, in order to identify and manage the principal risks that could affect the Group's financial reporting. In particular, it is responsible for: (i) ensuring the independence and efficacy of the internal audit service; (ii) proposing the selection, re-election and removal of the head of the internal audit service; (iii) proposing the budget for this service; (iv) receiving periodic information on its activities; (v) reviewing the annual internal audit work program; (vi) being informed of any incidents that arise in the course of the annual internal audit work program; (vii) verifying that senior management take the findings and recommendations of its reports into account; and (viii) discussing any significant weaknesses in the internal control system noted in the course of the audit with the account auditors.

### F.3 Control activities

State, describing their main characteristics, whether the company has at least:

- F.3.1. Financial reporting review and authorization procedures and a description of the ICFR to be published in the stock markets, stating the persons responsible for them, as well as documentation describing the flows of activities and controls (including those concerning the risk of fraud) for the different transactions that could have a material effect on the financial statements, including the procedure for closing the accounts and a specific review of significant judgements, estimates, measurements and projections.

The Financial Department consolidates and reviews all the financial information of the Company and its subsidiaries, including, in this respect, the companies resident in Spain, Portugal and Morocco. Once said information is known, it prepares monthly, quarterly and six-monthly reports and annual financial statements, among other items.

Likewise, the Financial Department submits the annual, six-monthly and quarterly financial statements for review by the Audit Committee, as well as any other financial information that is sent to regulatory bodies or publications. The Audit Committee checks that the information is complete, accurate and sufficient to provide a true and fair view of the Group's equity, financial position and results and the cash flows, which are prepared in accordance with the legislation applicable to individual and consolidated financial statements.

The Board of Directors approves all the financial information that the Group publishes regularly and formulates the annual financial statements together with the Annual Corporate Governance Report.

The review of the estimates and assumptions used is based on the Group's historical experience and other factors considered reasonable. Said procedure is included in the procedure manual for closing the accounts.

- F.3.2. Internal control policies and procedures for the information systems (including, among others, access security, control of changes, the operation thereof, operational continuity and segregation of functions) that support the company's significant processes in relation to preparing and publishing the financial information:

Systems management acts directly in accordance with the regulations on information security and, in addition, the Group Financial Department authorizes all accesses to sensitive systems that may affect the financial information.

The regulations are based on establishing controls over access security, control of changes, operations, operational continuity and segregation of functions. All these rules are published in the intranet to enable all employees to access them.

The Group has a series of actions that guarantee that operations run correctly when an incident arises, in order to mitigate any possible materialization of an incident or reduce it to a minimum.

The Internal Audit Department's annual work program includes the review of the proper running of Internal Systems Control, both technologically and in relation to maintenance processes.

**F.3.3. Internal control policies and procedures intended to supervise management of activities subcontracted to third parties, as well as any aspects of assessment, calculation or valuation entrusted to independent experts, that could have a material effect on the financial statements.**

The relationship with any group supplier is conducted through those specifically responsible in each business unit, for both goods and services. Any selection of products or services subcontracted to third parties is conducted using technical, professional and economic criteria.

The Internal Audit Department's annual work program includes a review of compliance with the rules related to the main procedures for purchasing goods and services.

If valuations are contracted out to independent experts, this will be done through the Financial Department and the Audit Committee, since they relate to valuations included in the Group's financial information. The Group Financial Department ensures that the supplier is independent and has experience and prestige both nationally and internationally.

**F.4 Information and communication**

State, describing their main characteristics, whether the company has at least:

**F.4.1. A specific function responsible for defining accounting policies, keeping them updated (accounting policy area or department) and solving any queries or conflicts from the interpretation thereof, maintaining smooth communication with those responsible for operations in the organization, as well as an updated accounting policy manual that has been notified to the units through which the company operates:**

The Financial Department, through its Accounting and Consolidation Departments, is responsible for reviewing the accounting policies and rules and ensuring they are kept updated for each of the Group's processes and units. Likewise, the Internal Control Department maintains a smooth relationship with the Financial Department, those responsible for the financial area in each of the Group companies and other units and corporate areas, with whom they establish the procedure updates when applicable.

