

# CARE

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RISK RATING AGENCY

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

*Montevideo, April 2021*

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## Update of the Rating of the Public Offering of Book-Entry Participation Certificates for USD 50,000,000 April - 15 - 2021

<b>Issuing date:</b>	August 5, 2011
<b>Term:</b>	Until settlement of assets and liabilities of the trust.
<b>Name:</b>	Fideicomiso Financiero Forestal Bosques del Uruguay
<b>Allocations:</b>	whenever there are Net Distributable Funds after each Year-End Closing, or upon the sale of the Assets of the Trust, or upon the final distribution of Net Remaining Funds.
<b>Structurer:</b>	Ferrere Abogados
<b>Operator:</b>	Agroempresa Forestal SA
<b>Representative:</b>	Bolsa Electrónica de Valores S.A.
<b>Registering Entity:</b>	EFAsset Management Administradora de Fondos de Inversión S.A.
<b>Trustee:</b>	EFAsset Management Administradora de Fondos de Inversión S.A.
<b>Validity of the Updating:</b>	Until November 30, 2021 <sup>1</sup> .
<b>Rating Committee:</b>	Julio Preve, Adrián Tambler, and Martín Durán Martínez
<b>Rating:</b>	BBB +.uy
<b>Manual used:</b>	Manual de Calificación de Finanzas Estructuradas Administradas por Terceros [Third Party Managed Structured Finance Rating Manual].

<sup>1</sup> 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, maintaining the BBB +.uy investment grade rating.*

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

- The absence of legal risk of structure, previously highlighted and ratified over time.
- A business with an adequate consistency between the assumptions of the prospectus, the land purchasing actions, the planted areas, and that from the investor's economic and financial point of view, it supports the non-business stresses to which the issuer and the rating agency have reasonably subjected the project. In this opportunity, a new financial flow is available which, although it supposes reaching a reasonable value for the IRR, it would be lower than the one estimated in the prospectus and in the previous updates (4.8%).
- The Operator's reports are generally satisfactory for the progress of the project, and are ratified by the Supervisory Committee. The change in the timber demand situation and the generation of some commercial opportunities led to an increase in the Trust's income for this fiscal year that was above what was budgeted, while on the contrary, costs increased in a smaller proportion, thus achieving a higher margin than budgeted.
- A corporate governance design that minimizes investors' risks, and that until the preparation of this report has worked adequately (operator's reports, meetings of holders of the Participation Certificates, and reports of the supervisory committee.)
- The management capacity of the project management company - Agroempresa Forestal- remains within the efficiency standards evaluated in the previous update reports, which is ratified in the different reports of the parties involved. It is important to highlight that the Administrator is implementing three more undertakings, with a very similar financial structure, without any major setbacks for the time being. Combining the 4 trusts, the company is currently managing more than 80 hectares of forest.
- As of December 31, 2020, "Fideicomiso Financiero Bosques del Uruguay" owns 9,536 hectares, with 5,474 forested hectares and 221 available for planting, providing a 60% utilization rate.
- A new appraisal of the trust's land and forests as of December 31, 2020, shows a total value of USD 53.71 million, 7.2% higher than the previous year<sup>2</sup>.

<sup>2</sup>. 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 2033. Based on these projections, CARE estimates that the IRR for those who acquired participation certificates in 2011 would be 4.8%, slightly lower than that estimated in the previous qualification and the issuance prospectus, but still positive and reasonable. 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 reasonable<sup>3</sup>.
- 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 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 had a negative effect on the fulfillment of the harvest projections for the first half of 2020, especially with respect to eucalyptus grandis exports, but these recovered in the second half of the year. Finally, for the whole year 2020, total sales and revenues from wood sales for pulp mills and eucalyptus wood exports, ended up being higher than the projected values.
- 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.

<sup>3</sup> 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.

### 1. INTRODUCTION

#### 1. Scope and conceptual framework of the rating

CARE Risk Rating Agency was contracted to update the rating of the certificates of participation of the financial trust "Fideicomiso Financiero Forestal Bosques del Uruguay" (hereinafter "Bosques del Uruguay") for a nominal value of USD USD 50,000,000 (fifty million United States dollars), whose characteristics are detailed in the corresponding websites of the Central Bank of Uruguay [www.bcu.gub.uy](http://www.bcu.gub.uy), of the Electronic Stock Exchange (Bolsa Electrónica de Valores) [www.bevsa.com.uy](http://www.bevsa.com.uy), and CARE [www.care.com.uy](http://www.care.com.uy).

