

2022 Presidents Annual Report – Senorio de Aloha

Dear Fellow owners,

INTRODUCTION.

IF YOU INTEND TO VOTE DIRECTLY OR BY PROXY AT THE AGM PLEASE LOOK CLOSELY AT THE ATTACHED DEBTORS LIST. THERE ARE A NUMBER OF OWNERS WHO MAY NOT BE AWARE THEY HAVE SOME SMALL BALANCES OUTSTANDING. If you appear on this list, you have time up until the morning of the AGM to settle your account & exercise your right to vote in person or by proxy. An updated Debtors list will be available on request on the morning of the AGM & will be used at the AGM to verify those property owners or their proxies eligible to vote.

AGM/EGM participation via Zoom, Teams, Skype etc is still only allowed in Catalunya, & therefore we must hold an in-person meeting.

I do hope last year's Newsletters kept you informed, & aided understanding of how the management team were prioritising & dealing with the day to day challenges. You may recall the theme of the 2022 AGM was about moving the Community to a position of 'strength, stability & transparency' as we attempt to put the problems of the past behind us. Whilst much has been achieved since the AGM, & we are stronger & transparent, a few events from the past have yet again caught up to threaten stability.

Unfortunately, this means there are more difficult decisions ahead & these will be outlined in this report & discussed at the upcoming AGM.

2022 only really got going once our new Administrator Adenjo, our On-site Manager Victor, & Project Manager Andreas settled into their positions & were then enabled by your approval of a budget built around a focus on improving our sub-contractors, & a cash-call focused on projects dealing with years of infrastructure decay & lack of legal compliance.

I'm pleased to say there has been a great deal of positive feedback on the improving appearance of the community starting from around the middle of last year. A key aspect of this has been the attitude of the on-site employees & the way they are now managed. I'm sure you'll agree that the gardens haven't looked as good as they do now for quite sometime. On the maintenance side, not only have the number of jobs completed taken a giant stride forward, so have the response times. Perhaps owners don't feel this for the simple reason they have no idea how often things break or fail to work.

As for cleaning, the improvements are perhaps more modest or inconsistent. Close analysis indicated a conflicted relationship between supervisor & cleaners, which has now been resolved.

Undoubtedly, the biggest change with our sub-contractors was the approval to terminate the Cofer security contract, & to re-purpose the HELP concierge service.

These changes came into effect from October last year & have since generated a lot of debate & concern as we transition from 'human' approach to using more technology to better protect both property & people. There is more detail further in this report, & this topic will be a major discussion point in the AGM.

Cash-calls & increases in community fees by their nature are not popular but last year's recommendations were based on engineering assessments & rising costs concerning infrastructure deterioration, legal compliance issues, & sub-contractors. Let me illustrate this with three examples:

Maybe some owners mistakenly thought the swimming pools were vanity projects, but the reality was we faced the risk of closure & a heavy fine from the regulatory authorities.

Another reason for timely infrastructure investments is that they can save us money in the future. A good example was the introduction of the saltwater system for the pools. In 2016 the budget for 1 year pool maintenance was €16.7k, in 2023 this is €4.5k that a x4 reduction, & it will repeat every year.

There were similar regulatory risks by the failure over the years to properly maintain & upgrade the fire sprinklers & extinguishers. The risk here was that the community's insurance cover would be declared null & void. These works were funded from the community standard budget.

Deterioration & safety meant starting work on repairing terraces & the garages. Work in the latter has been restricted to repairs which do not infringe on the major litigation case against the construction company FCC.

When elected in 2020, I was quick to point out that it might take up to 5 years & in excess of €1.5m to put right Señorío, & my view hasn't changed. I do though commend the community for taking the difficult decision in 2022 to raise the first tranche of funding. This has set the ball in motion, & whilst there will always be a number of owners who have a difference of opinion, we do now have a team in place to complete these multi-year projects that can significantly influence the value of your property.

1) PREVIOUS CONTRACTORS ACTIONS AGAINST THE COMMUNITY.

I must bring to your attention some of the problems inherited in 2020. As they've now resurfaced the management team have no other option than to find solutions to safeguard the stability of the community.

A). Multimalaga.