All the Group's manuals and procedures are available through the intranet.

**F.4.2. Mechanisms for capturing and preparing the financial information with consistent formats, applied and used by all the units of the company or group, which contain the principal financial statements and notes, as well as the information provided on ICFR:**

The Financial Department, through the Consolidation Department, has the function of preparing the financial statements and the notes thereto. In relation to the mechanisms for capturing and preparing the financial information, except for Otis Elevadores Lda. (Portugal) and Otis Maroc, S.A. (Morocco), the companies that belong to the consolidated group use the same financial information system, the same policies and identical accounting procedures, which permits a unified capturing mechanism that is in accordance with the accounting rules in force at any given moment. Additionally, there are reporting packages for the companies resident in Portugal and Morocco, which allows the financial information to be unified and made consistent and to comply with the policies and bases of presentation used by the Group.

## F.5 Supervision of system operation

Describe, stating their main characteristics, at least:

F.5.1. The ICFR supervision activities performed by the Audit Committee and whether the company has an internal audit service whose duties include supporting the Committee in its supervision of the internal control system, including ICFR. Likewise, describe the scope of the evaluation of ICFR carried out in the year and the procedure whereby those responsible for performing the evaluation notify the results, whether the company has an action plan that describes any possible corrective measures and whether the impact on the financial information has been considered.

The Company has an Internal Audit Department, with systems and processes, which is intended to assess, mitigate or reduce the principal risks of the Company and Group through preventive measures and alerts of possible situations of risk.

The Audit Committee, among its ICFR supervision activities, reviews the financial reporting that is sent to the National Securities Market Commission on a quarterly basis.

Additionally, the Audit Committee supervises and monitors the annual audit program. The head of the Internal Audit Department presents the findings of the work plan and the tasks performed by said Department during the reporting period to the Audit Committee.

The Group's Internal Audit Department has five members, who have extensive knowledge in the areas of internal and external auditing and management control, as well as experience in the operational part of the Group's units. The Audit Department has a work manual that fixes the procedures and duties that each of its members must perform.

The main functions of the Internal Audit Department are:

- To evaluate the appropriateness, sufficiency and efficacy of the Group's Internal Control System.
- To evaluate compliance with the Risk Management System.

The Group has an account auditor (the "**Account Auditor**"), who, as part of its procedures to audit the annual financial statements, reviews the Internal Control System. The Account Auditor has a meeting with the Audit Committee at least once a year and presents the findings of its work at said meeting. In the event that any weakness or issue has been noted in the course of the work, the Audit Committee will establish actions and oblige management to consider the actions established. In the findings presented to the Audit Committee, the Account Auditor has not included any weaknesses or issues concerning the Internal Control System.

F.5.2. Whether the company has a discussion procedure whereby the account auditor (as established in the Technical Audit Notes), the internal audit service and other experts may inform senior management and the company's audit committee or directors of any significant weaknesses noted during the annual financial statement review processes or any other processes for which they are responsible. Likewise, state whether the company has an action plan intended to correct or mitigate the weaknesses noted:

The Financial Department, the Internal Audit Department and the Audit Committee maintain regular and smooth communication with the Group's account auditor.

At the beginning of the period, the account auditor presents its audit program to the Financial Department, containing the visit dates, objectives, companies to be audited and a list of audit fees, so that the Audit Committee can review it.

During the whole audit process, the account auditor holds regular meetings with key employees responsible for preparing the financial information, establishing preliminary findings in each one of

the phases of the process. Throughout the reporting or in any phase of the external audit process, the Account Auditor may meet with the Audit Committee.

Upon conclusion of the audit, as stated previously, the account auditor presents its findings to the Audit Committee, which will evaluate any situation reported by the former. This will be considered by both the Internal Audit Department and the Audit Committee in order to undertake the appropriate actions.

#### F.6 Other relevant information

N/A

#### F.7 Report of the external auditor

State:

F.7.1. Whether the ICFR information sent to the markets has been subject to review by the external auditor, in which case the company must include the relevant report as an exhibit hereto. Otherwise, state the reasons.

Report attached to this 2016 Corporate Governance Report on the Company.

