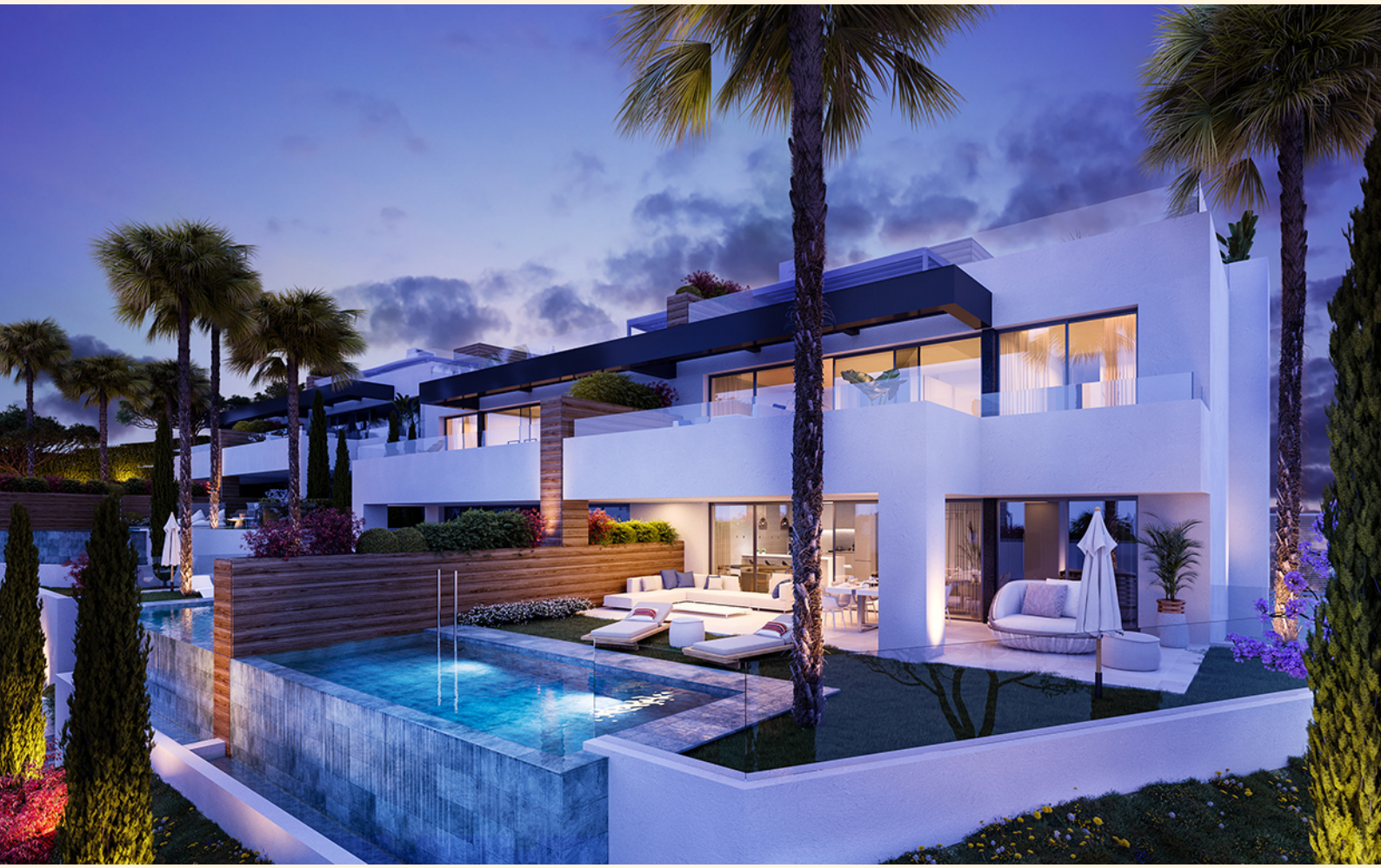
Neinor
HOMES

Note for inclusion in the financial statements onn the impact of COVIV-19



Note for inclusion in the financial statements onn the impact of COVIV-19

The emergence and global expansion of the COVID-19 pandemic in early 2020 and its indefinite duration, the lack of a vaccine, and the impact of the virus on health systems around the world has led to a series of measures being taken by the respective governments to contain its spread, which include or have included: isolation, lockdown, quarantine and restriction of the free movement of people, closure of public and private premises, closure of borders and drastic reduction of air, sea, rail and land transport.