In-brief. The courts have found against the community & awarded damages & costs to the plaintiff. The origin of this problem dates back to 2009, when the community terminated the services of the security company for not meeting security requirements. At some point thereafter, the community's security equipment was vandalised & the community started a criminal case against the suspected perpetrators. My understanding is this went badly wrong, & the prosecution eventually failed. Once free from criminal proceedings, a civil case was then brought against the community. The two cases have occupied the courts for the last some 13yrs, & in the latter part of 2022 the court awarded the plaintiff Multimalaga €49k plus interest & legal fees.

At the time of writing the final cost to the community is unknown but estimated at €60-70k. Our current lawyers who reviewed the courts findings advised us not to appeal the judgement, a) we would be very very unlikely to win; b) costs would further escalate.

B). Old Lawyers.

You are all aware that for many years the community has been heavily burdened by debtors. The previous Administration appointed lawyers with close ties to the community whose job it was to recover these debts. Despite the passing years, the overall results could be construed as negligible. In accordance with the terms that had been agreed at that time, the lawyers came late last year & demanded payment. The current Administration finds itself unable to refute these demands in part because only a small fraction of the Community's documents & records was handed over in 2020. The demand is for €29k, which we have successfully negotiated down to €22k to be paid in several instalments this year.

C). Pinturas Painting Company.

In 2014/15 a contract was agreed for approx €870k to repaint the community which was finally completed in 2017. At the time of signing the contract the community didn't have sufficient funds & the Administration of the day called for a one-time payment for approx €500k to make up the shortfall. We have no records of how much money was received, & how it was then spent & accounted for.

For reasons not fully explained in the minutes or plans of the AGM's between 2017/18/19, & without any evidence of a contract, the Administration agreed to additional painting works of €148,000. That brought the total cost to repaint Señorío to €1.1m. On completion of the works in 2017 the community had no money to pay Pinturas.

This debt is acknowledged in the list of 'Creditors' at the end of 2019 but the community was never provided with a clear explanation as to the exact 'scope of works' for this additional verbal agreement. Bear in mind that throughout all this period, the community employed the services of an auditor, but they didn't pick up any irregularities relating to the painting payments.

Following the change of the Administration in 2020, Pinturas came asking for €148,000 less payments that had been paid in the months before the AGM that were part of an agreed payment schedule. The new Administration requested Pinturas to provide evidence of a contract or one for the additional works & other supporting documentation such as completion of agreed 'scope of works & quality acceptance' reports.

In the absence of documents from either Pinturas or the previous Administration we declined to make payments.

As you know from the Creditor Reports you have been receiving annually, Pinturas has been listed as a creditor. What has now happened is that someone from the community has given Pinturas a copy of the 2020 AGM documentation that mentions them as a creditor. In turn, Pinturas have gone to the courts to show they have evidence of the debt in the official records of the community, despite to our knowledge there still being no evidence of a contract. This is a strong indicator that the community will have some liability for this debt. It's plain for everybody to see that the work carried out was appalling, yet the community accepted it.

Warranties & guarantees are not in evidence because there is no documentation. As things stand the community could not meet an obligation to pay.

In summary, over the next few months we will have more understanding of what the community will have to pay to cover all the above claims. As things stand, we see little choice than to initiate another cash-call. You will have to decide whether or not to provide additional money for the community to settle these historic cases brought against it, whilst taking into account the timing of further funding for the long-term program of works already underway, details of which are summarised later in this report.

The order of magnitude of the cash call is likely to be similar to that of 2022.

2) 2022 ACCOUNTS

Over the course of 2022, the financial situation of the community was held stable. This was in large measure due to the 15% increase in community fees & cash call which brought in over €400k for the infrastructure projects that could not be funded from community fees. During the period, circa. 90% of owners paid their community fees which could be considered a good level of participation. However, the fact remains that at a time of significant investment into community improvements, the responsible owners are having to carry the burden of those owners who are refusing to pay but get the benefits.

Attached to this report is a summary of the accounts for your review ahead of the AGM. In order to be as clear as possible, & in keeping with community standard practice, we produce separate budgets & accounts for the use of community fees versus use of cash call income. As was the case last year Gerry Burke, Señorío's VP & a-chartered accountant by profession, will use the opportunity of the AGM to explain the accounts & answer questions.