**[NB: Hay que incorporarlo]**



## **G DEGREE TO WHICH THE GOOD GOVERNANCE RECOMMENDATIONS HAVE BEEN FOLLOWED**

State the degree of conformance of the company to the recommendations of the Unified Good Governance Code.

If any recommendation is not complied with or complied with in part by the Company, a detailed explanation of the reasons should be included, providing shareholders, investors and the market in general with sufficient information to assess the company's course of action. General explanations will not be acceptable.

- 1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the take-over of the company by means of share purchases on the market.**

See sections: A.10, B.1, B.2, C.1.23 & C.1.24

Complies  Explain

- 2. When a parent and subsidiary company are both listed, both of them should provide detailed disclosure on:**
  - a) Their respective areas of activity and any business dealings between them, as well as between the listed subsidiary and other group companies;**
  - b) The mechanisms in place to resolve possible conflicts of interest.**

See sections: D.4 & D.7

Complies  Complies in part  Explain  Not applicable

- 3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:**
  - a) Changes taking place since the previous annual general meeting.**
  - b) The specific reasons for the company not following a given Good Governance Code recommendation and any alternative procedures followed in its stead:**

Complies  Complies in part  Explain

- 4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.**

**This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.**

Complies  Complies in part  Explain

The Company fully respects the anti-market abuse regulations and those on the equitable treatment of shareholders (in the same position), analysts and other third parties.

Given the Company's shareholder structure, where the number of institutional investors is very low, the Company has not, to date, prepared a formal policy of communication but, rather, employs general channels of communication, with practices and interlocutors appropriate to the specific case.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

5. **The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.**

**And, when a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.**

Complies  Complies in part  Explain

6. **Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:**

- a) **Report on auditor independence.**
- b) **Reviews of the operation of the audit committee and the nominating and compensation commission.**
- c) **Audit committee report on related transactions.**
- d) **Report on corporate social responsibility policy.**

Complies  Complies in part  Explain

7. **The company should broadcast its general meetings live on the corporate website.**

Complies  Explain

The Company has not considered it necessary to broadcast the General Shareholders' Meeting live on its corporate website, because the attendance at general meetings, in person or by proxy, is over 70% (73.80% at the General Meeting held on May 19, 2016). Likewise, the Company feels that complying with this recommendation would involve a large amount of work but would not be of a great deal of use in practice, particularly in view of the little or non-existent use that shareholders have made of the electronic shareholders' forum that has been available to them over recent years.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

8. **The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.**

See section: C.1.32

Complies  Complies in part  Explain

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies  Complies in part  Explain

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

- a) Immediately circulate the supplementary items and new proposals.
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
- d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies  Complies in part  Explain  Not applicable

The Company has adopted the above mentioned mechanisms in its internal rules. However, at the General Meetings held in preceding periods, no shareholder has exercised the right to supplement the agenda or submit new resolution proposals.

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Complies  Complies in part  Explain  Not applicable

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximizing its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies  Complies in part  Explain

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Complies  Explain

**14. The board of directors should approve a director selection policy that:**

- a) Is concrete and verifiable;**
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and**
- c) Favours a diversity of knowledge, experience and gender.**

**The results of the prior analysis of board needs should be written up in the nominating commission's explanatory report, to be published when the general meeting that will ratify the appointment and re-election of each director is called.**

**The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.**

**The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.**

See sections: C.1.5, C.1.6 bis & C.1.19

Complies  Complies in part  Explain

The Board of Directors has decided not to formally approve a director selection policy at present. The criteria for selecting directors for the Board and Nominating and Compensation Commission included in the Regulations of the Board of Directors are deemed sufficient for this purpose.

Likewise, the Nominating and Compensation Commission has decided to establish, as one of its main objectives, an increase in the presence of women on the Board of Directors and to favour and improve the possibilities of women acceding to management positions, fomenting a diversity of knowledge, experience and gender at Board level.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

**15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

Complies  Explain

**16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.**

**This criterion can be relaxed:**

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**
- b) In companies with a plurality of shareholders represented on the board but not otherwise related.**

Complies  Explain

The Company's Board of Directors has eleven members, ten of whom are external directors: (i) five proprietary directors appointed at the proposal of UNITED TECHNOLOGIES HOLDINGS, S.A.S., which holds 50.01% of the Company's capital, (ii) two proprietary directors appointed at the proposal of EURO-SYNS, S.A., which holds 11.436% of the Company's capital, (iii) one director classified as "other external" and (iv) two independent directors.