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 and, therefore, for the purposes of 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 rate of return range, derived from multiple simulations, has been admitted as reasonable for the project in the first rating, the following ratings are not strictly connected to the obtention of those figures. In fact, this is not 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 is 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](http://www.care.com.uy), as well as on the regulator's website: [www.bcu.gub.uy](http://www.bcu.gub.uy). In this case, the rating committee was composed by Martín Duran, Julio Preve, and Adrián Tamber. Similarly, CARE hired the services of the law firm Herrera Profesionales Asociados, whose report was attached to the original rating. It also regularly employs forestry experts for field reports and conducts site visits.

#### 2. General background and most relevant events in the period

##### A. General background

The main purpose of the "Fideicomiso Financiero Forestal Bosques del Uruguay" is: **(a)** the issuance of the Participation Certificates and their subscription by the Beneficiaries according to the terms and conditions arising from the Trust Agreement and the Issuance Document (stage completed), **(b)** the

implementation of the Productive Project, which consists of an investment project that creates a Forest Estate in Uruguay, for the production of wood for the Uruguayan and the international markets, and (c) the distribution of the funds resulting from the implementation of the Project among the Holders, in the manner set forth in the Trust Agreement.

- The land purchase and planting of all the forests have already been completed; hence, the project operations essentially correspond to plantation and wire fence maintenance, weed and pest control, pruning, thinning, stump removal, regrowth management, surveillance, etc.
- The clear-cutting of some forests has also begun; therefore, harvesting and replanting of harvested areas are progressively taking place.
- BDU's land holdings amount to 9,536<sup>4</sup> hectares; as of December 31, 2021, 5,473.8 hectares are forested and 221.44 hectares are available for planting, which means a 60% utilization rate. It consists of 14 properties located in the central east and southeast regions of Uruguay, in the departments of Cerro Largo (26%), Durazno (16%), Florida (49%), Lavalleja (6%) and Treinta y Tres (3%). The species planted are mainly Eucalyptus grandis (65.2%), E. dunnii (28.4%), and E. Saligna (6.2%).
- As the forests reach adequate development, pruning and thinning are being carried out to manage the quality of the wood.
- We calculate that approximately 71% of the planted area will be used to produce quality timber, and 29% for pulpwood production.
- By the end of 2018, the trust recognizes a total debt for up to \$ 2 million of bank credit with life until December 30, 2021 Clause 7 of the contract, which was amended on April 5, 2017, enables the trust to borrow up to a certain percentage of its equity (15%). For this, it must obtain prior approval from the Supervisory Committee and notify the Risk Rating Agency. The trust complied with both requirements.
- Starting in 2019, the sale of pulpwood from commercial thinning of species for quality timber began, according to the business plan. In the second half of 2020, the trust will start to carry out the first some solid timber sales.
- In 2019, Deloitte was hired for a consultancy for suggestions of changes in the corporate governance and management structure of Agroempresa Forestal. The aim was to adapt these elements to administer more than \$ 600 million in assets among the 4 trusts. As a result, the company has been hiring some additional hierarchical staff.
- The trust is part of the Health Committee of the SPF (Sociedad de Productores Forestales), which aims to monitor and identify pests and diseases in forest plantations.
- The trust is FSC (Forest Stewardship Council) certified.

### B. Most relevant events in the period

- During 2020, pulp sales exceeded the budget, both in volume and dollars, due to higher volume yields in commercial thinning and clear-cutting operations.
- During the second half of the year, exports of Eucalyptus Grandis were made to China, Cambodia, and Vietnam, generating a revenue 61% higher than previously budgeted.
- The first half of the year had ended below the forecasting - in pulp sales and quality timber exports - but the market recovered in the third and fourth quarters.
- During the second half of the year, various silviculture, pruning, and thinning tasks were carried out, although with minor budget deviations.
- As of December 2020, the operator reported that plantations are generally in good health.
- 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.
- A new appraisal of the trust's land and forests as of December 31, 2020, shows a total value of USD 53.71 million; 7.2% higher than the previous year.

### 3. Analyzed information

On this occasion, the information analyzed was as follows:

- Financial statements of EF Asset Management as of 12/31/2020.
- Financial statements of the Trust as of 12/31/2020.
- Balance sheet of Agroempresa Forestal as of December 31, 2020, with audit report.
- Operator's statement, the latest as of December 31, 2020
- Supervisory Committee's statements, the latest as of December 2021.
- 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.