3) CREDITORS REPORT.

As in the recent past, we again paid down some creditors from cash flow. The most significant in 2022 was Cofer, & this was done as part of the change in security strategy. At the time we were not to know that other creditors, along with the unexpected claims against the community outlined in 1 above, would move against us.

Nevertheless, the community must continue to move towards a position of solvency that does not rely on the good grace of creditors. The attached report should provide reassurance that the current Administration

is engaged in reducing the creditors to the community & not adding new ones.

4) DEBTORS REPORT.

Adenjo will provide an update on the various debtors at the AGM. Meantime, two reports are attached. One provides you with a summary of the debtors in 2022 relative to the total amount the Administrator was authorised to collect. It also breaks out the ordinary fees, so you can see the difference in participation between ordinary fees & the cash-call. Non-payment of either now results in court enforceable penalties being applied.

The second report details each debtor & the amount they owe. You can see that the 10 biggest debtors have been in the community for a long time & represent approximately 80% of the total debt. Its very important for owners to understand that significant amounts of that debt are not collectible. It is the nature of 'community accounting' in Spain that prevents the write-off of uncollectible debt as would be normal in 'commercial businesses' & other countries.

Owners should appreciate the huge amount of time Adenjo spend chasing down the debtors & how this seriously distracts from other work. In the case of long-term debtors, it is the complexity that eats up time because of the involvement of lawyers, notaries etc. With the short-term debtors a lot of effort goes into encouraging them to pay before it becomes necessary not only to apply penalties but to start legal proceedings.

Unfortunately, it looks like we will be taking more legal action in 2023 to prevent further growth in short-term debt.....the community simply cannot afford to let non-payers get away with it at the expense of those who pay!

Another example of where the Administration intend to be more active is in enforcing the new law in Spain that allows communities to deny non-payers, their tenants & guests access to the swimming pools & internet services.

There will be an opportunity to discuss this at the AGM but we assume the majority of owners want to see the full force of the law used to bring debtors to account.

5) SECURITY

Over the last 3yrs I have written a number of times & spoken at AGM's about the 'cost versus effectiveness' of having one man providing security to the entire community. I commented on the impossibility for one man to look at multiple CCTV camera's simultaneously, & at the same time being on foot patrol around the community.

I've mentioned how many thefts are the work of insiders who may have rented apartments for this express purpose, & who know exactly how to evade the one-man security. Or how one man sitting nearly all day at the main entrance office would let anybody into the community on a simple pretext for why they want access. And even about owners having to call the police themselves to deal with disturbances due to a lack of action from the security man. And perhaps worst of all, the security man caught red-handed stealing property from an owner.

The one man service in the 7 years I have been in the community has cost in the order of €850-900k. Apart from giving the appearance of security, it would be fair to say the relationship between cost & benefit was very poor. Attempts to get better value for money from Cofer for the night time service were impeded because they were a major creditor & were owed in excess of €100k.

Meanwhile, the daytime concierge service which was contracted to HELP did not include someone licensed to review CCTV.

It was comforting to see a man at the gate, who acted as a last mile postman around the community, but it was very low-level security.

I remind you of that background because following a majority approval at the last AGM, the Cofer night-time vigilante service was terminated effective from October 2022. This is an annual cost saving of €58k

(if summertime coverage is approved).

As part of the termination agreement, the €65k debt owed to Cofer, was settled. In the case of HELP, who cost €60k p.a. we re-purposed their service in order to have better value for money. How all this works in practice can be briefly summed up as follows. Andreas Norman our project manager will explain this in more detail at the AGM.

- a) A technology based 'access control' system will be proposed for your approval. The plan would be to roll this out in phases across the community, starting with the perimeter gates & entrances. The essence of access control is to: limit access at various points around the community to those with permission to enter via key Fobs that can't be duplicated & mobile phone Apps. It will enable owners to grant access to outsiders to enter the community but in a controlled way. It enables tracking throughout the community at the various access points & is dynamic in that fobs & Apps can be activated & deactivated. The current system of intercom access is planned to run in parallel.