Proprietary directors represent 70% of the external directors, while the percentage of the share capital represented by proprietary directors is 61.44%. Consequently, the ratio between the number of proprietary directors and the remainder of the non-executive directors is somewhat higher than the ratio between the share capital represented by proprietary directors and the remainder of the capital. Notwithstanding, as the Good Governance Code says, "*this (proportional principle) is not intended as a mathematical equation, but rather as a rule of thumb to ensure that independents are sufficiently present and that no significant shareholders can exert an influence on the board's decisions that is disproportionate to their capital ownership*".

The deviation is due to several factors. First, we should remember that the Company's shareholders are very concentrated (two shareholders hold 61.44% of the share capital). Likewise, it has been seen fit for the Zardoya family (through EURO-SYNS, S.A.) to propose two directors. Lastly, there is a director classified as "other external", who, for different reasons, cannot be classified as either independent or proprietary.

Likewise, the Company recently decided to increase the number of directors in order to increase the ratio of independent directors to proprietary directors. In 2014, the percentage of proprietary directors was 66.67% of the total Board, while in 2015, it dropped to 63.64%. In addition, the percentage of independent directors rose from 11.11% in 2014 to 18.18% in 2015.

Finally, the Company has rules and procedures in place to ensure the Independence and abstention of all the directors in the event that they are affected by a conflict of interest.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

#### **17. Independent directors should be at least half of all board members.**

**However, when the company does not have a large market capitalization, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.**

Complies  Explain

The percentage of the full Board represented by independent directors is 18.18%. The Company considers it has sufficient independent director to guarantee the protection of floating capital appropriately and make independent judgements on tasks where a potential conflict of interest may exist.

As mentioned in the preceding explanation, we must remember that the Company's shareholders are very concentrated (two shareholders hold 61.44% of the share capital). The intention has been to provide the two main proprietary shareholders with representation, with the majority shareholder (UTC Group) keeping control, while, at the same time, not increasing further the size of the Board. The result of this balance is the Board's current composition.

Likewise, the Company recently decided to increase the number of directors to increase the proportion of independents: from 11.11% in 2014 to 18.18% in 2015.

Finally, the Company has rules and procedures in place to ensure the Independence and abstention of all the directors in the event that they are affected by a conflict of interest.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

**18. Companies should disclose the following director particulars on their web-sites and keep them regularly updated:**

- a) Background and professional experience.**
- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.**
- c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.**
- d) Dates of their first appointment as a board member and subsequent re-elections.**
- e) Shares held in the company, and any options on the same.**

Complies  Complies in part  Explain

**19. Following verification by the nominating committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the request of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.**

See section: C.1.8

Complies  Complies in part  Explain  Not applicable

**20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the number of the latter should be reduced accordingly.**

See sections: C.1.2 & C.1.9

Complies  Complies in part  Explain  Not applicable

**21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nominating committee. In particular, a just cause will be presumed to exist when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or are affected by one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.**

**The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.**

See section: C.1.21

Complies  Explain

22. **Companies should establish rules obliging directors to disclose any circumstance that might harm the organization's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.**

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies  Complies in part  Explain

23. **Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not affected by the potential conflict of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.**

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies  Complies in part  Explain  Not applicable

24. **Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.**

See section: C.1.9

Complies  Complies in part  Explain  Not applicable

The Company has preferred not to oblige directors who leave the Board before their tenure expires, due to resignation or any other reason, to explain the reasons in a letter to be sent to all Board members.

The Company does not deem it appropriate to oblige directors to explain the reasons for their removal or resignation and for said reasons to be aired publicly, notwithstanding the right of each one of them to make the reasons for the removal or resignation public.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

25. **The nominating commission should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.**

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

See sections: C.1.13 & C.1.19

Complies  Complies in part  Explain

The Company has not fixed a maximum number of company boards on which its directors may serve.

