

Aifos Arquitectura y Promociones Inmobiliarias S.A.

PROPOSED ARRANGEMENT WITH CREDITORS
Business Plan

Malaga, 27 May 2014

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1.- Starting point

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1. Starting point

- This business plan is an inseparable part of the Proposed Arrangement with Creditors. It has been prepared applying an economically prudent approach, taking into consideration the domestic and international economic context and, in particular, its impact on the holiday home promotion sector.
- The context has determined the timing and amount of the expected revenue and any improvement in the economic expectations could bring forward revenue generation and thus payments to creditors, as stated in this Proposed Arrangement with Creditors.
- In order to generate this revenue, Aifos, Arquitectura y Promociones Inmobiliarias S.A. (Aifos) has entered into agreements and is negotiating with financial institutions for the release of assets that will allow it to generate the income necessary to settle its debts with the other creditors.
- Currently, after nearly four years of the insolvency proceeding, agreements having been reached and favourable rulings having been ratified, Aifos has unencumbered assets with which it can generate revenue of € 179 million to settle 82% of the payments envisaged in the business plan.

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2.- Economic context

- The revenue forecast in the business plan and the year in which it may be generated are conditioned by five main factors:
 - 2.1.- Economic situation in the European Union, as around 60% of Aifos' buyers are from EU countries.
 - 2.2.- Economic forecasts for Spain in coming years, which directly affect the other 40% of buyers and indirectly make Spain attractive or unattractive as a country in which to invest in a home.
 - 2.3.- Status of the real estate development sector, particularly for second homes.
 - 2.4.- Mortgage lending scenario.
 - 2.5.- Creation of Sareb, at the end of 2012, which may play a major role in sector stabilisation.
- There follows a description of the impact of each of these factors on Aifos' business plan.

2.- Economic context (continued)

2.1.- European Union's economic situation:

- Following four years of negative or near-zero growth, economic forecasts for the Eurozone are beginning to improve and the end of the crisis appears to be in sight:
 - In 2014, the GDP is expected to grow by +0.8%
 - In 2015, GDP growth is forecast to nearly double to reach +1.5%
 - Growth will remain weak and will not exceed 2% per annum in the coming five years.
- For England, economic growth data are more positive:
 - In 2014, the GDP is expected to grow by +2.5%
 - In 2015, +2.5% GDP growth is expected to be maintained
 - Growth will remain at around 2.5% per annum in the coming five years.
- These figures point to the start of an economic recovery which, combined with low house prices in Spain, allow predictions of a progressive increase in new European buyers in the housing market.

2.2.- Economic forecasts for Spain:

- After nearly five years of economic decline, Spain achieved positive growth rates at the end of 2013 that point to a slow exit from the crisis.
 - The GDP is expected to grow during 2014.
 - The GDP is forecast to grow by +1.8% in 2015 and at a similar or slightly higher pace in subsequent years.
- This forecast growth will prevent any significant reduction in unemployment in Spain, which will limit the appearance of new home buyers in the next five years.

2.- Economic context (continued)

2.3.- Status of the real estate development sector, particularly for second homes:

- According to the OECD, apartment prices have bottomed out and are not expected to fall significantly. The number of new houses sold has risen in the last three quarters.
- In 2013, transactions were completed with large investment funds which consider that the time has come both to buy assets in Spain, in view of the potential for value increases, and to acquire real estate companies from banks.
- New buyer markets have also emerged from Russia, Eastern Europe and the Far East, which are helping to reactivate the market somewhat in certain specific areas. These new buyers largely complete cash transactions.
- Despite the large housing stock in Spain, in some zones such as the centre of Madrid, Barcelona and the Costa del Sol levels are now being reached that may be regarded as normal.
- In the case of land, difficulties remain considerable, although some transactions are beginning to be completed in 2014.
- This all points to a progressive recovery in housing sales.

