

CARE

RISK RATING AGENCY

UPDATE OF THE RISK RATING
OF PARTICIPATION
CERTIFICATES IN POSSESSION
OF THE TRUST "FIDEICOMISO
FINANCIERO FORESTAL
BOSQUES DEL URUGUAY II"

Montevideo, April 2021

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Updating of the Rating of the Issuance of Participation Certificates of Fideicomiso Financiero Forestal Bosques del Uruguay II April - 14 - 2021

Trustee:	EF Asset Management Administradora de Fondos de Inversión.
Operator (Manager) and Organizer:	Agroempresa Forestal S.A.
Registration and payment agent:	EF Asset Management Administradora de Fondos de Inversión.
Representative:	Bolsa Electrónica de Valores del Uruguay S.A.
Securities issued:	Participation certificates
Currency:	US Dollars
Issue amount:	USD 70,000,000
Subscription date:	January 19, 2015.
Term:	Until settlement of assets and liabilities of the trust. Maximum: 30 years
Allocations:	Based on accumulated results according to the established procedure.
Trust assets:	Land and timber forests
Risk Rating:	BBB+ .uy
Term:	November 30, 2021 ¹
Rating Committee:	Julio Preve, Adrián Tamber, and Martín Durán Martínez
Manual used:	Manual de Calificación de Finanzas Estructuradas Administradas por Terceros [Third Party Managed Structured Finance Rating Manual].

¹ The granted rating may be subject to changes at any time as a result of CARE's work methodology.

General Overview

CARE has updated the rating of the Participation Certificates in possession of the trust Fideicomiso Forestal Bosques del Uruguay II, maintaining the BBB +. uy investment grade rating.

From the actual main elements of judgment, the rating committee highlights the following:

- A financial construction that from a legal standpoint provides the necessary guarantees, as reflected in the legal report in Annex I of the original rating.
- From an economic and financial point of view for the investor, a business that withstands the non-business stresses to which the issuer and the rating agency have reasonably subjected the project. For this report, a new financial flow has been made available. However, the conclusions of the previous ratings remain the same. Also, a new estimate of the Opportunity Cost of Capital, that takes into account the variations in the international interest rate and country risk, has been produced.
- The Operator's reports (Agroempresa Forestal SA) are satisfactory for the progress of the project, the deviations reported have been duly justified, and in principle do not cause any changes to the progress of the project. For its part, the Supervisory Committee reports that the minimum expected standards for planted areas, budget execution, and mean annual increment (MAI) of the forests have been met to satisfaction. However, on this occasion, the Committee reports that wood harvests were below budget, which is explained by a request for deferral of deliveries to the pulp mills.
- It should be noted that the same company already manages three other projects of similar characteristics (Bosques del Uruguay, Bosques del Uruguay III and Bosques del Uruguay IV), and currently manages more than 80 thousand hectares of forests, having issued 640 million dollars in total.
- A corporate governance design that minimizes investors' risks, and that until the preparation of this report has worked adequately, having even been adjusted with the inclusion of the new Trusts.
- As of December 31, 2020, the Trust's forestry assets amount to 14,656 hectares, of which 9,313 hectares are forested, and 220 hectares are available for planting, which gives a 65% utilization rate. The planted area exceeds the area proposed in the Prospectus, which was 8,680 hectares, exceeding the commitments regarding minimum performance standards.
- A new appraisal of the Trust's fields and forests as of December 31, 2020, is available, which shows a total value of USD 75.36 million, only 0.5% higher than the previous year. This difference is also explained by the harvesting of some forests².

². CARE has some differences regarding the methodology applied, which are stated in section IV.

- As of March 2021, the operator presented a new cash flow projected to 2035. Based on these projections, CARE estimates that the IRR for those who acquired the participation certificates in 2015, 2016, and 2017 (duration of the capital call) would be 8.1%, slightly below the previous appraisal. These results are estimated on the basis of expected timber prices and an evolution of costs, revenues and increase in land price, that CARE considers reasonable³.
- After a sharp fall in 2019, pulp price has begun to show some signs of recovery in the first months of 2021. The reduction of stocks and the recovery in demand, which should continue as the Covid-19 pandemic is overcome, would explain the beginning of the recovery of prices. The export market for pine and eucalyptus solid timber has also started to recover since the fourth quarter of 2020, although prices are still depressed. The current situation shows that the recovery of values has been slow compared to other commodities, but there are no elements to assume that in the medium and long term this situation will continue, since the trend of the growth in demand is expected to continue. Section V provides updated information and further details on these aspects, particularly the evolution of land and wood prices.
- This market situation negatively affected the fulfillment of the harvest projections for 2020, as the sales of pulpwood for pulp mills were lower than budgeted. This was a consequence of the request of one of these mills to reduce the delivery of pulpwood logs in that year's contract; these volumes were deferred to 2021. In the last quarter, deliveries were higher than budgeted but insufficient to meet the sales projection.
- There are no threats in terms of public policies.
- We consider that the health crisis caused by Covid-19 will not have an impact of such a magnitude that it has not been contemplated in the sensitizations.

³ The current health pandemic could have an effect on asset values and prices in the short term, but since this is a long-term business, it is understood that at the time of liquidation of assets that issue will have been overcome.

I. INTRODUCTION

1. Scope and conceptual framework of the rating

CARE Risk Rating Agency has been hired to update the rating of the participation certificates of the financial trust "Fideicomiso Financiero Forestal Bosques del Uruguay II", for a face value of USD 70,000,000 (seventy million US dollars).

Risk rating implies the stating of a specialized point of view by a company authorized for this purpose by the Central Bank of Uruguay (BCU), which supervises and controls the financial system, as well as risk rating agencies. The rating obtained does not represent a recommendation or guarantee of CARE for future investors; therefore, for any decision, the rating should be considered as one point of view to be taken into account, among others. CARE does not audit or verify the accuracy of the information submitted, which comes, however, from sources considered as reliable.

The conceptual framework of this rating implies a prospective exercise where a trust is given a grade that qualifies its expected performance and its capacity to generate profits over time, according to the forestry business project that its management is mandated to carry out. Once the IRR's range, derived from multiple simulations, has been admitted as reasonable for the project in the first rating, future ratings are not strictly connected to the obtention of those figures. In fact, this is not a case of an issue with a fixed return commitment. Therefore, the grade will not depend strictly neither on the extent of the Internal Revenue Rates calculated for the project, nor on the investors' opportunity cost of capital. In short, the grade will be based, among other criteria, on the compliance with the project and the achievement of a minimum return deemed acceptable at the time of each re-rating.

CARE Risk Rating Agency is a rating agency with records and manuals approved by the Central Bank of Uruguay as of April 1998. Its rates are a result of its methodology, duly approved by said authority, and the necessary professionals are selected for each case, to integrate the rating committee, which judges according to CARE's manuals. These manuals, its code of ethics, records and precedents are available on CARE's website: www.care.com.uy, as well as on the regulator's website: www.bcu.gub.uy. In this case, the rating committee was composed by Martín Durán, Adrián Tambler, and Julio Preve. CARE hired Mr. Leandro Rama, Attorney at Law, for the legal risk assessment at the time of the original rating. Care also regularly pays for additional field reports when necessary, and performs site visits.

2. General background and most relevant events in the period

A. General background

The financial trust "Fideicomiso Financiero Forestal Bosques del Uruguay II" aims to provide investors with long-term returns achieved essentially through the proceeds of the sales of timber and standing forests, and the increase of the price of land assets, as well as, although to a lesser extent, from the proceeds of the sale of carbon credits and the grazing of non-forested lands. Investment and management protocols with adequate productive, environmental and social standards are followed at all times.

². The rating does not represent an opinion on the current public administration, nor is it a financial audit or an investment recommendation.

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Regarding the estimated total sales income, 78% would correspond to timber sales, 20.5% to the sale of the land at the end of the project, and less than 1.5% from the sale of carbon credits and grazing⁴.

As the most relevant antecedent, the Forest Financial Trusts Bosques del Uruguay I, III and IV, which subscribed participation certificates in August 2011, December 2016, and April 2019, for an amount of 50, 190 and 330 million dollars, respectively, must be mentioned. These trusts, managed by the same entity as the current one, have been complying satisfactorily with their original business plans, which are similar to the one presented in this occasion.