This is because some of the directors are also members of the senior management of UNITED TECHNOLOGIES HOLDINGS and sit on a number of boards of the different societies that comprise said Group. Consequently, compliance with this recommendation would be too burdensome for the UNITED TECHNOLOGIES HOLDINGS Group, since it would force it to modify a large part of its corporate structure.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

- 26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.**

Complies  Complies in part  Explain

- 27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should grant proxy with the appropriate instructions.**

Complies  Complies in part  Explain

- 28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.**

Complies  Complies in part  Explain

- 29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, including, if necessary, external assistance at the company's expense.**

Complies  Complies in part  Explain

- 30. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.**

Complies  Complies in part  Explain

- 31. The agendas of board meetings should clearly state the points on which the board must reach a decision, so that the directors can study the matter beforehand or obtain the information they need to reach it.**

**For reasons of urgency, the chairman may wish to submit decisions or resolutions that were not on the meeting agenda for board approval. In such exceptional circumstances, their inclusion will require the express prior con-sent, duly minuted, of the majority of directors present.**

Complies  Complies in part  Explain

- 32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.**



Complies  Complies in part  Explain

No specific mechanism or department has been established for this purpose, taking into account the Company's shareholder structure, where there are scarcely any institutional investors and there are two shareholders with significant holdings (Euro-Syns, S.A. & United Technologies Holdings, S.A.S.)

Directors have access to the same information as the rest of the market (for example, significant shareholdings are notified as a relevant fact).

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

- 33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organize and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.**

Complies  Complies in part  Explain

- 34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those concerning the company's corporate governance; and coordinate the chairman's succession plan.**

Complies  Complies in part  Explain  Not applicable

- 35. The board secretary should strive to ensure that the board's actions and decisions are informed by the good governance recommendations of the Good Governance Code of relevance to the company.**

Complies  Explain

- 36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:**
- a) The quality and efficiency of the board's operation.**
  - b) The performance and membership of its committees.**
  - c) The diversity of board membership and competences.**
  - d) The performance of the chairman of the board of directors and the company's chief executive.**
  - e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.**

**The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nominating commission.**

**Every three years, the board of directors should engage an external consultant to aid in the evaluation process. This consultant's independence should be verified by the nominating commission.**

**Any business dealings that the consultant or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.**

**The process followed and areas evaluated should be detailed in the annual corporate governance report.**

See sections: C.1.20, C.1.20 bis & C.1.20 ter

Complies  Complies in part  Explain

The Board of Directors has implemented an annual self-evaluation process for the Board and its committees, which is described in section C.1.20 bis. As a consequence of this self-evaluation, an action plan to correct the weaknesses detected is prepared annually.

The Board considers that its annual self-evaluation is sufficient, without the need to engage external consultants. According to the 2015 Good Governance Code, the objective of using said consultants is for the evaluation to be "*enriched with objective opinions*" and the Board considers this contribution to be made by the Company's independent directors. The decision not to engage an external consultant every 3 years was made by the Board of Directors on January 25, 2016, when the 2015 Good Governance Code recommendations were examined.

**37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.**

See section: C.2.1

Complies  Complies in part  Explain  Not applicable

**38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.**

Complies  Complies in part  Explain  Not applicable

**39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.**

See section: C.2.1

Complies  Complies in part  Explain

**40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and internal control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.**

Complies  Complies in part  Explain

41. The head of the unit handling the internal audit function should present an annual work program to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Complies  Complies in part  Explain  Not applicable

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programs, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies  Complies in part  Explain

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies  Complies in part  Explain

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies  Complies in part  Explain  Not applicable

45. Risk control and management policy should identify at least:

The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

- a) The determination of the risk level the company sees as acceptable.
- b) The measures in place to mitigate the impact of identified risk events should they occur.
- c) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Complies  Complies in part  Explain

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.
- c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies  Complies in part  Explain

47. Appointees to the nominating and compensation commission – or of the nominating commission and compensation commission, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

See section: C.2.1

Complies  Complies in part  Explain

The Nominating and Compensation Commission has five members, including two independent members, one of whom is the committee Chairman.