These measures have significantly affected the global economy, due to the interruption or slowdown of supply chains and the significant increase in economic uncertainty, evidenced by an increase in the volatility of asset prices, exchange rates and a decrease in long-term interest rates.

In Spain in particular, the impact of the virus has been particularly significant in the second quarter of the year, coinciding with the further spread of the virus in the country and the lockdown measures in place.

The approval of the vaccine and the start of vaccination against Covid-19 in the last quarter of the year has fuelled expectations about recovery. However, the risks have not yet dissipated: the arrival of a third wave of infections, the discovery of new strains of the virus and a rise in business insolvency will be a drag on economic recovery. Moreover, given the complexity of the markets due to their globalisation, the measures taken by the Spanish government in relation to the recovery and uncertainty in housing demand, the consequences for the company's operations are still uncertain and will depend largely on the pace of vaccination and market confidence.

Therefore, at the date of preparation of these financial statements, it is premature to make a detailed assessment or quantification of the possible impact that COVID-19 will have on the Company in 2021, due to the uncertainty of its consequences in the short, medium and long term. However, we are confident the real estate sector will be a reactivating force in the economy.

In this document we are going to detail the impact it has had over the course of the financial year 2020

The company, within its Integrated Risk Management and Control System, has from the start of the state of emergency prepared a specific model to deal with the risks that could materialize due to this situation (the Escipión Project), which has been disseminated through the entire organization, which is associated with strategic objectives, processes and control measures, and which is periodically monitored and its results reported to senior management and the Audit Committee.

In this connection, this risk structure of the company, along with certain conservative and prudent measures taken by the respective General Managements in the company's business before the declaration of the state of emergency, have promoted a strengthening of the organisation's resilience by providing it with the capacity to take advantage of business opportunities, which has meant that it has emerged strengthened and in an advantageous position to face the period of uncertainty ahead of us.

Set out below is information showing the measures taken and the impact that the emergency public health situation has had to date, according to the main risks that have been identified.

•**Health Risk:** The company's main priority has been and still is to safeguard the health of its employees, which is why during practically the entire state of emergency, employees have been teleworking, the measures established by the authorities, at the very least, have been implemented in all work centres, the correct implementation of measures has been verified in our works in progress, and preventative measures have also been set up at the points of sale.

Once the state of emergency has been lifted, various de-escalation phases have been established and communicated for the gradual incorporation of workers into offices, which have been updated at least once a month always in accordance with the evolution of the pandemic and taking as the minimum applicable measures the most restrictive measures established by the authorities

•**Motivational risk of the team:** Neinor Homes has considered the team/staff as a key element in the recovery, the maintenance of the business and the best guarantee of performance in relation to our clients and suppliers. For this reason, from the beginning of the state of emergency, the company has decided not to carry out any redundancy processes (ERTE), has made periodic communications to ensure visibility and transparency vis-à-vis the ongoing situation at all times and has taken advantage of a time of less commercial and operative intensity of the company to carry out internal reviews, improve processes and provide training in diverse matters.

•**Liquidity risk:** the general situation of the markets is causing a general increase in liquidity tensions in the economy, as well as a contraction in the credit market. In this regard, we detail the main actions taken by the company to date:

✓Corporate Finance: in January of this year (2020), the Company paid / repaid 75 million euros and refinanced 50 million euros, the repayment of which does not mature until 29 December 2022.

In addition, two policies were signed at the end of the year for a sum of 15 and 25 million to strengthen the cash position.

✓Developer financing: the company has continued to maintain its usual pace/dynamics of developer loan signings.

As of the date of these financial statements, the company has granted more than 584 million euros in development loans, which provide financing coverage for more than 97% of the CAPEX of the developments in progress.

✓With regard to the net cash position: the Company established from the outset an ambitious cash assurance plan. This contingency plan now includes various measures, the chief of these being: a plan for savings in operating expenses, the adoption of a more conservative policy with regard to land investments and the suspension of the planned payment of the dividend approved in the General Shareholders' Meeting.

In addition, the company has received an inflow of funds from the signing of the deeds of all the developments that were scheduled for delivery this financial year, in compliance with the pre-Covid-19 Business Plan.