Many owners will have concerns but these systems are already in-use in other communities, company's, government institutions etc. We do though recognise that summer periods in Señorío bring increased problems. So until the new system is fully operational, the plan is to employ a night time security person for the summer period.

- b) HELP Services have been retained but re-purposed towards maintenance, security & postal delivery. Our HELP employee works the following timetable:
Monday to Friday. 08:00 to 14:00 & 16:00 to 22:00.
Saturdays. 16:00 to 22:00.

Adenjo will provide a contact number. I want to stress this is a not service to fix a broken washing machine or change a light bulb for you. Repairs/maintenance around the community need to be reported to Adenjo for scheduling by Victor our on-site Manager, otherwise things can't be done efficiently.

The HELP employee has maintenance/repair schedules that take up most of his time. In addition, he does make random patrols of the community in a security capacity. He will be contactable during his working hours in the event of a security breach, or an emergency such as a water leakage, an electricity blackout etc. Delivery services can access the community via the owners intercom. The regular delivery companies to the community are being encouraged to deliver at certain hours when HELP can also enable access in an owners absence.

As mentioned there will be much debate about security at the AGM. I'm convinced we are evolving a much better approach with real improvements & savings. The time to have everything up & running is largely dictated by the speed of investment. Andreas will be explaining this at the AGM.

6) UTILITY COSTS

2022 saw worldwide increases in the costs of the main utilities of electricity & water. The community considerably exceeded budget on both utilities. In the case of water, the community experienced major water leakages in the underground storage tanks that form part of the system to supply apartments & the fire sprinkler system, as well as with the network of pipes supplying the swimming pools.

At the AGM, Victor will provide a technical overview of these problems, but I can say that the complete overhaul of the swimming pools & the use of salt-water will significantly reduce future water consumption.

The necessary repairs to the system of tanks & pipes are in process & we are confident that water consumption in 2023 will be at reduced levels.

One area of real improvement in water consumption was the garden irrigation system. One of the first jobs undertaken by Victor & Andreas early in 2022 was the broken irrigation system, which had led to the use

of uncontrolled manual irrigation by the gardeners. Repairing the system ourselves saved tens of thousands on outside contractors & further benefitted us in terms of less water consumption. Likewise, the decision to switch off last September the broken irrigation system to the apartment planters has also reduced water consumption.

For electricity, one needs to accept that the Spanish market is rigged between generators & distributors, hence why there are constant offers to switch between providers. What's also complex is the system of tariffs based on 'Potencia' & CUPS - these influence tariffs but critically in 2022 they determined if a 'user' qualified for the big reduction in IVA. (take a look at your electricity bill for an explanation).

The situation in Señorío was totally sub-optimal to say the least. The electricity circuits in Señorío have never been realigned to reflect how consumption has changed over the years. Victor is now working on this. At the same time, we are working with a results-based electricity Consultant to negotiate better tariffs & terms. The estimate is for a €15k cost reduction on a like for like consumption basis. 50% of the 'realised' saving goes to the consultant in year 1, & from thereon the community keeps the full savings.

These are significant efforts to find cost savings for the future. Adenjo are working with the consultant & can inform on progress at the AGM.

7) COMMUNITY FEES

Increasing the community fees by 15% for the 2nd half of 2022 was an absolute necessity to keep pace with the higher costs. Many owners were unhappy with this decision on a number of levels, including the cost of the team to administer the community.

I would like to point out that with a projected income & corresponding expenditure of €1.1m, the amount of work this generates justifies the cost of the team.

As a comparison, Aldea Blanca community close to Señorío has an average community fee for a 2-bed apartment approaching €5k p.a. Their annual ordinary budget is also around €1.1m & their overall Administration costs are very similar to ours. It's true that the apartment values are higher than ours but that's the whole point about why we are investing in bringing Señorío up to a comparable quality.

In the 2023 budget we are proposing to owners to maintain the current level of community fees. This is a reflection of the better control over both the sub-contracted services & the maintenance that goes on throughout the community.

Adenjo's work on collecting fees & chasing debtors is also a big contributor towards keeping fee increases in-line or better than headline inflation.