The reason why the Commission does not have more independent members is that the Companies does not have any more independent directors. In this respect, the Company recently decided to increase the number of directors in order to increase the proportion of independents: from 11.11% in 2014 to 18.18% in 2015.

The Company has decided to keep the number of members of the Nominating and Compensation Commission at five, in spite of the fact that it could have reduced it to three members in order to have a majority of independents. This has been done with regard to the Audit Committee because it is legally obligatory. There is a dual reason for deciding to keep the number of members of the Nominating and Compensation Commission at five: first, the Company feels that 40% of independent directors is sufficient to guarantee the independence of the Commission's function and, second, the Company feels it is more useful for the Commission and its functions to have the opinion and experience of five members.

In addition, article 12 (B) of the Regulations of the Board of Directors states that the Board of Directors will ensure that the directors who sit on the Nominating and Compensation Commission have the knowledge, capacities and experience appropriate to the duties they are to perform.

**48. Large cap companies should operate separately constituted nominating and compensation commissions.**

Complies  Explain  Not applicable

Large cap companies are understood to be those that are listed on the Ibex-35, in accordance with the criteria of the CNMV and the Good Governance Code.

**49. The nominating commission should consult the company's chairman and chief executive, especially on matters relating to executive directors.**

**When there are vacancies on the board, any director may approach the nominating commission to propose candidates that it might consider suitable.**

Complies  Complies in part  Explain

**50. The compensation commission should operate independently and have the following functions in addition to those assigned by law:**

- a) **Propose to the board the basic conditions of senior officer contracts.**
- b) **Monitor compliance with the remuneration policy set by the company.**
- c) **Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.**
- d) **Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**
- e) **Verify the information on director and senior officers' pay contained in corporate documents, including the annual director compensation report.**

Complies  Complies in part  Explain

**51. The compensation commission should consult the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.**

Complies  Complies in part  Explain

**52. The rules on supervision and control committees should be set out in the board of directors regulations and be consistent with those governing legally mandatory board committees as**

specified in the preceding recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) They should be chaired by independent directors.
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of the directors and each committee's terms of reference and discuss their proposals and reports. The committees should provide report-backs on their activities and work at the first board meeting following each committee meeting.
- d) Committees may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be minuted and a copy made available to all board members.

See section: C.2.1

Complies  Complies in part  Explain  Not applicable

See recommendation No. 47.

**53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nominating commission, the corporate social responsibility committee, where one exists, or a dedicated committee established *ad hoc* by the board under its powers of self-organization, with at the least the following functions:**

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to ensure that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, for the legitimate interests of other stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) Monitor corporate social responsibility strategy and practices and assess their degree of compliance.
- f) Monitor and evaluate the company's interaction with its stakeholder groups.
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

**h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.**

Complies  Complies in part  Explain

Currently, in accordance with article 8 of the Regulations of the Board of Directors, the Secretary of the Board of Directors will ensure that the Board of Directors' actions take into account the good governance rules or recommendations in force at any given moment.

Likewise, the duties entrusted to the Audit Committee include:

- (i) Regularly reviewing the internal control and risk management systems, so that the main risks are properly identified, managed and disclosed.
- (ii) Receiving information on and monitoring the process of preparing and presenting the Company's financial information and, where appropriate, reviewing compliance with legal provisions, the accurate demarcation of the consolidated group and the correct application of accounting policies, ensuring the integrity thereof.
- (iii) Monitoring compliance with internal codes of conduct and the good corporate governance rules and recommendations in force at any given moment.

Lastly, the Board of Directors is responsible for approving the corporate social responsibility policy.

However, the Company has not yet approved a strategy for communication and relations with shareholders and investors or asked any commission to review the corporate social responsibility policy or monitor the corporate social responsibility strategy and practices and evaluate the degree of compliance therewith.