- As of December 31, 2020, BDU II's land assets consist of 20 properties with a total area of 14,656 hectares, of which 9,313 are planted and 220 are plantable, which gives a 65% utilization. The acquired lands are in the departments of Lavalleja, Cerro Largo, Florida and Treinta y Tres
- As of December 2020, according to the Supervisory Committee's report, taeda pine plantations amount for 15% of the forest estate area, Eucalyptus plantations for pulp amount for 24%, while Eucalyptus grandis plantations mainly destined for production of solid wood amount for 64% of the area.
- In April 2017, the trust agreement was modified, enabling it to borrow up to a certain percentage of its assets (15%. For this, it must obtain the prior approval of the Supervisory Committee, and communicate it to the Risk Rating Agency.
- The land purchase operation has been completed, as well as the planting of the trees. For the future, the project's operations mainly correspond to tasks such as forest and wire fence maintenance, weed control, pruning, thinning, harvesting, stump removal, regrowth management, surveillance, reforestation, etc.
- In October 2018, the "Cruz Roja" rural establishment was sold to the "Bosques del Uruguay III" Financial Trust. The premises comprised 1,782 hectares, of which 1,350 hectares were timberland, and 51% was already planted. The Supervisory Committee approved this sale and was unanimously approved by the holders of the Participation Certificates gathered at the meeting held on April 16, 2018.
- On June 13, 2019, the Meeting of Holders of the Trust's Participation Certificates was held which was attended by 100% of the holders. At said meeting, for the first time, given the existence of Net Distributable Funds it was unanimously decided to make an advance of Distributions in the amount of two million dollars.
- The trust is FSC (Forest Stewardship Council) certified.

⁴. Chapter IV of the Prospectus: Investment objective and characteristics.

B. Most relevant events in the period

- The volume of Eucalyptus Grandis and Dunnii pulpwood sales during 2020 was lower than budgeted due to the industrial plant's request to defer deliveries. In the last quarter of the year, sales were higher than budgeted for that period but still some USD 2.8 million below expectations for the year.
- On December 28, 2020, the Meeting of Holders of the Participation Certificates with a 100% representation was held, where it was decided to modify some terms and conditions of the participation certificates; the modifications do not modify CARE's rating.
- On March 8, 2021, the Trustee notifies CARE of the negotiation of the renewal of a bank loan of USD 300,000 maturing on June 7, 2021. The renewal is for the financing of working capital necessary for the production and delivery of pulpwood during 2021.
- Management tasks (pruning and thinning) are being carried out as planned in the different forests. It should be noted that, as a result of the devaluation of the peso, the costs of these activities, in dollars, have decreased compared to projections.
- As of December 2020, the operator and the Supervisory Committee reported that plantations are generally in good health.
- A new appraisal of the trust's land and forests as of December 31, 2020, shows a total value of USD 75.36 million; 0.5% higher than the previous year.

3. Analyzed information

The information analyzed was as shown below:

- Financial statements of EF Asset Management as of 12/31/2020.
- Financial statements of the Trust as of December 31, 2020.
- Balance sheet of Agroempresa Forestal as of December 31, 2020, with audit report.
- Operator's statement, the latest as of December 2020.
- Supervisory Committee's statements, the latest as of December 2020.
- Appraisal Report of the lands and forests of the BM2C Trust as of December 31, 2020.
- Appraisal Report of the lands of the Agroclaro Trust as of November 30, 2020.

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II. THE TRUST AND THE PARTICIPATION CERTIFICATES

Participation certificates in possession of the trust "Fideicomiso Financiero Forestal Bosques del Uruguay II", created by the corresponding financial trust agreement, were offered in a public offering. This agreement, the certificates, and the other mentioned agreements were analyzed in the legal report made when performing the rating.

1. General description

Name: Fideicomiso Financiero Forestal Bosques del Uruguay II

Trustee: EF Asset Management Administradora de Fondos de Inversión S.A.

Administrating manager: Agroempresa Forestal S.A.

Registration and payment agent: EF Asset Management Administradora de Fondos de Inversión S.A.

Representative: Bolsa Electrónica de Valores del Uruguay S.A.

Stock exchange listing: Bolsa Electrónica de Valores del Uruguay S.A.

Organizer: EF Asset Management Administradora de Fondos de Inversión S.A.

Securities issued: Participation certificates

Trust assets: The Trust will invest in the creation of a forest estate. This includes the purchase and/or lease of rural properties and the planting of the forests.

Currency: US dollars

Issued amount: USD 70,000,000

Term: Until settlement of assets and liabilities of the trust. 30 years maximum.

Subscription date: January 19, 2015

Allocations: Based on the accumulated earnings according to the established procedure

Risk Rating: BBB+. uy

2. Legal analysis

The legal analysis was added in Annex I of the original rating report. It ruled out any possible conflict arising from, for example, the legal structure, the respective agreements, the compliance with current regulations, etc.

The report concludes: “...***In conclusion, and considering all aspects involved, the trust business has a reasonable degree of coverage, with no noticeable substantial risks associated to legal contingencies in the issuance process***”

Risks considered

Structural legal risk. This includes the analysis of possible defaults in the payments to beneficiaries, due to defects in the legal structure, for failing to comply with any regulation in force, as well as by the possible enforcement of court orders as a result of claims for damages by possibly affected parties due to the creation previously described. The aforementioned report having been verified, which essentially resembles the reports of the analogous Trusts I and III- as well as the time elapsed without any dispute having been reported, it is concluded that *the structural legal risk is considered to be virtually nil.*

Liquidity risk. The certificates have been designed to be liquid. Hence, liquidity can be considered as adequate given the characteristics of the Uruguayan market. However, this process is not instantaneous and may take a period difficult to determine. *The risk is medium-low.*

III. THE MANAGEMENT

The characteristics of the issue make it necessary to analyze two managing companies: EF Asset Management (EFAM) as issuer and trustee of the financial trust, and Agroempresa Forestal S.A. (AF) as operator of the project.

1. EF Asset Management (EFAM)

The trustee or managing company is EF Asset Management Administradora de Fondos de Inversión S.A (EFAM). It is a closed joint stock company with the purpose of the management of investment funds and trusts of whatever nature. It was registered in the National Register of Commerce under No. 2014 - Taxpayer Identification Number: 214769530012, on April 7, 2003.

On August 20, 2003, the Central Bank of Uruguay (BCU) authorized the company to operate under the Investment Funds Act No. 16,774 of September 27, 1996, and its subsequent amendment in Law No. 17,202 of September 24, 1999.

On July 9, 2004, the Central Bank of Uruguay (Communication No. 2004/188) authorized the firm to operate as a Financial Trust within the framework of Law No. 17,703 of October 27, 2003. Also, on that date, the company was registered as a Financial Trustee in the Securities Market Registry of the the Central Bank of Uruguay.

On May 23, 2005, the Central Bank of Uruguay authorized it to act as a Professional Trustee within the framework of the aforementioned law (No. 17,703). On the same date, the company was registered in the Register of Professional Trustees, General Trustees Section, kept by the Central Bank of Uruguay.

Authorities

The Board of Directors is composed of Diego Rodríguez Castagno, as President, and Nelson Mendiburu Battistessa, as Vice-President.

*Economic and financial situation*⁵

The analysis of the financial statements as of December 31, 2020, continues to show a situation of robust solvency. The liquidity ratio remains below one. It should be mentioned that the non-current assets are largely made up of the security deposits to which the firm is bound, according to current regulations, and by the trusts it manages and which are, therefore, of restricted availability. This explains the financial liabilities, which are incurred to constitute these securities which, once they are released, cancel the financial liabilities. As for the eventual temporary need for funds to meet short-term obligations, the firm has obtained financing from related parties, and therefore, the liquidity risk is very limited.

⁵. In relation to the health crisis caused by Covid-19, and its possible economic impacts, the Management considers that there would be no significant impact on the Company's financial and equity situation, given that it has a diversified trust portfolio and that its long-term agreements remain unchanged.