2.- Economic context (continued)

2.4.- Mortgage lending scenario

- Following the bank restructuring carried out in 2012, including the transfer of the real estate assets owned by banks in administration to Sareb, the surviving banks appear not to have any solvency issues with a view to coming years. Credit is expected to begin to flow as expectations for Spain's economy improve to reach a level that might be deemed normal in 2016.
- Additionally, financial institutions have become Spain's main property promoters and are logically providing finance to dispose of apartments, generating a certain degree of competition in a mortgage financing market that was inactive a year ago.

2.5.- Creation of Sareb

- This company was created to clean up the banks in administration by transferring their real estate loan portfolios.
- The aim was also to help to stabilise the property market by removing short-term sales pressure on the financial institutions, establishing a floor on the decline in value of these assets.
- The creation of Sareb allowed valuation criteria to be established for both work in progress and plots of land that have been used as benchmarks in the property industry.
- In its business plan, Sareb envisaged a 15-year period necessary for the industry to recover.

2.- Economic context (continued)

To conclude:

- This economic context has given rise to the business plan proposed by Aifos in the following specific terms:
 - Aifos' forecasts indicate that the number of houses sold in the coming five years will be very low and that the situation will not improve until the economic recovery is a fact and becomes consolidated; as from year seven, the industry is expected to be more dynamic, but a long way from pre-bubble volumes.
 - However, on the Costa del Sol, where Aifos operates, a certain dynamism has been observed, house sales having risen in the past 18 months due to foreign buyers.
 - In order to sell houses in this economic situation, Aifos must offer highly competitive prices, which will entail reducing profit margins.
 - New developments will be very limited due to credit restrictions and will only be undertaken if justified by the volume of buyers; such initiatives will probably be conducted by entities such as cooperatives or self-promotion projects in which the risk incurred by financial institutions is lower.
 - Aifos considers that its market knowledge and the proven selling capacity of its sales force will allow it to compete at an advantage and to seize market opportunities, particularly in view of the incipient reactivation of demand on the Costa del Sol.

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3.- Business plan

- The Business Plan allows the Proposed Arrangement with Creditors to be fulfilled.
- Currently, after nearly five years of the insolvency proceeding, agreements having been reached and favourable rulings having been ratified, Aifos has unencumbered assets with which it can generate revenue of € 179 million to settle 82% of the payments envisaged in the business plan.
- The business plan comprises three sections:
 - 3.1.- Revenue generation
 - 3.2.- Expenses payable
 - 3.3.- Cash generation
- Each section contains details of the main assumptions employed.

3.- Business plan: Revenue generation

3.1.- Revenue generation

- Revenue generation is based on Aifos' negotiations under way with financial institutions in order to release assets by means of a recomposition of privileged credits.
 - Agreements have already been reached with financial institutions representing a significant volume of the houses to be developed, so that they collaborate by releasing privileged credits; these arrangements are included in this business plan.
 - Similar negotiations are continuing with other banks to secure recompositions in their privileged assets that will allow payments to the other creditors, although they are not included in this business plan.
 - In the interests of creditors and of Aifos itself, judicial claims for recovery will be filed, whenever possible: both rescission actions and claims for loss of insolvency credits, as well as possible damages; a minimum part of these actions are included in this business plan.

3.- Business plan: Revenue generation (continued)

3.1.- Revenue generation (continued)

- There are six revenue lines that are forecast to generate € 233 million over the next 10 years.

3.1.1.- Revenue from sales of unencumbered finished products

3.1.2.- Revenue from management of Aifos' unencumbered developments

3.1.3.- Revenue from management of third-party developments

3.1.4.- Revenue from property management

3.1.5.- Aifos' debtors

3.1.6.- Net judicial recoveries

- In all cases, the amount and timing of the revenue has been estimated realistically.

3.1.1.- Revenue from sales of unencumbered finished products

- Aifos expects to generate € 37.5 million in 10 years from sales of unencumbered finished products.