In this regard, it is reported that our net cash position at the beginning of the month of March, when the cash flow contingency plan was established, was 95.8 million euros and at the close of the year it has reached more than 249 million euros. This is due to the adoption of the aforementioned measures and, to a large extent, fulfilment of the deliveries envisaged in our Business Plan.

These measures, along with the implementation of specific plans for the improvement and efficient management of liquidity, have enabled us to handle these tensions and meet all our payment obligations.

•**Operating risk (works in progress):** the public health emergency and lockdown situation may have led to the risk of a slowdown in the execution of the works in progress or even a temporary interruption in production due, among other reasons, to specific breaks in the supply chain, the implementation of the measures established by the health authorities, which have led to changes in the ways in which works are carried out and organised, due to the limited capacity of construction companies and subcontractors to continue with the execution of the works, and to contagion caused at the works.

For this reason, the Company has established a series of measures to help eliminate or alleviate the effects of this public health emergency. These include the following two noteworthy measures:

✓The creation of a construction company within the group (Neinor Works), which is fully operational, and which is in a position to continue the work of construction companies that do not comply with what has been agreed or to begin developments as it is the best option in economic and completion terms of the offers presented.

As at the date of these results, the 4 developments being carried out by Neinor Works have made optimum progress

✓The monitoring and advancing of payments to construction companies and main subcontractors in order to direct such liquidity to the execution and degree of progress of the developments in progress.

In addition to the above measures, other types of actions have been taken, i.e.: planning and advancing payments for supplies, recommendations for the implementation of preventative measures, works acceleration programs, analysis of the optimization of projects underway as well as the organization and forms of conduct of the works, in order to transfer the best practices to each of our current developments.

We believe that as a result of all these specific procedures and practices designed to monitor and manage the progress of the works at all times, we have been able to minimize the impact of this situation on our business.

✓All our WIP works have maintained their activity, except between 30 March and 13 April on the basis of RDL 10/200 of 29 March in the context of the fight against Covid-19, and none of them have been suspended.

✓Those outbreaks that have occurred on construction sites have been isolated and have been quickly controlled thanks to the application of the protocols established in each case.

✓Expected delay in the completion of the works due to the state of emergency decreed or due to Covid-10 has been minimal and in most cases has been recovered.

With regard to deliveries in the 2020 financial year, all the works committed to in the Business Plan for the year were completed except for one, due to an insolvency proceeding involving the construction company (for non-Covid-19 reasons). In addition, we were able to bring forward 6 developments which were scheduled for delivery in 2021.

In short, despite Covid-19 and the two-week hiatus during the lockdown, in 2020 we have completed work on 28 developments: 22 of the 23 developments which we had committed ourselves to for 2020 and 6 developments with delivery scheduled for 2021 which we have been able to bring forward to this year.

•**Commercial risk:** the factors mentioned above, together with other specific factors, such as a complex macroeconomic context with falls in GDP, a higher unemployment rate, restriction of movement, uncertainty regarding short and medium term economic expectations, etc., significantly impact the behaviour of housing demand. Therefore, as in the other sections, the company has established a contingency plan to minimize the impact of the situation created by the pandemic on commercial activity, working on various courses of action.

•**Securing the order book / reservations:** Securing the pre-sales contracts by converting them into private contracts. In this connection, with the aim of helping our customers who were in a difficult situation, as a result of the state of emergency, all our customers were offered the possibility of postponing the payment of two monthly instalments, without any financial cost. Only 8% of our customer portfolio took advantage of this measure.

Likewise, customers who may have a special work or health situation were monitored, with the support of Family Homes Protection insurance, which provides them with protection in the event of job loss or illness. In 2020 the use of Family Homes Protection has increased considerably: 87 customers have been receiving benefits from this insurance since 13 March 2020 compared to 5 customers who had used it since its launch in September 2017.

Finally, the full implementation of the digital signature platform has been promoted in all the company's developments.

The data that the company currently has on its customer portfolio are

✓75% of our customers have signed a private sale and purchase contract.

✓These customers have paid on average 16% of the price of the house in advance.

The cancellations/terminations of reserve contracts have been around 0.5% during the year, a percentage that does not much vary from the 0.5% that that the company has recorded over the last two years.

•**Continuation of sales activity:** the implementation of online sales, the development of CRM, virtual visits with customers and digital signatures, together with the launch of specially designed marketing campaigns, have minimised the negative impact of the pandemic.

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This has led to the implementation of online training for sales staff in the new processes.