Table 1: Financial Statement of EFAM (thousands of \$)

Item	12/31/2020	12/31/2019	12/31/2018
Current Assets	15,859	16,842	9,167
Non-current Asset	228,346	176,772	95,074
Total Assets	244,205	193,613	104,240
Current Liabilities	27,348	22,132	14,368
Non-current Liabilities	180,257	140,738	63,040
Total Liabilities	207,605	162,870	77,408
Assets	36,600	30,743	26,832
Total Assets and	244,205	193,613	104,240
Current Ratio	0.58	0.76	0.64

Source: Financial statements of EFAM

The results of the company as of December 2020 show a significant increase compared with the same period of the previous year.

Table 2: Revenues Statement of EFAM (thousands of \$)

Item	12/31/2020	12/31/2019	12/31/2018
Operating Revenues	60,275	48,081	45,176
Sales and Administration	(53,901)	(43,595)	(41,745)
Operating Result	6,373	4,486	3,431
Financial Results	2,566	2,484	(682)
Pre-tax profits or losses	8,939	6,970	2,749
Revenues Tax on Economic	(2,686)	(2,586)	(1,120)
Fiscal year profit or loss	6,253	4,384	1,629
Revenues from operating	10.57%	9.33%	7.59%
Fiscal year revenues	10.37%	9.12%	3.61%

Source: Financial statements of EFAM

EFAM manages an important portfolio of trusts, both in number and diversity; therefore, its suitability for this function offers no doubts.

2. Agroempresa Forestal S.A. (AF)

The operating company has already been analyzed by CARE when performing the original rating of this trust, and three other similar trusts and their successive updates. On all occasions the firm's evaluation in terms of its capacity to carry out the different projects has been positive, so that from now on it will only be followed up, flagging any relevant fact that may justify a review of such opinion.

As a summary, AF Global SRL is the holding company under which AF Administraciones Forestales operates. The other two divisions are La Novillada (weed control and sales of agrochemicals) and AF Maderas, which is focused on the export of logs for sawmilling and timber sales in the domestic market.

AF started operations in Uruguay in 2000; in 2007 in Chile, and in 2010 in Brazil. Combining the three countries, AF managed more than 100,000 hectares.

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In Uruguay, which is most relevant antecedent, AF manages, among others, the assets of four trusts (including this one) rated by CARE, all of them worth over USD 630 million. Due to their good performance to date, all of them have been rated with an investment grade.

With the starting-up of the fourth trust, AF assumed the need to restructure its organization by adapting it to the new and growing needs. In this sense, a consulting firm, Deloitte, was hired to suggest the improvements that AF should make in this regard.

The work took six months, and resulted in a series of recommendations already detailed in the previous update. In general terms, these recommendations have been implemented and detailed in previous update reports so it is not necessary to repeat them in this report.

These changes have been reported by the firm in the reports listed below: *Advances in Human Capital*.

The new structure, that complements and supports the business structure, has been defined, and changes in its different professional positions are regularly reported. It is composed of a Board of Directors, an Audit Committee, and a Compliance Committee.

Key persons

- **Francisco Bonino, Agricultural Engineer,** continues to be the key figure as Chairman of the Board and member of the Audit Committee.
- **Dan Guapura, Industrial Mechanical Engineer,** General Manager
- **Maria Stella. Economist, MSc.,** responsible of reporting to investors, annual valuations (Bolsa Electrónica de Valores del Uruguay Sociedad Anónima (BEVSA)/Independents/AF), financial projections and the evolution of key variables (prices, comparable transactions, etc.).

One point to highlight is that AF has work teams that operate with members residing in Uruguay, Chile and Brazil. In this regard, the incorporation of new personnel had to be planned taking in consideration both the new person joining the company and those who already have their ongoing activities and responsibilities.

Economic and financial situation

The firm closes its balance sheet on December 31. We had access to the latest available balance sheet audited by Deloitte as of 12/31/20.

According to them, the firm shows a positive and growing evolution of assets, consistent with the evolution of results obtained. Its participation in the 4 trusts it manages is worth mentioning. Its assets at the closing of 2020 included a total of participation certificates issued by EFAM amounting to almost USD 6.6 million.

In view of the above, a favorable opinion continues to be held as to AF's capacity to carry out this and the other transactions mentioned above. It is also recalled that, as trust asset manager, AF is subject to the usual controls in such cases, even contemplating the possibility of its replacement in the event of any of the contingencies provided for in the respective agreements.

The Trust⁶

The BDU II Trust was created by contract on 08/14/2014; on 12/05/2014, the Central Bank of Uruguay authorized its registration. On 01/19/15 participation certificates for USD 70 million were placed in BEVSA under a deferred integration regime, as set forth in the issuance document and as stated in the prospectus. These participation certificates have now been fully integrated; the integration process started in January 2015 and ended in February 2017.

According to the valuation criteria discussed in detail in Section IV of this report, the value of biological assets at the year-end closing of 2020 reached USD 45.3 million. This was due to several factors: cost of production of new plantations, increase due to appraisal of existing plantations, and the recognition due to sales. The land was valued slightly over USD 30 million, a decrease of USD 1.2 million compared to the previous year; however, there were USD 6.5 million improvements recorded in the accounts, thus increasing the land value. Overall, the value of investments as of the date mentioned above is of the order of USD 81.8 million.

The following tables summarize the trust's balance sheet and income statement at the end of 2020.

Table 3: Financial Statement of the Trust

In thousands USD	12/31/2020	12/31/2019	12/31/2018
Current Assets	2,393	2,730	8,031
Non-current Asset	81,922	81,743	72,978
Total Assets	84,315	84,473	81,010
Current Liabilities	1,273	913	884
Non-current Liabilities	1,531	1,557	1,173
Total Liabilities	2,804	2,470	2,057
Assets	81,510	82,003	78,953
Total Assets and	84,315	84,473	81,010
Current Ratio	1.88	2.99	9.08

Source: Financial statements of F.F. BDU 2

The book equity as of 12/31/20, as shown in the table above, amounted to just over USD 81.5 million. This amount is higher than the value of the issue received, which was USD 70 million, and very similar to the value of its main assets.

⁶ In view of the health crisis, and its uncertain evolution, it is noted that this could affect the values of the assets in the short term, but since this is a long-term business, it is understood that at the time of liquidation of the assets the issue will have been overcome

Table 4: Income Statement of the Trust

In thousands USD	12/31/2020	12/31/2019	12/31/2018
Operating Revenues	5,080	1,437	5,503
Biological Assets (1)	2,293	18,680	8,464
Continued operations	7,373	20,117	13,967
Cost of goods sold	(4,811)	(1,496)	(5,389)
Gross result	2,562	18,621	8,578
Administration and selling	(1,942)	(1,894)	(2,162)
Operating Result	620	16,727	6,416
Sundry profits and losses	(1,178)	-	(142)
Financial Results	225	247	(44)
Pre-tax profits or losses	(333)	16,973	6,230
Revenues Tax on Economic	(160)	(689)	(412)
Fiscal year profit or loss	(493)	16,284	5,819
Other comprehensive results (2)	-	(11,380)	7,911
Deferred tax	0	146	(1,005)
Final total comprehensive result	(493)	5,050	12,725

Source: Financial statements of F.F. BDU 2

(1) Change in the value of plantations

(2) Change in land value

Revenues for the period correspond basically to timber sales which, it can be seen, represents a significant increase with respect to the fiscal year 2019; to a lesser extent, there are revenues from grazing and others.

Risks considered

Management risk, considering the suitability of AF S.A. and EFAM to fulfill the function, and according to all the analyses carried out for the rating of BDU, we consider that the risk of non-compliance of the administrator and the trustee with the project's responsibilities is *virtually nil*.

Risk of conflicts, derived from the possibility of lawsuits capable of interfering with the mandate received, and of the existence of provisions to face them. For the same reasons as above, it is unlikely that even if conflicts arise, the trustee and the manager could not resolve them to the satisfaction of the project. Very low risk.

Risk due to change of trustee is adequately provided for in the relevant cases, which leaves this possibility to investors adequately represented.

Risk due to change of forest manager, is also provided for depending on different results.