€ thousand	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Finished products	5,555	1,786	2,596	2,220	3,260	5,207	4,245	4,245	4,245	4,189

Sales houses (units)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Finished goods	40	13	19	16	24	34	27	27	27	23

3.- Business plan: Revenue generation (continued)

3.1.2.- Revenue from management of Aifos' unencumbered developments

- Aifos has developments comprising work in progress and building/undeveloped land valued at nearly € 83 million in July 2013 (see breakdown in Appendix I).
- Aifos will use these assets to develop and manage new houses, either via owners' cooperatives or in association with financial partners.
- As a mere management company, revenue will amount to around 10% of the construction volume and will generate a flow of close to € 30 million in the next 10 years.

Developments € thousand	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Land and construction work in progress	3,143	3,097	5,850	5,153	4,411	3,528	3,528	3,528		
Building land						1,214	4,349	4,349	8,294	8,252
Land pending building authorisation								1,379	3,382	8,507
Cash flow from housing	958	966	2,175	1,557	1,203	1,835	3,323	5,322	7,501	5,034
ANNUAL TOTAL	4,101	4,063	8,025	6,711	5,614	6,577	11,200	14,578	19,177	21,793

Developments: house sales (units)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Land and construction work in progress	54	54	111	148	124	125	88	48		
Land to be developed						40	130	170	350	500
Annual house sales	54	54	111	148	124	165	218	218	350	500

3.- Business plan: Revenue generation (continued)

3.1.3.- Revenue from management of third-party developments (*)

- Taking advantage of the fact that investment funds and financial institutions will be large landowners in the medium term, Aifos plans to act as a management company, builder and seller of developments for third parties, which will allow it to obtain the necessary financing.
- In order to be able to sell in the current market, the business plan is based on competitive selling prices: the average house value is € 100,000, garage spaces are priced at € 5,000 and storerooms at € 2,000; management of these assets brings a 10% profit margin that will rise as described in Appendix II.
- A number of funds have submitted proposals to financial institutions for the purchase of Aifos' loans and assets, Aifos being the company in charge of managing these assets.

€ thousand	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Management of third-party			920	1,017	1,412	2,672	2,746	2,675	3,190	3,721

- The number of units to be sold is determined by economic expectations:
 - In years 1 to 5, in view of the adverse economic situation expected, average sales total 100 houses, with sales commencing in year 3.
 - In years 6 to 10, average sales amount to 200 houses per annum, when the industry is expected to recover somewhat.

House sales (units)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Third-party developments			86	95	132	200	186	165	180	210

(*) See breakdown of assumptions used in Appendix II

3.- Business plan: Revenue generation (continued)

3.1.4.- Management of real estate assets

- As from year 2, the management of real estate assets, apartment rental and hotel management will generate revenue net of costs in the average amount of € 150,000 in the first three years, increasing to € 270,000 per annum once fully operational, entailing revenue of € 2 million during the 10-year plan.

3.1.5.- Aifos' debtors

- Aifos has recognised debts pending collection from third parties and VAT recoveries due to contract cancellation for a total of € 33.5 million.

€ thousand	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Receivables	8,776	1,612	1,612	1,612	1,612	1,612	1,612	1,612	4,531	8,886

3.1.6.- Net judicial recoveries

- During the four years of the common phase of the insolvency proceeding, Aifos has filed various claims to defend the interests of its creditors.
- A minimum of € 35 million is expected to be obtained over the coming 10 years.

3.- Business plan: Revenue generation, summary

The revenue plan states that € 232 million will be generated, of which € 179 million will be generated using Aifos' existing unencumbered assets.