The evolution of new construction sales during the year reached 81% compliance with 1,393 units compared to the 1,713 foreseen in the company's business plan. This compliance

translates to 88% if we consider only the promotions that have been launched according to the forecasts of the business plan, with a Business Plan resulting in 1,587 units. If we also exclude from the analysis the months of lockdown (March-April-May), compliance was 109%, with 1,218 units out of a target of 1,118 units. These clearly favourable results have placed us at the vanguard of the market.

At the closing date of these financial statements, the units sold of the deliveries scheduled for 2020 amounted to 94%, also having 60% of units pre-sold of the deliveries scheduled for 2021.

•**Guaranteeing the health and safety of customers and sales staff in the Neinor Stores:** to this end, health prevention protocols have been generated in the Neinor Stores, and they have been provided with the necessary equipment (signage, PPE, dispensers etc.).

Despite the lockdown, the background of uncertainty and the restrictions, Neinor has delivered 1,580 homes, meeting 93% of the delivery target set for 2020 in the Business Plan.

•**Asset management service (Servicing) risk:** The risks described above have a correlative impact on our service management business for the Kutxabank bank.

Our income from this branch of activity depends on three variables: asset write-offs, the volume of assets under management (the most important indicator) and the percentage of these assets sold.

However, we believe that it is necessary to differentiate between the type of new build assets of those managed through Servicing with a valuation of over 60% corresponding to land (of which 70% require planning and management, not yet licensable), and the type of housing assets with an average valuation between 70,000 and 120,000 euros.

Inasmuch as there could arise not only a potential loss of income for the company, but also a loss of efficiency or a reputational loss with the customer, in order to mitigate the risks and make the most of the situation, we have implemented actions focused on three main areas: evaluating our exposure to third parties with whom we work in the Servicing area, reinforcing the quality of the services provided to the entity, as well as their control, and updating the sales figures for this year.

To this end, the control of strategic external suppliers has been reinforced by analysing their contingency plans in relation to Covid-19 and a series of measures for improvement have been taken throughout the value chain, as well as the implementation of 17 new KPIs (compared to the 12 initially planned) to take advantage of this extraordinary situation to refine and improve processes, so that our customer Kutxabank does not see a loss of efficiency as a Servicer. Likewise, the sales budget has been updated in order to transfer the correction to the estimated sales figures for this year, sharing an exhaustive portfolio analysis and documenting in detail the reasons why we estimate that the final figure will decrease as a result of the pandemic, agreeing the new figure with the customer once the reasons for the adjustment have been shared. This set of actions is monitored in fortnightly client-manager meetings, in order to document and evaluate them.

As of the date of these financial statements, we have exceeded the agreed sales budget by 32% after the adjustment derived from the Covid-19 situation and we have fulfilled all the action plans put in place, our customer indicating the effectiveness of the measures implemented and its satisfaction with the results obtained.

In terms of income, this has been slightly affected by the lower volume of sales in the year (caused by the pandemic), which has meant billing of 50% less than expected for this concept. It should be remembered that 65% of Servicing income comes from the management fee, so a reduction in sales has a positive opportunity cost, as we continue to invoice in relation to non-transferred assets.

However, we are 79% compliant with the pre-Covid-19 Business Plan (101% if we consider the post-Covid-19 Business Plan).

•**Balance sheet assets valuation risk:** a change in the future estimates of sales, the variability of the financial costs of works that we finance with our own funds, the sensitivity of changes in established sales prices, the different use that a development may have (sale or rental), collectability from customers etc., may have an impact on the valuation of these items depending on the valuation method used, since they depend on the discount rates and discounted cash flows used.

A negative evolution of the factors mentioned above could result in a fall in the company's valuations, although this would probably not have an impact on the company's financial statements, as the independent external valuator's valuation model is usually conservative and prudent.

According to the valuation carried out as at 31 December 2020, the fair value of the company's assets amounts to €1,584 million, which is 32% higher than the carrying amount of the company's inventories of €1,210 million at that date.

According to the valuation of 31 December 2019, the fair value of the company's assets was €1,722 million, which is 43% higher than the carrying amount of the company's inventories at that date.