**54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stake-holder groups, specifying at least:**

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.**
- b) The corporate strategy with regard to sustainability, the environment and social issues.**
- c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, tax responsibility, respect for human rights and the prevention of illegal conduct.**
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.**
- e) The mechanisms for supervising non-financial risk, ethics and business conduct.**
- f) Channels for stakeholder communication, participation and dialogue.**
- g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.**

Complies  Complies in part  Explain

**55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.**

Complies  Complies in part  Explain

The Company's Board of Directors recently approved (specifically, in 2016) a corporate social responsibility policy and, therefore, at present, has decided not to follow this recommendation, although it does not rule out the possibility of doing so in the future.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

- 56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.**

Complies  Explain

- 57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.**

**The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.**

Complies  Complies in part  Explain

- 58. In the case of variable compensation, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.**

**In particular, variable remuneration items should meet the following conditions:**

- a) Be subject to predetermined and measurable performance criteria that consider the risk assumed to obtain a given outcome.**
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.**
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, in such a way that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.**

Complies  Complies in part  Explain  Not applicable

The CEO is the only director who receives variable compensation related to the Company's and his own performance. This variable compensation accounts for up to 60% of his gross annual compensation.

Calculating this variable compensation takes account of the results of the business unit, based on the profit plan and the cash flow generated. The final factor (coefficient) is based on the CEO's performance in relation



to the financial and non-financial objectives in the evaluation of the contribution to the business's results during the period.

Payment of the variable compensation considers whether the executive has complied exhaustively with the Company's rules and regulatory and ethical procedures, management, risk control and the safety of people in work processes. In the event that any incident were to occur in the areas of safety or regulatory and ethical control, or in the Company's internal control, the Company reserves the right to reduce the executive's variable compensation and, in very serious cases, eliminate it.

**59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.**

Complies  Complies in part  Explain  Not applicable

The Company has not established the deferral of a major part of the variable compensation components of the CEO (the only director who receives variable compensation based on the Company's and his own performance), notwithstanding the fact that, in practice, it is deferred until it is possible to check that objectives have been met when the annual accounts are approved.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

**60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduces their amount.**

Complies  Complies in part  Explain  Not applicable

**61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.**

Complies  Complies in part  Explain  Not applicable

Regarding compensation through the award of shares, there is the possibility that the present CEO, since he is a UTC Group executive, may receive a long-term incentive package (long-term UTC share-based compensation plan) from the UTC Group. The purpose of this plan is to reward executives holding positions with important management responsibilities who, through their effort and the attainment of the planned objectives, contribute to the long-term success of the corporation and its subsidiaries, such as Zardoya Otis, S.A. The share plans are awarded annually and depend on individual performance and the attainment of objectives of Zardoya Otis, Otis and United Technologies Corporation.

The long-term incentive that the CEO may receive would represent approximately 80% of his total variable compensation.

**62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after they were awarded.**

**The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.**

Complies  Complies in part  Explain  Not applicable

The shares/stock options that may be awarded to the CEO under the UTC long-term incentive plan must be held for at least 3 years (vesting) as from the date on which they are awarded and, in order for them to be exercised, certain pre-established business objectives must have been attained. They cannot be exercised,

transferred or similar until at least 3 years have elapsed and the shares/stock options have an economic value.

- 63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.**

Complies  Complies in part  Explain  Not applicable

The Company has not seen fit to include this clause in the contract signed with its present CEO.

The Board of Directors made the decision not to adopt this recommendation on January 25, 2016, when the Good Governance Code recommendations were examined.

- 64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.**

Complies  Complies in part  Explain  Not applicable

The termination payment agreed in the contract with the CEO is the same as was initially included in his employment relationship with the Company. Therefore, the Board considers it should be maintained.

## H OTHER INFORMATION OF INTEREST

1. If there is any relevant aspect in relation to corporate governance in the company or in companies belonging to the group that is not included in the other sections of this report, but that it is necessary to include in order to provide more complete and substantiated information on the governance structure and practices in the company, provide a brief description thereof.
2. 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.

3. The company may likewise state whether it has adhered on a voluntary basis to other codes of ethical principles or good practices, whether they be international, industry-related or pertaining to another sphere. If applicable, identify the code in question and the date of adhesion.