IV. UNDERLYING ASSET AND FUTURE CASH FLOW

Investments were made in the purchase of rural properties for the development of forestry activities, under the conditions set forth in the Agreement, to be included in the Trust's assets. The Trustee invested in those properties recommended by the Manager, according to the provisions of the Business Plan, and following the procedures set forth in the Agreement.

1. Evaluation of return of investment and internal rate of return.

The Project in the original prospectus had an Internal Rate of Return of 8.55% for the Investor. Subsequently, the operator adjusted the expected cash flows, and on this occasion, there is a new financial flow for the 2021-2035 period, which allows the calculation of a new IRR for the investor.

The assumptions considered in this last estimate were as follows:

- The projected yields remain aligned with the actual performance of the forests
- Harvesting, pruning and freight costs are adjusted to current values.
- Wood prices are the current ones according to product type and destination.
- Sales to UPM2 as of 2023, which will reduce freight costs, is included.
- Product prices are adjusted according to US inflation (projected by BEVSA). No real price increases are projected for either pulpwood or solid timber.
- Uruguay's devaluation and inflation are projected based on BEVSA's valuation criteria.
- The increase in land prices is 3% per year in current dollars.

CARE agrees with these assumptions in their entirety.

Based on this projection, CARE estimated the IRR for the full project period. The investment is analyzed for the years when the Participation Certificates are issued (2015, 2016, and 2017) and for the amounts of the respective capital calls. On the other hand, revenues are those projected for the new cash flow that would begin in 2022 and end with the liquidation of the Trust in 2035. Also considered as income was the distribution of profits made in 2019 for USD 2 million. In this case, the IRR would be 8.1% and this would be the base scenario.

CARE also raised awareness of this flow, assuming a more favorable and a less favorable scenario. The results are presented in the following table, always assuming the investment in 2015, 2016 and 2017, the income for the investor in 2019, and then the projected income from 2022 to 2035.

⁴. As for the health crisis caused by Covid-19, Management estimates that this situation will not significantly impact its financial statements, as the Company's main businesses are long-term contracts and have not evidenced operating and/or financial difficulties to date.

Table 5: Results of IRR under different scenarios

Scenario	Scenario	IRR
1	Wood and costs adjusted by US inflation + increase of wood and land prices	9.7%
2	Wood and costs adjusted by US inflation + increase in land prices	8.1%
3	Increase in land prices	6.8%
4	All other factors unchanged	6.3%

Source: CARE based on the financial flow provided by the operator

CARE considers **Scenario 2** as the most likely scenario, this scenario is also the baseline scenario described above. This scenario considers an increase in the price of wood similar to US inflation, that is, prices unchanged in real terms. World Bank projections for the next ten years assume an increase between 1.1% and 1.3% per year, depending on the origin (see Section V). For land, an increase of 3% per year seems reasonable under the current situation, as the price has undergone a considerable adjustment between 2004 and 2014.

Scenario 1 further assumes a long-term adjustment in wood prices of 1% per year (above US inflation).

Scenario 3 assumes that wood prices and production costs will remain constant in nominal terms throughout the period and land price would only increase by 3%.

Scenario 4 is the most unfavorable. As can be seen, even if there was no increase in wood or land prices in 20 years, the IRR would still remain reasonable (6.3%).

This new IRR value is slightly lower than the one projected a year ago (5.8%). However, in CARE's opinion, it is still reasonable.

This new IRR calculation is consistent with the rigorous sensitivity analysis to which CARE subjected the cash flow at the time of the initial rating. At that time, the cash flow was subject to adverse effects on:

- rate of forest growth
- expected increase in land prices

The most adverse scenario projected assumed that the increase in forest growth rate would be 25% lower than expected and that there would be no increase in land prices throughout the whole period.

The results obtained for a simulation of 10,000 iterations and assuming an otherwise unfavorable scenario showed that the expected nominal IRR would be 6.58% and evidenced a 95% probability of being above 5.74%.

2. New appraisal of Opportunity Cost of Capital

The opportunity cost of capital theoretically sets a floor to the expected profitability of a project and is the key indicator for the discount of expected cash flows.

In this regard, CARE updated the appraisal of the opportunity cost of capital, using the CAPM (Capital Asset Pricing Model) valuation model, and following Damodaran⁷, we added a premium that considers the specific risk of the market where the project is executed (for this case, we considered the country risk). Consequently, the following formula was applied to calculate the net worth

$$E(r_i) = r_f + \beta_{im}(E(r_m) - r_f) + Er_p$$

Where:

E(ri): Expected rate of return of capital

β_{im} : Own systematic risk compared to market risk⁸. r_f : risk-free rate (10-year US Treasury Bonds).

$E(R_m) - R_f$: Market risk premium. Specific risk premium for the market where the project operates (difference between yields on equity assets⁹ and the risk-free rate).

Er_p : Premium for specific risk to the company or project evaluated. Uruguay's country risk (UBI index) is considered.

The risk-free rate is generally considered to be the US Federal Reserve 10-Year Treasury Bond yields. The usual procedure consists in using the 5 or 10-year averages of these yields, thus avoiding the high values of the late 1990s and early 2000 (5% to 7%), as well as the very low values of recent years (close to zero in 2020). In the last ten years, this yield was 2.11%, and is currently at approximately 1.6%¹⁰.

In order to measure the country risk, we considered the yields of Uruguayan sovereign bonds measured through the Republica AFAP UBI index. In this case, the "anomalous" values of the 2002 crisis period should also be avoided. While it is a reality that the Uruguayan economy experiences crises of this magnitude in certain periods, it is not considered very likely that this could occur in the medium term.

The value of Damodaran's "beta unlevered" parameter for January 2021 is 0.89 (1.01 for the average of the last 5 years), indicating that investment in forestry production has almost the same risk and variability as the average of all the activities in that market.

For the calculation of these indicators, we considered the average values of the last 5 years, which are those examined by investors when taking their decisions. In this regard, we considered 1.96% as the yield of U.S. Bonds, and 1.63 basis points for country risk (UBI index). Both values are particularly low in relation to historical values.

The application of these values gives an expected rate of return on equity of 6.5%. This value is lower than the last estimated IRR for the most likely scenario (8.1%), indicating that the investment would provide a return greater than the opportunity cost. While these comparisons cannot be taken in a strict sense, they constitute a reference that, among others, helps to form a judgment about the investment.

⁷. A. Damodaran, "Estimating Equity Risk Premiums" Stern School of Business.

⁸. We considered the average betas of primary agricultural commodity companies in emerging markets according to A. Damodaran.

⁹. Equity Risk Premium of the S&P 500

¹⁰. In recent weeks, the rates of these bonds have been rising, probably as a consequence of a higher inflation forecast in the US

RISK RATING AGENCY

The opportunity cost of equity capital with the parameters used is low compared to the past; this is a consequence of the fall in both the returns of US treasury bonds (risk-free rate) and country risk.

This indicates that according to these methodologies, the project's discount rate is adequate and would reinforce the business return calculations for the investor.

3. Economic and productive management

The characteristics of the project make the economic results sensitive to the actions carried out by the operator: purchase of land, establishment of forests, forest maintenance, reconversion of species, operating costs, harvest and sale, etc. For this reason, the Trust Agreement included minimum performance standards for the manager.

In this regard, the Supervisory Committee reports that the minimum requirements established for 2020 were met to satisfaction, except for the standard of survival and early growth of planted coppices in 2019, which would have already been corrected during this year:

- Land Purchase: Complied with the objectives. The objective was to purchase 13,200 ha and to lease 800 ha, and 14,656 ha have been purchased.
- Planted area: No area is reported in the "available for planting" status for more than 24 consecutive months.
- Sprouting of plantations: The survival and early growth percentage of forest plantations registered in May 2020 was 78% on average (80% is the standard). Therefore, this year it would not be meeting the minimum requirements.
- Average annual plantations increase: The E. grandis and E. dunnii forest plantations are growing at a higher rate than the maximum predicted in the prospectus. This may not always be maintained due to different factors, but it has been happening practically from the start.

As the Trust has bought fields already forested, the timing of the start of clear-cut wood sales has been modified compared to the original projection, bringing forward the Trust's revenue for these items. In turn, the planting costs are postponed in those areas acquired that were already forested, since these costs will be incurred after the relevant clear-cutting has been carried out.