Given that the situation of uncertainty in which we still find ourselves has had an effect on the current valuation of the portfolio, affecting selling periods and KPIs of the market, there has been a decrease of 11% in the percentage between the valuation of one year to another with respect to book value. However, we consider to have exceeded our best expectations, and in relation to which we must bear in mind that the growth in GDP forecast for the recovery of the economy once the Covid-19 effect has passed, low interest rates, the consideration of housing as an investment "safe haven" and the adjustment of supply due to the dissolution of other developers, will once again lead to the recovery of the percentage that we had. Even if this is not yet recovered, the company considers that it maintains a reasonable margin with respect to the net book value of the assets, which consequences may arise from a fall in the demand for housing due to the macroeconomic environment.

•Risk of continuity (as a going concern): We consider a multitude of factors that must be looked at before talking about the principle of a going concern in a company that is one of the foremost residential developers nationwide.

Unfortunately, in a complex environment and with difficult access to sources of financing, consolidation in the sector and the discontinuity of many small and medium-sized development companies is likely.

There is a minimal demand in Spain for new housing, which irrespective of the current economic cycle could have a lower band of around 60,000 to 80,000 units.

The situation that has materialized from a possible recession in the short term has coincided with a much healthier, professionalized, procedural and innovative development sector, which has very reasonable levels of leverage with respect to its balance sheets.

We believe that, one way or another, the market will reward those companies that pivot their business on factors such as sustainability and digital transformation. The company started working years ago on both these aspects, as is shown in detail in the respective Social Responsibility Reports published on the company's website.

In addition to the development business, the company maintains a line of service as Servicer of Kutxabank, with a contract until 2022, which allows it to bring in recurring income.

•**Diversification and growth:** before the pandemic hit, the company Board approved, and continues to approve, the financing of its rental line of business. Likewise, other lines of business are being explored on a recurring basis, such as delegated development, value chain integration, public-private agreements, construction of social rental housing etc., and the company is continually exploring alternatives for both organic and inorganic growth.

Furthermore, of the measures taken to mitigate the various risks, in 2020 the following were carried out as part of the strategy of diversification and non-dependence on the development/demand cycle and macro situation:

✓Creation in the first quarter of the year of Neinor Rental, a new line of activity in the rental business of its own developments with the launch of a first portfolio of 1,200 units.

✓Portfolio sales transactions to private investment vehicles (family offices) in which the company maintains the management of the rental of the portfolio.

✓Consolidation of this new line of business with the acquisition of 75% of Renta Garantizada, one of the leading rental management companies in Spain that provides property and asset management services to institutional and private customers and has more than2,500 properties under management. In this way, Neinor integrates an operating company into its rental business line and creates the only residential platform in Spain that integrates 100% of the Build to Rent and granular rental management services.

✓Reinforcement of the platform with the acquisition of a PRS (Private Rented Sector, finished and rented product) portfolio of 9 residential buildings (391 homes), for €58 million, which further strengthens this line of rental business

Taking into account all of the above factors, and additionally considering those described in the preceding paragraphs, the directors consider that the conclusion detailed in Note XXX on the application of the going concern principle remains valid.
In this regard, the company considers it relevant to point out that its recurrent or structural operating expenses (payroll, insurance, office rent, etc.) amount to approximately 25 million euros per year, a figure that is already covered by the income from the "Servicing" business line.

We consider it relevant to consider that within the risks that the situation created by the pandemic may entail, the company, while maintaining great discipline and prudence with regard to internal liquidity, has developed a diversification strategy that has materialised in it being the only company in Spain that covers 100% of the entire value chain from land purchase and planning management to the management of third-party housing for rent.

Finally, it should be noted that the Company's directors and management are constantly monitoring the evolution of the situation in order to successfully address any possible impacts, both financial and non-financial, that may arise.

•**Subsequent events:** after the end of the financial year and as at the date of this document:

1.A dividend distribution has been approved of €0.5 gross per Neinor share entitled to receive it, payment of which will be at the end of February 2021.

2.A transaction was carried out as part of the company's diversification strategy; there was a merger by absorption of the company Quabit Inmobiliaria as part of the land acquisition line of business, which was on hold since at the beginning of 2020 it was decided not to buy land at any price, but rather to wait for the right moment.

The transaction has been a good opportunity given Quabit's financial situation and will allow us to increase the capacity of our land bank to able to build more than 16,000 homes, integrating this land within a well-defined real estate development platform. The merger will also complement and strengthen Neinor's various business lines such as the development of rental housing, an expansion of the supply to various types of demand, and consolidation of Neinor's construction activity through the integration of the Quabit group's building capacities.

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