8) IMPROVEMENTS PLANS

The following list is a mixture of new works & continuation works from the cash-call & ordinary budget. Funding for a number of these works will need to be identified & approved by owners.

- Continue improving terraces that are causing problems to neighbours below.
- Continue installing ventilation in storage rooms affected by humidity & flooding.
- Continue with the waterproofing in affected areas of the garages. N.B Work cannot be started in areas that are the subject of the long running legal case with FCC.
- Continue changing more of the fabric covers on the sunbeds.
- Continue the control of water pipes in the community. Many are random pipe-bursts, so this is reactive & not proactive work.
- Increase control over renovations in the community to avoid illegal construction & infringement of the current community rules.
- Calculate the areas that were included but not completed in the 2015-18 community painting contract for inclusions in the upcoming payment settlement negotiations.
- Carry out a 'scope of work' assessment & commencement time-line for re-painting the entire community, & prepare a proposal for owners consideration.
- Several apartment chimneys across the community are experiencing smoke problems that are not

common to all apartment chimneys in the particular stack. Further assessments need to be carried out to determine a cost-effective solution.

- Seek owners' approval at the AGM to commence phase 1 of the 'access control system' & complete cost proposals for the subsequent phases for owner's review.
- Continue the community-wide checking of all aspects of Health & Safety within the community to ensure compliance with all laws & regulations, including community insurance conditions.
- Continue with the easier painting jobs that improve the appearance of the community.
- There is a continuous process of repairing tiles throughout the community's pathways, stairwells, & other common areas.
- In-line with the overall security strategy increase the effectiveness & reach of the CCTV system.
- Modernise & repair the community Intercom system which is integral to the overall security system.
- Carry out Improvements to the condition of the railings throughout the community, & where regulations require, install additional railings on terraces.
- Change / improve the lighting on some of the walkways around the community.

9) COMMUNITY BOARD / WORKING COMMITTEES

I asked last year for volunteers to kick-start an update of the community rules which are not fit for purpose. A key aspect was to try & bring some order to modifications & improvements undertaken by owners. No owners stepped forward at that time, although more recently one owner has expressed interest if others are willing.

The invitation remains open, & I must be frank & say that within the Administration all resources are currently focused on what can be considered higher priorities.

An owner did approach me last year regarding an owner's representative joining the 'community board'. If there are candidates who want to put themselves forward, they should make themselves known to Adenjo.

10) NAÔ POOL CLUB

Almost a year on since we discussed this problem, it cannot be over-emphasising the threat this club poses to residential property values in this area. Nor should we underestimate the power of political & institutional connections that protect the illegal operations of the club.

The activities of the club do not comply with its operating license.

The noise output exceeds all legal norms. The anti-social behaviour impacts the surrounding communities.

After numerous meetings with our neighbours & legal representatives we now understand the scale of the task & the approach to take.

The AGM recommendation is that owners approve to work in collaboration with neighbouring communities in order to commence legal proceedings, & to approve funds for legal & associated expenses as per budget.

11) PRESIDENTS EXPENSES

I feel compelled to comment due to the number of owners who have accused me of taking a salary or being paid by the community. I would like to remind everyone that it was a group of appreciative owners who proposed an ex-gratia gift as a thank you gesture for the time & experience, I give to the community. If I say so myself, it's a lot more than most owners care to even think about.

When asked to comment last year I said it seemed fair that a President should not have to pay into a community like a regular owner because all owners benefit by an effective President.

Having never asked for any payment I decided, mainly due to the criticism received, not to receive any of payment from the monies approved. The accounts for 2022 show relatively small ex-gratia offset

payment compared to what was approved at the AGM.

For 2023, I have instructed Adenjo to reduce the amount by 50%.

I have decided to stand for re-election in 2023 because I believe my continuity is essential to the community getting through the difficult financial situation brought about by the inherited legal cases that are now active.

If re-elected I wish to signal to you that it's not realistic to expect someone to take on significant multi-year extra work, over & above the normal duties of the President without a fair reward in return.

I will have served the community for 3 years as a volunteer & not as an employee. I think it only right that another owner be ready to take over the role.

Yours Sincerely,

John Riley
President – SdeA.

March 2023.