- **Approval of corporate policies by the Company:**

On October 6, 2016, the Company's Board of Directors approved the following policies:

- (i) Dividend Policy
- (ii) Investment and Financing Policy
- (iii) Corporate Social Responsibility Policy
- (iv) Tax Strategy
- (v) Crime Prevention Model

The Dividend Policy consists of the proposal that the Board of Directors puts to the Company's General Shareholders' Meeting each year in order to decide the profits that should be retained by the Company (reserves) and those that should be used to remunerate shareholders (dividends). It is a very important aspect of the Company, since it affects the way in which it is financed and the share value. The main objective of this policy is to establish a shareholder remuneration policy that links the factors of profit growth and dividend together.

The Investment and Financing Policy is applicable to financial investments and the financing transactions of all the businesses that form that Zardoya Otis, S.A. Group companies. Regarding the risks considered, the policy is applicable to: (i) the main market, credit and business risks specific to each one of the financial investments; and (ii) the following financial risks: interest-rate risk, exchange-rate risk and liquidity risk.

The Corporate Social Responsibility Policy aims to establish the principles and commitments that the Company has voluntarily assumed in relation to the different interest groups that exist within the framework in which it operates. The Corporate Social Responsibility Policy enumerates the action principles, the specific actions carried out by the Company and the application of these in relation to the aforementioned interest groups. Likewise, the Corporate Social Responsibility Policy is developed and supplemented by the different policies and protocols approved by the Company to meet the various needs that arise for the Company in the course of its day-to-day management.

*Said Corporate Social Responsibility Policy is available on the Company's website.*

The Tax Strategy is intended, within the framework of an appropriate defence of corporate interests, to reduce tax risks, eliminate double taxation and reduce costs in both the short and long terms. Likewise, the Tax Strategy is based

on timely compliance with the tax rules applicable to the Company, applying reasonable interpretations of these rules in line with their spirit and purpose, likewise taking into consideration the legitimate interests that are at stake.

The Crime Prevention Model was prepared in compliance with the provisions of article 31 bis of the Criminal Code and includes the aspects set out in said article, i.e.

- (i) it identifies the activities of the Company in the sphere of which the crimes to be prevented may be committed;
- (ii) it establishes the necessary protocols and procedures, allows verification of the existence in the Company of financial resource management models appropriate to prevent crime;
- (iii) it imposes on management and employees the obligation to report possible risks and non-compliances to the person responsible for monitoring the working and observance of the prevention model (Compliance Officer);
- (iv) it establishes a disciplinary system that appropriately sanctions non-compliance with the measures put in place by the Model; and
- (v) it states how periodic verifications should be performed and how possible amendments should be made when significant infringements of its provisions are identified or when there are changes in the organization, the control structure or the activity that is carried on that make this necessary.

In the 2017 reporting period, specifically in December 2016, the Board of Directors has approved the Policy for Control and Management of Operating,, Technological and Financial Risks, the Tax Risk Control and Management Policy and the Company's Strategic Plan.

- **Approval of the new Internal Code of Conduct**

In order to include the new securities market legislation that has been passed since 2011 in the Internal Code of Conduct, including the provisions of Royal Legislative Decree 4/2015 of October 23, whereby the revised text of the Securities Markets Law was approved, European Parliament and Council Regulation 596/2014 of April 16 on Market Abuse, and their implementing legislation, the Company's Board of Directors approved a new Internal Code of Conduct on February 23, 2017.

The purpose of the new Internal Code of Conduct is to safeguard the interests of those who invest in the Company's securities and avoid any market abuse situation, establishing in this respect a set of rules applicable to the management and control of inside information by the Company, its governing body, its employees and any other persons whose actions in relation to inside information, the securities markets, transactions with the Company's own securities, treasury share transactions and detecting and handling conflicts of interest, among other items, may be subject to these rules.

This annual corporate government report was approved by the Board of Directors of the Company at its meeting held on February 21, 2017.

State whether any directors voted against the approval of this Report or abstained in relation hereto.

Yes  No

<b>Name or corporate name of the director who did not vote in favour of the approval of this report</b>	<b>Reasons (against, abstention, absent)</b>	<b>Explain the reasons</b>