€ thousand	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	TOTAL
Finished products	5,555	1,786	2,596	2,220	3,260	5,207	4,245	4,245	4,245	4,189	37,548
Developments											
Land and construction work in progress	3,143	3,097	5,850	5,153	4,411	3,528	3,528	3,528			32,238
Building land						1,214	4,349	4,349	8,294	8,252	26,459
Land pending building authorisation								1,379	3,382	8,507	13,268
Cash flow from housing	958	966	2,175	1,557	1,203	1,835	3,323	5,322	7,501	5,034	29,874
Management of third-party developments			920	1,017	1,412	2,672	2,746	2,675	3,190	3,721	18,353
Management of real estate assets: GH Banús		140	149	177	219	247	270	270	270	270	2,012
CURRENT NET REVENUE	9,656	5,990	11,690	10,125	10,504	14,703	18,461	21,768	26,882	29,973	159,752
Receivables	8,776	1,612	1,612	1,612	1,612	1,612	1,612	1,612	4,531	8,886	33,477
Net recoveries		5,896							14,500	14,500	34,896
Current accounts and other liquid assets	4,829										4,829
TOTAL NET REVENUE	23,261	13,498	13,302	11,737	12,116	16,315	20,073	23,380	45,913	53,358	232,953

3.- Business plan: Costs payable

3.2.- Costs payable.

- Costs payable comprise three items:
 - 3.2.1.- Company's operating costs
 - 3.2.2.- Returns to customers
 - 3.2.3.- Payment of insolvency credits
 - 3.2.4.- Payment of credits against the insolvency estate

3.2.1.- Company's operating costs

- These are the costs necessary to implement the business plan.
- The deep restructuring undertaken has brought a significant reduction in operating costs, which currently stand at € 3.2 million per annum.
- Operating costs are considered to be fixed through the Business Plan term. The increase in workload expected during the Business Plan term will be absorbed by subcontracting external professionals.

CASH NEEDS (€ thousand)		Standard year
RENT		120
SERVICES	Water	12
	Electricity / Gas	72
	Telephones	168
	Insurance (gen., 3rd-party liab., group)	84
GENERAL OFFICE OVERHEADS		108
LOCAL TAXES		45
SUPPLIERS		90
PAYROLL and Soc. Security (OFFICE)		1,485
REGISTRY / NOTARY		12
EXTERNAL PROFESSIONALS		1,031
Total structural costs		3,226

3.- Business plan: Costs payable (continued)

3.2.2.- Returns to customers

- In the Proposed Arrangement with Creditors, the creditors agree that priority should be afforded to sums received as customer prepayments plus legal interest applicable to the buyers who are natural persons and have purchased a house, and to buyers to whom the house has not been handed over before the end of the first 10 years of this arrangement with creditors.
- The amount is estimated at € 30 million and will be paid at the end of year 9. :-

3.2.3.- Payment of insolvency credits

- The Proposed Arrangement with Creditors states how these amounts are to be settled:
 - Special privilege credits are negotiated individually with the financial institutions.
 - General privilege credits are settled at 100% plus legal interest and will be secured by assets or through the assignment of receivables from third parties, and will be paid as follows:
 - Interest on the principal will be capitalised and settled at the end of each year from year 5 to year 8.
 - The principal will be paid annually, in equal instalments, at the end of each year from year 5 to year 8.
 - Ordinary credits will be paid 50%: 40% at the end of year 9 and 60% at the end of year 10.
 - Subordinated credits will only be settled once the rest of the credits have been paid and in the same proportion.

3.- Business plan: Rate of payment of privileged credits and ordinary credits

3.2.4.- Payment of credits against the insolvency estate

- These are the credits indicated by the Judicial Administrators, amounting to € 11.585 million, which will be settled in year 1.

3.3.- Rate of payment of insolvency credits

- This plan intends to repay € 185 million during the 10 years of its term, as follows:

€ thousand	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	TOTAL
Preferred credits	11,585										11,585
Payments to customers									30,000		30,000
General privilege credits (100%)	1,825	1,897	6,987	6,123	10,389	10,546	10,642	9,940			58,349
Ordinary credits (50%)									34,116	51,173	85,289
NET COSTS	13,410	1,897	6,987	6,123	10,389	10,546	10,642	9,940	64,116	51,173	185,223

