

ZARDOYA OTIS S.A.

REPORT ON THE OPERATION OF THE AUDIT COMMITTEE IN THE REPORTING PERIOD ENDED NOVEMBER 30, 2019

1. Introduction

The purpose of this report is to review the evolution of the Audit Committee of Zardoya Otis, S.A. (the "**Company**") and the composition, duties and operation thereof, as well as to provide a summary of its actions in the 2019 reporting period.

2. Formation and evolution of the Audit Committee

The Audit Committee was created by means of a resolution passed by the Board of Directors at its meeting held on March 26, 2003 and its first meeting was held on May 27, 2003.

Law 12/2010 of June 30, on Account Auditing, introduced, among other changes that were relevant to the Company, a reform of points 2 and 4 of the Nineteenth Additional Provision of Law 24/1988 of July 28, the Securities Market Law. This amendment established that at least one of the members of the Audit Committee should be an independent and defined the functions to be performed by the Audit Committee with greater precision, especially in order to ensure the independence of the external account auditors.

As a consequence of the foregoing, at its meeting of July 28, 2010, the Board of Directors unanimously passed a resolution to amend the Regulations of the Board of Directors, in particular, article 12. At the General Shareholders' Meeting held on May 23, 2011, the scope of the reform of the Regulations of the Company's Board of Directors was explained.

The General Shareholders' Meeting held on May 24, 2012 approved a new revised text of the Bylaws, which sought to update and make technical improvements to how the Company operated and its organizational structure, including the regulations of the Audit Committee.

Likewise, as a consequence of the new developments in the legislation introduced by Law 31/2014 of December 3, which amended the Capital Companies Law in order to improve corporate governance, the Ordinary General Shareholders' Meeting held on May 26, 2015 approved the amendment of certain articles of the Bylaws. Furthermore, in the same year,

the Board of Directors passed a resolution to amend the Regulations of the Board of Directors.

The new regulations stated that at least two members of the Audit Committee should be independents and at least one of them should be appointed taking his/her knowledge and experience in accounting, audit or both into account. In consequence, taking into account the fact that there was only one independent director on the Audit Committee at that time, subsequent to a proposal and report in favour from the Nominating and Compensation Commission, the Board of Directors unanimously passed a resolution to appoint the independent director Mr José Miguel Andrés Torrecillas as a new member of the Audit Committee and the new Chairman of said Committee. Thus, the number of independent directors on the Audit Committee increased to two.

As a consequence of the National Securities Market Commission's publication of the Good Governance Code of Listed Companies on February 18, 2015, the Ordinary General Shareholders' Meeting held on May 19, 2016 passed a resolution to amend several articles of the Bylaws, the Regulations of the General Shareholders' Meeting and the Regulations of the Board of Directors, in order to introduce some of the recommendations contained in said Good Governance Code. An example of these recommendations was that the members of the Audit Committee should be designated taking their knowledge and experience in accounting, auditing or both into account (included as article 12 (A) 1 of the Regulations of the Board of Directors and article 7 of the new Audit Committee Regulations).

The fourth final provision of the new Account Auditing Law contained the amendment of the Capital Companies Law and affected, among other questions, article 529 quaterdecies of the Capital Companies Law, which refers to the Audit Committee. So, consequently, the General Shareholders' Meeting amended article 24 (bis) of the Bylaws regarding the composition of the Audit Committee to state that: (i) the Audit Committee will be formed by three members; (ii) a majority of its members must be independent; and (iii) the members, overall, must have the relevant technical knowledge in relation to the sector of activity in which the Company operates.

Likewise, at its meeting held on October 9, 2018, the Board of Directors approved the new Regulations of the Company's Audit Committee, with the previous favourable report by the Audit Committee on the same date. This new Regulation of the Audit Committee was approved by the Board of Directors after an in-depth analysis of the Technical Guide 3/2017 on Audit Commissions in Public Interest Entities (published by the CNMV on its website on June 27, 2017) and after several months of work by the Audit Committee in the preparation of a proposal. The Regulations of the Audit Committee include the recommendations included in Technical Guide 3/2017, detailing the functions and responsibilities already included in the Regulations of the Board of Directors with respect to the Audit Committee.