Hence, there is a good level of compliance with the performance commitments.

Table 6. Project Compliance

Item	Prospectus	Achieved
Land price (USD/ha)	3,200	2,823
Distance to Montevideo (km)	270	267
Forest harvesting (%)	62%-65%	65%
Rel. E.Grandis/Dunii areas	2.7	2.9
Total area	14,000	14,656
Forest area (current)	8,680	9,312

15% of the forested area has pine

Source: operator

As mentioned above, the plant renegotiated the supply contract for 2020, so that sales for the year were lower than projected, and timber already cut was left to be delivered in 2021. As a result, sales revenues for 2020 were 36% lower than projected. The largest differences between projected and actual sales were in the first half of the year; in the second half, sales improved but did not compensate for this fall.

Table 7. 2020 sales, projected and actual (USD).

Activity	Actual	Budget	Difference
grandis stock in 2019	1,070,999	515,250	555,749
globulus stock in 2019	370,581	0	370,581
Eucalyptus pulp dunni	845,022	2,550,535	-1,705,513
Eucalyptus pulp grandis	2,513,766	3,935,766	-1,422,000
Eucalyptus +30		632,000	-632,000
UTE columns	113,983	105,000	8,983
Total	4,914,351	7,738,551	-2,824,200

Source: operator

The return on investment depends 78% on future sales of timber, when the forests are grown. Current sales correspond to forests that were already on the purchased land and to the product of management thinning. In this regard, forest management and monitoring are essential during these years.

Table 8. 2020 costs and investments, real and projected (USD).

Activity	Actual	Budget	Difference
Production costs	3,238,924	5,446,441	-2,207,517
Implantation	763,332	761,981	1,351
Management	736,016	941,452	-205,436
Expenses	1,530,383	1,548,361	-17,978
Total	6,268,655	8,698,235	-2,429,580

Source: operator

Production costs were lower than projected because fewer timber deliveries to the pulp mill meant there were fewer harvesting and freight costs. Also, the decision to postpone some commercial thinning of E. grandis influenced the reduction in harvesting costs. All other costs and expenses were reasonably in line with projections.

The area planted during 2020 was 10% smaller than budgeted, which is explained by an adjustment of the area available for planting.

According to the Supervisory Committee, the unit costs of management and harvesting activities are adequately aligned with the budget.

The company has demonstrated its ability to make progress in the proposed processes; the activities are adequately completed and on schedule.

4. Results of the measurement of permanent plots

Permanent plots were installed on the Trust's woodlands on forests between 6 and 9 years old, distributed in different plots. The objective of the permanent plots is the measurement of two tree growth parameters -height and diameter- critical for estimation of production.

According to the Monitoring Committee, the growth results from the permanent plots are currently above the maximum curve for all ages. The next measurement will be in September 2021.

5. Land and forestry appraisal

For this rating, we present new appraisals of the Trust's fields and forests as of December 2020; the appraisals were performed by the same company of the previous year (BM2C). The operator also requested an additional appraisal of the fields (land only) from a national company (Agroclaro) to complement the appraisal information.

BM2C's appraisal estimates a total value for the assets as of December 31, 2020 of USD 75.36 million. The total value of assets shows an increase of just 0.5% over the previous year, calculated with the same methodology.

The methodology used assumes that the present value is the future revenues flow minus an 8% discount, and assumes the sale of the land immediately after harvest. This has the disadvantage that it does not include the value of the plantations carried out on the harvested fields.

Also, the methodology estimates flows from wood and land separately. Forestry production pays a fictitious lease to the land (USD 127/forested ha, and USD 36/cattle ha), and the land has this revenues for its use. Wood has no price increases during the period, while land does, but only 10.6% at the end of the period.

Thus, since land only has a fixed annual revenues from rents, which has increased just 10.6% in the period, and 8% is discounted of the revenues flow, for accounting purposes the value of the land is USD 2,040/ha, a price lower than the market price according to the appraiser (2,774 USD/ha). Assuming a reasonable hypothesis, such as an annual increase in the price of land between 3 and 4 per cent, the value of the future sale minus the discounted 8%, would result in a value very similar to the current market value, which is quite more reasonable.

Thus, the value of the forest asset, considering the flow of wood plus the market price of land, would reach USD 86.18 million instead of USD 75.36 million.

For BM2C, the value of the land asset alone, according to its calculation methodology, would be USD 30.05 million. However, Agroclaro, based on the revenues potential methodology and considering the value of similar lands, estimates a current value for the land of USD 40.66 million.

The following table shows the evolution of the values of the Trust's fields and forests, according to the information from the annual appraisals. It should be clarified that the appraisal values were made under different methodologies and consider land and forests as a whole.

Table 9: Land and plantation valuation evolution

Year	Millions of USD
2015	26.70
2016	53.10
2017	68.00
2018	66.76
2019	74.99
2020	75.36
2018-2020 rate (annual cumulative)	6.2%

Source: CARE, based on appraisals

Note: It is only in 2018 that the area stabilizes; in 2015 and 2016 there was less area and in 2018 a larger area, since a tract of land is then sold to BDU III.

The evolution shows an increasing trend of the total asset, considering forest forests and land, and is slightly above the emission.

6. Risks considered:

Cash Flow Generation Risk: *Considering the management, biological and physical variables, as well as the economic and financial variables included in the sensitivity analysis; it is concluded that the cash flow generation risk is minimum.*

V. ENVIRONMENT

The environment analysis refers to the evaluation of future factors that may affect the generation of the proposed cash flows, but which derive from circumstances beyond the company's control and refer to the overall framework. They are related to the expected evolution of domestic or international markets for inputs and outputs, as well as to the analysis of public policies that may have a direct impact on the fulfillment of the proposed objectives.

By public policies we mean not only domestic policies, but also those of the countries with which there is established trade. With regard to the country's sectoral policy, we must highlight a draft law that proposes to limit afforestation to those lands classified as priority forest lands and to limit the planting of yielding forests; although this bill has been approved by the house of representatives, it does not seem clear that it will be approved in its current form by the senate. The first reading is that this law would be detrimental for the sector, although not for this trust, which has already practically culminated its investments in fields and made progress in plantations. As for the international market for forest products, at least so far, barriers are relatively subject to predictable elements, hence no major risks are foreseen; and as for the possible extension of environmental barriers, the country, and especially this project, stand out for their care and related certifications in this regard.

The Covid-19 pandemic has had an impact on both the international wood supply and demand for almost the whole of 2020, but from 2021 onwards it is beginning to show some signs of recovery.

Given the extended time frame of the projections, that corresponds to the nature of the project itself, the environmental analysis is stated in terms of major trends linked to the evolution of wood and land prices.

5.1 Economic and Market Risk

In this case, the report will focus on the issue of wood and land prices, that are key elements in the trust business.

5.2 Wood price

It is the most important price and, therefore, the most decisive item for the rating agency. This is based on the fact that the price of wood explains 78% of investment returns.

In the specific case of this project, the price that will have the most significant impact on the final result is that of quality eucalyptus wood since, as mentioned above, 62% of the area is planted with trees with that destination. However, the expected pulpwood price is also important, since 23% of the area is destined for pulpwood, as well as the thinning and commercial waste from quality forests. For this project in particular, it is also important to know, although to a lesser extent, what will happen with pine timber, since 15% of the area is destined for this purpose.

The expected long-term trend for wood prices is an upward trend, at least in nominal values, based on the fact that demand will grow in line with the increase in world population and the economic growth of emerging countries. This increased demand is expected for both solid wood for furniture or housing construction, and for cellulose, due to increased consumption of tissue paper.

This increase in demand faces a supply that has been constrained by increasing measures for the protection of native forests, as well as the control over yielding forests. Meanwhile, policies aimed at mitigating the impacts of climate change also promote the protection of forests due to the fact that they are important carbon sinks.