### II. THE TRUST AND THE PARTICIPATION CERTIFICATES

Participation certificates in possession of the trust “Fideicomiso Financiero Forestal Bosques del Uruguay III”, created by the corresponding financial trust agreement, were placed in public offering. This agreement, the certificates and the other contracts mentioned are discussed in this section.

#### 1. General description

<b>Name</b>	Fideicomiso Financiero Forestal Bosques del Uruguay
<b>Trustee</b>	EF Asset Management Administradora de Fondos de Inversión S.A.
<b>Administrator:</b>	Agroempresa Forestal S.A.
<b>Registering Entity:</b>	EF Asset Management Administradora de Fondos de Inversión S.A.
<b>Representative:</b>	Bolsa Electrónica de Valores S.A.
<b>Organizer:</b>	Agroempresa Forestal S.A.
<b>Securities issued</b>	Participation certificates
<b>Trust Assets</b>	The Trust invested in the purchase of rural properties for forest exploitation.
<b>Currency:</b>	US dollars
<b>Issued amount:</b>	USD 50,000,000
<b>Issuing date:</b>	August 5, 2011
<b>Issue term:</b>	Until settlement of assets and liabilities of the trust.
<b>Allocations:</b>	Whenever there are Net Distributable Funds after each Year-End Closing, or upon the sale of the Assets of the Trust, or upon the final distribution of the Net Remaining Funds
<b>Risk Rating:</b>	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 analysis concluded that *"In short, and considering all aspects involved, a reasonable degree of coverage was found, and no noticeable substantial risks associated to legal contingencies in the projected issuance process were observed."*

#### Risks considered

**Structural legal risk.** It includes the analysis of the possibility of non-compliance in the payment to beneficiaries due to defects in the legal structure. After the corresponding analyses, since there has been no change in the legal structure and considering the passage of time without disputes, it is again concluded that the risk is *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 impossible to establish. *The risk is medium-low.*

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<sup>5</sup>

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.

<sup>5</sup>. With regard to the health crisis caused by Covid-19 and its possible economic impacts, the Management understands that

**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
<b>Total Assets</b>	<b>244,205</b>	<b>193,613</b>	<b>104,240</b>
Current Liabilities	27,348	22,132	14,368
Non-current Liabilities	180,257	140,738	63,040
<b>Total Liabilities</b>	<b>207,605</b>	<b>162,870</b>	<b>77,408</b>
<b>Assets</b>	<b>36,600</b>	<b>30,743</b>	<b>26,832</b>
<b>Total Assets &amp; Liabilities</b>	<b>244,205</b>	<b>193,613</b>	<b>104,240</b>
<b>Current Ratio</b>	<b>0.58</b>	<b>0.76</b>	<b>0.64</b>

Source: EFAM's financial statements

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 Expenses	(53,901)	(43,595)	(41,745)
<b>Operating Result</b>	<b>6,373</b>	<b>4,486</b>	<b>3,431</b>
Financial Results	2,566	2,484	(682)
<b>Pre-tax profits or losses</b>	<b>8,939</b>	<b>6,970</b>	<b>2,749</b>
Revenues Tax on Economic Activities	(2,686)	(2,586)	(1,120)
<b>Fiscal year profit or loss</b>	<b>6,253</b>	<b>4,384</b>	<b>1,629</b>
Revenues from operating activities	10.57%	9.33%	7.59%
Fiscal year revenues	10.37%	9.12%	3.61%

Source: EFAM's financial statements

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.

## RISK RATING AGENCY

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 Trust

The BDU Trust was created in May 2011, and in August of the same year, EFAM (the trustee) issued on its behalf Book Entry Participation Certificates for a face value of USD 50 million. The land acquisition stage and the planting campaign have been completed for some time now. The operating company is currently engaged in the management and maintenance work corresponding to this type of exploitation according to the different species.

The Trust closes its fiscal year on June 30 of each year. Its accounting closing date is December 31, according to article 330 of the Compilation of Securities Market Regulations of the Central Bank of Uruguay.