3. Composition of the Audit Committee

The composition of the Committee as of November 30, 2019 was as follows:

Chair

Ms Eva Castillo (Independent)

Deputy Chairman

Mr José Miguel Andrés Torrecillas (Independent)

Member

Ms Stacy Petrosky (Proprietary)

Secretary (non-member)

Ms Lorea Garcia Jauregui (non-director)

4. Operation and duties

The internal operation of the Audit Committee and its duties are governed by article 24 (bis) of the revised text of the Bylaws and by the provisions of article 12 A) of the Regulations of the Board of Directors and the Regulations of the Audit Committee. Bylaws, Regulations of the Board of Directors and Regulations of the Audit Committee are available on the Company's website.

5. Summary of the activities carried out in the 2019 reporting period

In 2019, the Audit Committee performed the functions entrusted to it and had the information and documentation it deemed necessary in this respect at its disposal.

Furthermore, the person/s the Committee Chairman saw fit attended and participated in the meetings, among them: the head of Internal Audit and Internal Control (who reports directly to the Committee Chairman); the Chief Financial Officer, the Safety Manager, the Systems Manager and the Ethics and Compliance Officer (ECO). Likewise, the Committee Chairman requested the presence of the Partner and Manager of the external auditor, PricewaterhouseCoopers, at several meetings (at least when the half-yearly accounts were prepared and when the annual accounts were closed).

The Company's Audit Committee considers that it has sufficient means to comply with the requirements of the legislation currently in force and enjoys the support of the Secretary of the Audit Committee and Board of Directors, as well as the legal counsel to the Board, both of whom are responsible for ensuring the legality of the resolutions, decisions and deliberations that are adopted or take place at Audit Committee meetings.

In 2019, the Audit Committee held eight (8) meetings, and they deliberated on and reported in favour of the following items -among others- to the Board of Directors:

1. Report on the payment of quarterly interim dividends charged to the profit for the period.
2. Internal control
 - Monitoring of the effectiveness of internal audit and risk control management.

The Audit Committee must review the work and activities of the internal audit service and risk control systems. For this purpose, the head of Internal Audit and Internal Control, the CFO and the Controller attended the Audit Committee meetings and presented the compliance status of the 2019 Internal Control Plan and the results of the internal audits conducted, the areas of special emphasis, the risks noted and the corrective measures adopted, as well as the proposal for the 2020 Internal Control Plan.

Likewise, the Audit Committee approved the 2020 budget for the Internal Audit Department.

– Process audit:

The Audit Committee also considered it advisable to conduct a process audit for 2019, a practice that commenced in the Zardoya Otis Group in 2004. This rule is very demanding in assessing the Group's internal control system using documentation on the processes and repetitive evidence of how they operate, in such a way as to ensure that the Company's assets, liabilities and commitments are measured correctly.

– Review of IT security controls in the Company's information systems and cybersecurity measures.

3. Corporate policies

The Audit Committee examined and studied the Company's corporate policies (i.e. corporate social responsibility policy, fiscal and investment, as well as financial among others). In particular, the Audit Committee also reviewed along the year all the activities held during the year in order to communicate, train and be compliant with the Internal Code of Conduct as well as within the Criminal Prevention Policy.

4. Evaluation of the Audit Committee

5. Report on the operation of the audit committee in the reporting period ended November 30, 2018.

6. Evaluation and report on treasury stock operations.

7. Regular information to the National Securities Market Commission (CNMV).

8. Annual closure of accounts, review of the financial statements, the Annual Corporate Governance Report, review of the internal control system for financial information (SCIIF).

9. Report on the management objectives, 2020 annual budget and strategic plan.

10. External audit

– Monitoring of the audit work in relation to the individual and consolidated annual accounts for 2019.

– Review, with the external auditor (PriceWaterhouseCoopers), of the report that was requested from the latter for various years in relation to the requirements for Internal

Controls and Risk Management Systems, as set out in the contents of the Annual Corporate Governance Report.

- Meeting between the Committee members and the Partner and Manager of the external auditor, PwC.
- Review of the transactions for all items that took place between the external auditor and the Otis/UTC Group.
- Review, with the account auditors, of the possible significant weaknesses noted in the internal control system in the course of the audit, ensuring that the auditors' independence was not impaired. The SCIIF review report was issued with no exceptions.
- Proposal for appointment and report on external audit firm independence for 2019 and review of fees proposal.

11. Related transactions

Related transactions and situations where a potential conflict of interest might exist were reviewed.

Approved by the Audit Committee in Madrid on February 27, 2020