However, in the short term, the sector is experiencing an unfavorable situation. After a strong spike in prices in 2018, international, regional and domestic prices experienced a significant drop of approximately 35-40%; the largest drop was in 2019, afterwards, prices showed an attenuated fall or remained at those depressed levels. The current situation began as a result of some trade conflicts between the US and China, and to the existence of high stocks and an abundance of cellulose pulp on the market due to an oversupply of some countries. The effects of the Covid-19 pandemic added distortions in the timber trade, as there was a temporary fall in the demand in some developed countries due to economic recession, confinement, and reduced mobility.

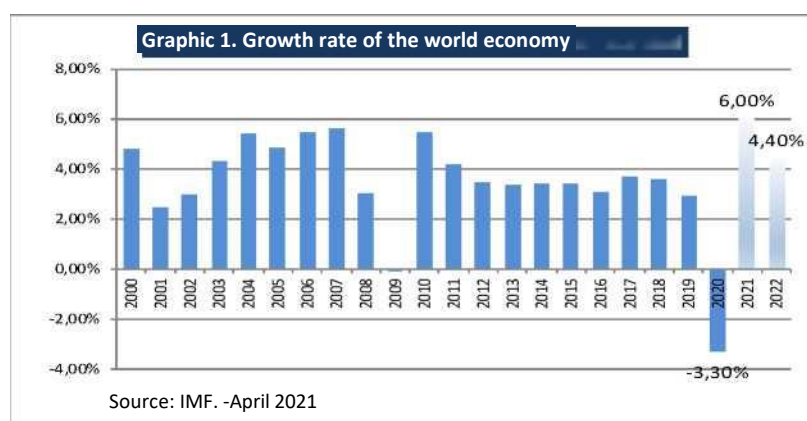
As for pulpwood, the reduction in the consumption of different types of paper (printing, packaging, office paper) was not compensated by the increase in the consumption of tissue paper, and some industries had to temporarily stop their activities as a result of cases of Covid-19 among their employees. This situation led to a decrease in the imports of pulpwood and wood for cellulose production (logs and chips) by the main markets (China, Japan, Europe). By the end of 2020, and especially in the first months of 2021, international pulp prices seem to start to recover.

In the case of eucalyptus wood for sawmilling, prices and demand has shown a behavior similar to that of cellulose, although the recovery of demand seems stronger. After a very uncertain start of 2020, marked by the slowdown in exports at the end of 2019 and the declaration of a pandemic at the beginning of 2020, the second half of the year showed great momentum and consolidated the market recovery. It should be noted that the record of Uruguayan exports for the fourth quarter of 2020 is the highest in the historical series. Nevertheless, at the closing of the year, the accumulated exports of this product were below the peak of 2018.

The market for pine also showed a strong recovery, also from the second half of 2020, and especially in the last quarter. Uruguay was able to take advantage of the arrest of harvesting and marketing activities in New Zealand and managed to restart its exports, which afterwards continued at a very good pace.

In 2020, there was a significant change in the destination of pine exports. Until 2019, almost all pine exports were destined to China. In 2020, India multiplied its imports tenfold and became the destination for 40% of Uruguay's pine logs exports.

For the long term, there are no elements to assume changes in the trends described in the underwriting prospectus. For this rating, CARE updated key information on the sector, confirming that there should be no major deviations in the future with respect to the expected trajectory, once the current economic situation has been overcome. As it can already be seen, as stocks are consumed and the global economy starts to recover, the prices of forest products will continue to increase so as to balance supply and demand. This perspective is supported by the fact that low prices limit supply, and that demand will recover its trend.

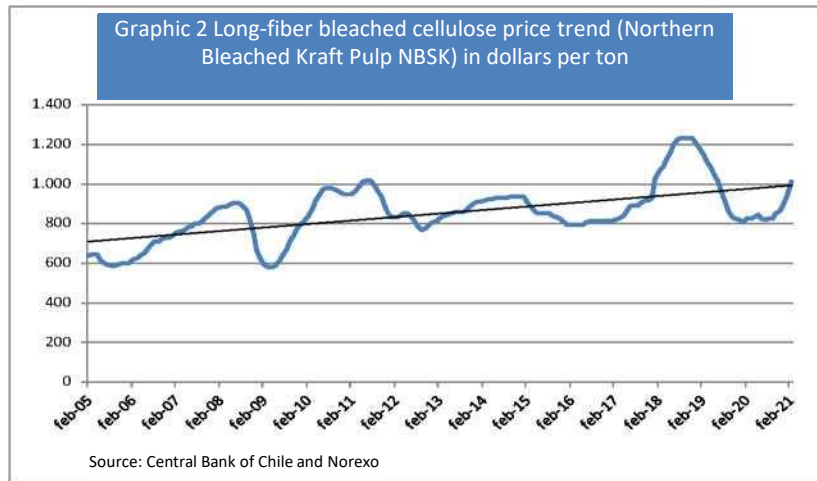


The latest IMF report shows that, while “the contraction of activity in 2020 was unprecedented, the extraordinary supporting measures prevented even worse, economic consequences. One year after the onset of the Covid-19 pandemic, the end of its health and economic crisis looks increasingly close, but the outlook remains highly uncertain. The strength of the recovery will depend to a large extent on the speed and effectiveness of vaccination worldwide. The outlook is subject to great uncertainty, which is related to the course of the pandemic, the effectiveness of support during the transition until vaccines provide a way to normalization, and the evolution of financial conditions.”

In the last 30 years, the forestry sector in Uruguay has made great progress, both in terms of cultivated area and industrial development for the processing of raw material. Currently, the forested area exceeds one million hectares, most of which is certified for sustainable environmental management. In this way, wood production is a source of raw material for both the chemical and mechanical processing industry, with access to the world's most demanding markets.

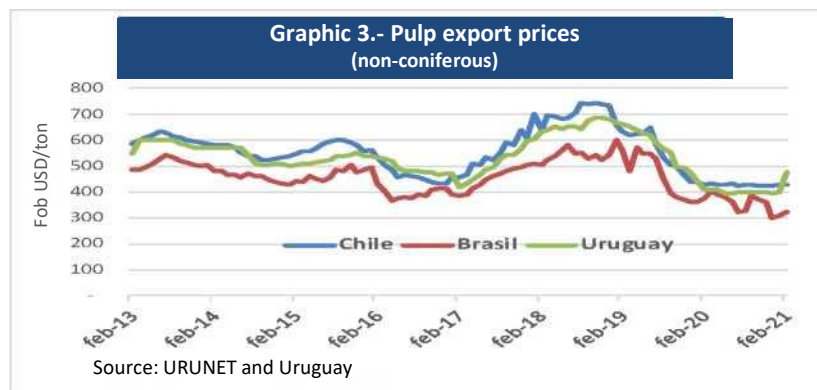
Prices of long-fiber pulp in Europe, which are taken as a general reference to define price trends (NBSK conifers ¹¹), are currently around USD 940 per ton, compared to USD 1,230 at the end of 2018.

¹¹. Northern Bleached Softwood Kraft.
Long fiber bleached pulp



After having remained relatively stable and low in 2020, by the end of the year some recovery can be noticed, which is very much in line with the rest of the commodities (food and non-food). Everything seems to indicate that the prevailing bearish and uncertain scenario is being left behind. For the medium term, J.P. Morgan Chase advisors project that in the next 4 years, pulp prices in China's ports will show an annual cumulative increase of 5.2 and 3.3% for BHKP¹² and NBSK respectively.

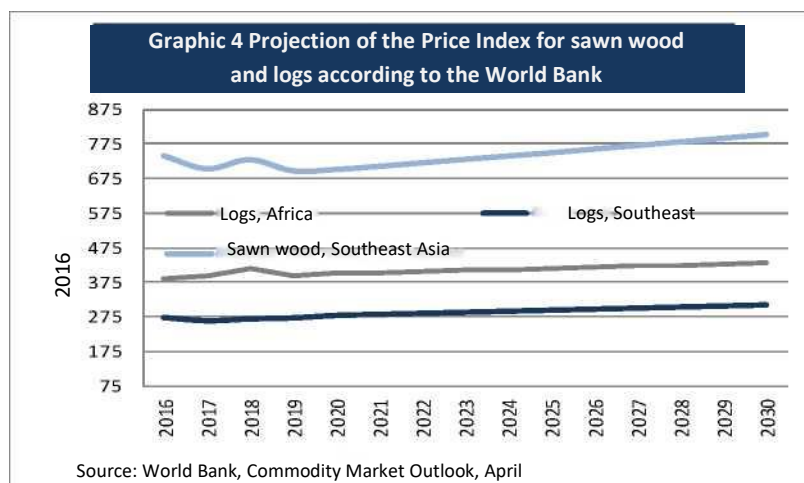
The sharp fluctuations in international prices impacted on local and regional exports, and thus regional prices of pulp exports showed inter-annual variations greater than 30% between January 2018 and December 2019. For the specific case of Uruguay, pulp export prices in December 2020 were USD 394 per ton, 43% lower than the peak values of November 2018, becoming the lowest in the series. In recent months, pulp export prices from Uruguay and its regional neighbors have started to show signs of recovery in recent months.