3.- Business plan: Cash generation

3.3.- Cash generation

- Aifos' cash generation process resulting from the assumptions employed in the preceding section and necessary to fulfil the proposed arrangement is set out below:

€ thousand	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	TOTAL
Finished products	5,555	1,786	2,596	2,220	3,260	5,207	4,245	4,245	4,245	4,189	37,548
Developments											
Land and construction work in progress	3,143	3,097	5,850	5,153	4,411	3,528	3,528	3,528			32,238
Building land						1,214	4,349	4,349	8,294	8,252	26,459
Land pending building authorisation								1,379	3,382	8,507	13,268
Cash flow from housing	958	966	2,175	1,557	1,203	1,835	3,323	5,322	7,501	5,034	29,874
Management of third-party developments			920	1,017	1,412	2,672	2,746	2,675	3,190	3,721	18,353
Management of real estate assets: GH Banús		140	149	177	219	247	270	270	270	270	2,012
CURRENT NET REVENUE	9,656	5,990	11,690	10,125	10,504	14,703	18,461	21,768	26,882	29,973	159,752
Receivables	8,776	1,612	1,612	1,612	1,612	1,612	1,612	1,612	4,531	8,886	33,477
Net recoveries		5,896							14,500	14,500	34,896
Current accounts and other liquid assets	4,829										4,829
TOTAL NET REVENUE	23,261	13,498	13,302	11,737	12,116	16,315	20,073	23,380	45,913	53,358	232,953
€ thousand	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	TOTAL
Preferred credits	11,585										11,585
Structural costs	3,226	3,226	3,226	3,226	3,226	3,226	3,226	3,226	3,226	3,226	32,260
Payments to customers									30,000		30,000
General privilege credits (100%)	1,825	1,897	6,987	6,123	10,389	10,546	10,642	9,940			58,349
Ordinary credits (50%)									34,116	51,173	85,289
NET COSTS	16,636	5,123	10,213	9,349	13,615	13,772	13,868	13,166	67,342	54,399	217,483
ANNUAL BALANCE	6,625	8,375	3,089	2,388	- 1,499	2,543	6,205	10,214	- 21,429	- 1,041	
CUMULATIVE BALANCE	6,625	15,000	18,089	20,476	18,977	21,521	27,726	37,940	16,511	15,470	

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Appendix I: Valuation of Aifos' unencumbered assets

- Finished products.- For a total of € 37.5 million, all assets in finished developments (houses, premises, garage spaces and storerooms) have been pre-valued by Gesvalt in order to be contributed as collateral to the Public Treasury.

Finished products also include several completed developments valued at 65% of the value assigned by the Judicial Administrators on the basis that a binding judgement is still pending, even though a favourable judgement has been issued, accounting for € 25 million of the € 37.5 million figure.

- Developments.- Totalling € 82.5 million
 - **Land and construction work in progress:** valued at € 32 million based on the pre-valuation by Gesvalt and on economic studies.
 - **Building land:** valued at € 31 million, comprising land for which all town planning formalities have been completed, valued based on different criteria including Gesvalt's pre-valuation, economic studies, 50% of the value assigned by the Judicial Administrators, and prudent estimates.
 - **Land pending town planning formalities:** valued at € 19.5 million based on Gesvalt's pre-valuation, 20% of the value assigned by the Judicial Administrators and prudent estimates.
 - There are developments that are pending a binding judgement, although favourable judgements have been issued, accounting for € 10 million of the € 82.5 million figure.

Appendix II: Main assumptions employed to forecast revenue from management of third-party developments

- The average value assigned to houses in third-party developments is € 100,000 for houses, € 5,000 for garage spaces and € 2,000 for storerooms.
- No amounts will be generated from the management of third-party developments in years 1 and 2.
- As from year 3, a 10% profit will be obtained on the average values of houses, garage spaces and storerooms stated above. This will continue to year 5.
- From years 6 to 10, the average values of houses, garage spaces and storerooms will rise by 2% per annum and the profit margin will increase by 1% per annum.