The prices of raw wood and panels were also lower in 2020 than in 2019, although the reduction in values was lower than that of 2019 compared with its previous year. Notwithstanding this further reduction in prices, volume exports grew significantly, especially over the second half of the year, as a result of the consolidation of new markets in addition to China (Cambodia, India, Vietnam) and the reduction of competition from New Zealand, as a consequence of the drop in activity due to Covid-19.

¹². Blanched Hardwood Kraft Pulp

Notwithstanding this less favorable situation, the medium-term outlook for raw wood for sawmill or sawn wood shows the same trend as for cellulose, that is, a slight growth in nominal values in the long term, as detailed by the World Bank¹³ in the graphic below. In the case of raw wood, the latest World Bank report shows a slight growth between now and 2030, averaging 1.0% cumulative annual growth for logs, and 1.27% annual growth for sawn wood. These price increases would not cover the devaluation of the dollar, so they could experience a slight fall in real terms.



As a result of this international situation, a significant reduction in revenues from exports of forest products was verified in Uruguay for 2020. Thus, compared to 2019, total exports in 2020 fell by 23%.

Table 10. Export of selected forest products (in millions of dollars FOB)

	2015	2016	2017	2018	2019	Jan- Aug 19	Jan- Aug 20	Variation
Cellulose	1,266	1,22	1,310	1,660	1,527	1,097	745	-32%
Logs (except eucalyptus)	1	5	88	150	89	81	74	-9%
Plywood boards	62	58	64	76	55	35	40	13%
Chips (eucalyptus and pine)	57	82	64	95	102	75	21	-72%
Sawn wood								
Non-coniferous	42	38	47	53	46	33	26	-20%
Coniferous sawn wood	23	27	46	62	52	35	38	9%
Paper and cardboard	79	52	31	29	28	22	13	-40%
Eucalyptus logs	24	17	21	29	14	9	10	6%
Total	1,555	1,50	1,670	2,156	1,914	1,387	967	-30%

Source: Care, based on data from URUNET, Uruguay XXI and OPYPA

Note: Exports to the Free Trade Zone are not considered, as we consider pulp exports from this destination.

¹³. World Bank commodities Price Forecast. October 2020.

The lower level of exports is mainly explained by the situation derived from low pulp prices. Pulp exports fell by 28% in value, while chip exports - for pulp production in other countries - fell by 80%.

Exports of eucalyptus and pine logs experienced a highly significant increase in their value, but nevertheless they remain below 2018 exports, mainly as a consequence of lower prices. Pine exports began to increase from the second quarter of 2020, taking advantage of market opportunities, mainly New Zealand's lock down, which favored the sale of pine from Uruguay. China remains the main buyer, although India is now beginning to appear after some phytosanitary restrictions have been lifted.

As already mentioned, the current international price scenario is affected by the high stocks in China, the Coronavirus pandemic, and trade conflict between China and the USA, all of which have strongly affected prices. Notwithstanding this adverse situation, the market appears to be improving and its outlook in terms of long-term demand is maintained; hence, wood prices continue to be auspicious for the medium and long term.

5.3 Land prices

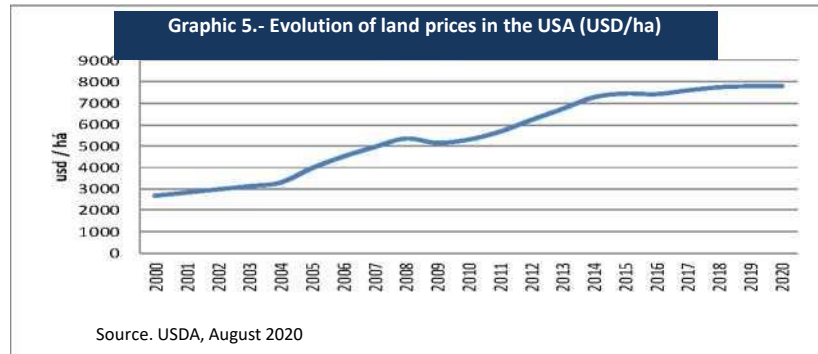
According to the reports of the Directorate of Agricultural Statistics of the Ministry of Livestock Agriculture and Fisheries, for the average of operations throughout the country, the price of land - the second item in importance - has modified its tendency towards a strong appreciation in dollars, has been falling since 2015, and has shown a certain stability in recent years, with variations typical of small number of transactions.

Prospects for international demand for land continues to be encouraging, placing prices at increasing levels for the short and medium term, but at more moderate rates than in the past. However, price increases above trend are expected in the short term. The drop in international interest rates, the expansionary policy of developed countries, and the dollar's weakness could have positive effects on land values in the medium term due to a greater flow of capital in search of real assets, although this effect is not immediate.

In this case, we updated the trends of prices in different countries we consider important.

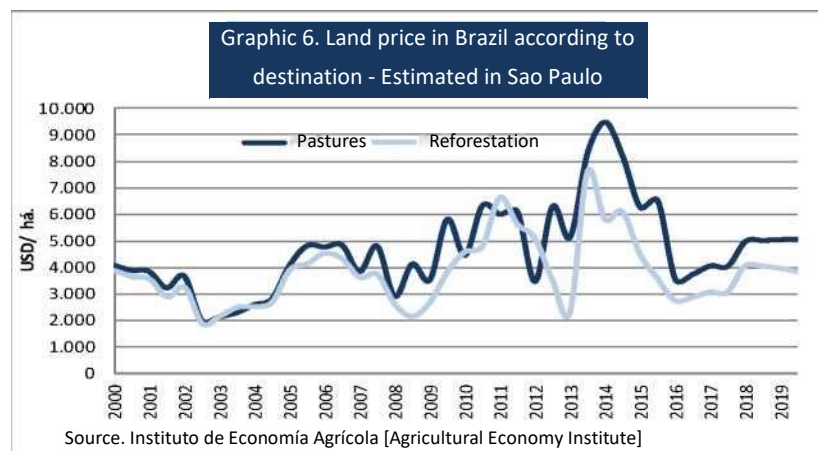
Regarding the price of land in the United State, in the twenty-first century there has been a continuous trend for increased prices, with some exceptions (2009 and 2015) where minimal reductions were verified, but without modifying the trend. The price in the United States fell only in the early 1980s due to the change in its monetary policy -called the "Voelker Plan"- and, to a lesser extent, after the Lehman Brothers financial crisis; in both cases very moderately. Both negative price-level shocks were reversed within a few years. However, in recent years, while the trend continues, these increases appear to be smaller.

In 2018, (average) land prices increased by 2%, in 2019 the USDA reported an increase of 0.6% in nominal terms, and in 2020 it maintains the same nominal value as in previous year. If the data for agricultural land and livestock are analyzed separately, both show the same pattern of evolution of prices.



Land price in Brazil is affected by the exchange rate, as in this country all the prices of lands are quoted in local currency. Therefore, price fluctuations are amplified by this effect. In 2014, it began a sharp fall in land prices, which started to reverse in 2017.

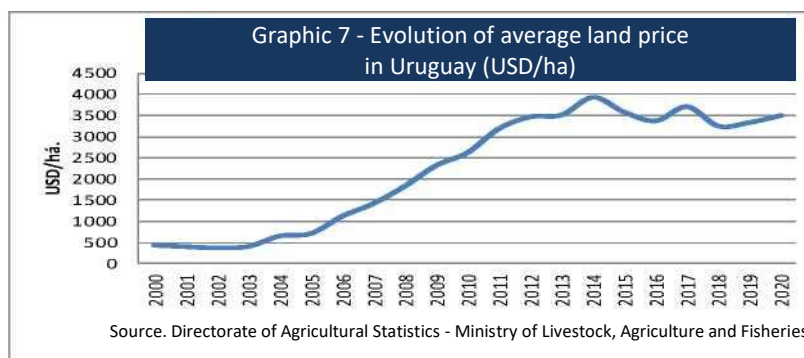
In 2019, the last year reported by the Institute of Agricultural Economics of Sao Paulo, land prices for pastures experienced a slight growth (1%), while those for forestry and natural pastures fell by 4.9%.



In the case of Argentina, its particular situation makes it impossible to have an updated and reliable series of land prices. The high volatility of its policies, high export taxes to agricultural production, macroeconomic imbalances, and restrictions on foreign exchange, generate distortions in values that have nothing to do with the trend that land prices should show. On the basis of some technical works consulted by CARE, in 55 years (1956 to 2011) the price of agricultural land (of very good quality) in Argentina increased at an average annual cumulative rate of 3.5% in real terms.

In the case of Uruguay, the information reported by the Directorate of Agricultural Statistics of the Ministry of Livestock, Agriculture and Fisheries for the average of land transactions, shows a very strong appreciation from 2004 to 2014, when the maximum value was reached. From 2015 onwards begins a certain downward adjustment, but with a somewhat erratic behavior, surely as consequence of a low number of transactions where both quality and location of traded fields had a great influence on the average values. Thus, in 2017 the Directorate of Agricultural Statistics reported a 9.8% increase in the value of land, then in 2018 the same directorate reported a 12.3% reduction. a slight increase of 2.6% in 2019, and a new fall for the first half of 2020¹⁴, the average price of the average hectare in the country would be showing a recovery of 5%.

The low number of transactions of the latest years raises some doubts as to the values obtained, which should be corroborated in the following years.



There are other information sources provided by consulting firms and market operators¹⁵, which seek to contemplate land quality by correcting the values by the CONEAT index and thus make values more comparable. There is a proven relationship¹⁶ between the CONEAT index and land price for fields with CONEAT values above 100, but when the index is below 100, prices also fall but not exactly in the same proportion as when they are above 100. This is basically explained by the fact that many of the fields with a CONEAT value below 100 are demanded for productions other than meat and wool (rice, afforestation), these items being taken in consideration for calculation of this index.

By making these corrections to the available information, we obtained a price series with a behavior very similar to that of the Directorate of Agricultural Statistics: a sustained and very important increase until 2014, and then a continuous decrease up to the present. Our model differs in that it assigns the current price a greater drop (30%) than the one calculated from the mean values of the Directorate of Agricultural Statistics' Series (11%). This would be explained by the high proportion of agricultural and forestry fields (some already forested) in the sales and purchases of recent years.

Land price appreciation is a relatively important component of the trust's final revenues (20.5%), so its evolution will have a significant weight for the final return of the investment.

¹⁴ "Precio de la Tierra" Compraventas Primer Semestre de 2020 [Land Price - Purchases and Sales for the First Half of 2020], published in September 2020.

¹⁵ SERAGRO, Agroclaro and private operators.

¹⁶ B. Lanfranco and G. Sapriza (Serie Técnica N° 187 de INIA) [Technical Series No. 187 from National Institute of Agricultural Research], "El índice CONEAT como medida de productividad y valor de la tierra" [The CONEAT Index as a Measure of Land Productivity and Value], 2011)

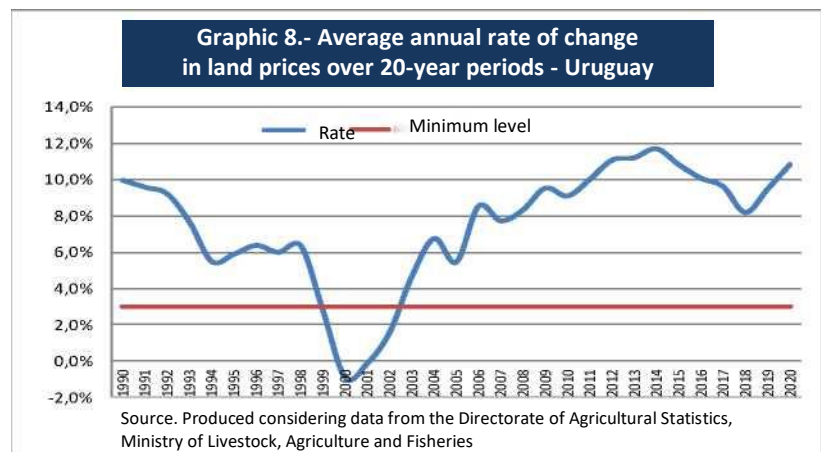
The financial model assumed a cumulative annual valuation of 3% for 20 years, so it is important to know what has happened in the past so as to have some predicting capability regarding what may happen in the future.

For this purpose, CARE analyzed the annual variation of land prices (in current US dollars) for a 51-year series (1970 to 2020) for 20-year periods, which shows the following:

- On average, the annual evolution of land prices for 20-year moving periods was 7.5%.
- The annual growth rate was only less than 3% in the case of the fields between 2000 and 2002, that is, land purchased between 1980 and 1982.
- For the remainder of the period, annual land price growth exceeded 3%.

If the same analysis is carried out for 30-year periods, the annual growth rate falls slightly (7.3%), and the minimum annual growth is 5%; therefore, in practically no period the increase in land price would be below the value considered in the prospectus.

The annual evolution of this indicator - for 20-year intervals - shows an upward trend until 2014, and then starts to fall but remains well above 3% (around a 10% annual growth).



CARE understands that although sustained increases in land prices are to be expected in the medium and long terms, they would not be of similar magnitude than those of the past. Most likely, price increases will compensate US inflation, plus a small component of increased land productivity, so this increase should be between 2 and 4% per year.

5.4 Public policies, political risk

The risk of public policies refers to the threat, by the State, of acting against the ownership and exploitation modalities proposed by the trust.

RISK RATING AGENCY

In this regard, it is worth mentioning the existence of a draft law to regulate afforestation, which has already been approved by the House of Representatives, its approval by the Senate still pending. This project proposes to limit forest planting to priority forest lands, as well as to set a limit on the total forested area of 10% of the country's agricultural area. This bill does not affect this particular undertaking, since it has already completed its land and plantation investment stage. However, if this law is approved, a regulation that may have an impact on the forestry sector would be implemented. The law has been approved by the House of Representatives and is very likely to undergo changes in its subsequent treatment by the Senate, or even eventually not being enacted, thus its possible effects on the sector are not yet known.

In short, we will have to wait to see how the parliamentary process ends, and thereafter assess whether or not there will be threats from public policies.

Environmental risk: *In conclusion, the environment risk both in terms of markets and public policies is considered low.*

VI. RISK RATING

Based on the analysis of the main risks identified in each section; bearing in mind the various technical approaches -legal, qualitative, and quantitative- both those presented by the Trustee and the Operator and those carried out by CARE, and with the information publicly available, CARE's rating committee understands that the securities are rated BBB+.uy¹⁷ on the scale of our methodology. This is an investor grade rating.

Rating Committee



Julio Píve, Engeniero



Martín Durán Martínez, CA



Adrian Tambler, Agr.

¹⁷. **BBB+.uy**. These are instruments with a medium-low risk for investment, with an adequate performance and payment capacity, according to the agreed terms. Its own role, the status of the administrator and of the companies involved, the quality of the assets, their capacity to generate resources and the investment policy, and the characteristics of the environment, give an overall moderate satisfaction to the analyses carried out, without prejudice to some weakness in any of the four risk areas. The risk of the instrument could be increased in the event of foreseeable changes in the assets or their flows, in the economic sectors involved, or in the economy as a whole. The probability of foreseeable unfavorable changes in the environment is low to medium low, and is compatible with the company's capacity to manage them, although with a somewhat increased risk than in the previous categories. **Minimum investment grade. The inclusion of the + sign indicates that the rating is closer to the higher category.**