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

<b>Table 3: Financial Statement of the Trust</b>			
<b>In thousands USD</b>	<b>12/31/2020</b>	<b>12/31/2019</b>	<b>12/31/2018</b>
Current Assets	1,688	330	1,021
Non-current Assets	53,717	50,206	48,587
<b>Total Assets</b>	<b>55,405</b>	<b>50,537</b>	<b>49,608</b>
Current Liabilities	1,019	294	372
Non-current Liabilities	3,732	2,658	2,213
<b>Total Liabilities</b>	<b>4,751</b>	<b>2,952</b>	<b>2,585</b>
<b>Assets</b>	<b>50,654</b>	<b>47,584</b>	<b>47,023</b>
<b>Total Assets and Liabilities</b>	<b>55,405</b>	<b>50,537</b>	<b>49,608</b>
Current ratio	1.66	1.12	2.74

Source: EFAM's financial statements

At the closing date, the Trust includes a bank loan for USD 2,519,610 (including USD 19,610 of accrued interest). Of this amount, USD 500,000 was paid in January 2021, and the remainder will be paid in 4 equal semi-annual installments starting in June 2022.

The accounting equity of the Trust as of 12/31/20 amounts to slightly more than USD 50.6 million as shown in the table above, exceeding the value of the issuance of the participation certificates, which was USD 50 million. A determining factor in the increase in the equity value was the appraisal carried out at the end of the year. This appraisal showed a value of USD 32.3 million for the biological assets and USD 21.4 million for the land, which meant an increase of USD 2.9 million and USD 719 thousand for plantations and land, respectively. The results of the appraisals are discussed in more detail in Section IV.

**Table 4: Income Statement of the Trust**

In thousands USD	12/31/2020	12/31/2019	12/31/2018
Operating Revenues	4,199	1,776	616
Changes in the value of biological assets	2,914	9,276	5,132
Cost of goods sold	(3,158)	(1,170)	(786)
<b>Gross result</b>	<b>3,955</b>	<b>9,882</b>	<b>4,961</b>
Administration and selling expenses	(1,036)	(975)	(926)
Financial results	57	44	22
Sundry profits and losses	719		
<b>Fiscal year profit or loss before Income Tax on Economic Activities</b>	<b>3,695</b>	<b>8,952</b>	<b>4,057</b>
Income tax	(625)	(241)	(1,040)
<b>Fiscal year profit or loss</b>	<b>3,070</b>	<b>8,711</b>	<b>3,016</b>
Revaluations	-	(8,148)	(5,007)
<b>Comprehensive profit or loss for the period</b>	<b>3,070</b>	<b>562</b>	<b>(1,991)</b>

Source: EFAM's financial statements

Given the characteristics of the forestry business, it is logical to expect minor or negative results in the first years, as the main item to be sold is harvested wood. In this regard, the first logging is expected approximately 10 years after planting (2022 onwards). In the meantime, revenues from commercial activities are marginal: sale of pruning and thinning products, grazing, etc. However, as discussed in another section, there was a significant increase in the sales of wood from thinning and pruning activities in the last fiscal year.

### 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. *Virtually nil risk.*

**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

The Trust invested in the purchase of rural properties in the Eastern Republic of Uruguay, which are intended for forestry activities.

The Trust agreement established the framework within which the Trust strategy is developed to fulfill its purpose.

The company has demonstrated its ability to make progress in the proposed processes; the activities are adequately completed and on schedule. To date, all planned activities are being executed, the fields have completed their initial planting schedule. Maintenance and management are being carried out without significant setbacks. Harvesting has already begun, either for pulp mills from thinning or from clearcutting for solid wood.

The total area acquired is 9,536 ha, of which 5,474 ha are already forested, which means 60% utilization rate. Of the total area planted with Eucalyptus, 65% has been planted with grandis, 28% with dunii, 6% with saligna, and 1% with other species.

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

The underwriting prospectus estimated an internal rate of return of 8.58%. Subsequently, the operator adjusted the expected cash flows, and the project adjusted its profitability downward. On this occasion, there is a new financial flow for the 2021-2033 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 whole project period, i.e., the investment in the participation certificates in 2011 (year zero), considering the projected distributions starting in 2022 and ending with the liquidation of the Trust in 2033. In this case, the IRR would be 4.8%.



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 2011 and the income for the investor from 2022 to 2033.

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	6.0%
2	Wood and costs adjusted by US inflation + increase in land prices	<b>4.8%</b>
3	Increase in land prices	3.7%
4	All other factors unchanged	3.4%

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 positive (3.4%).

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.

## 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 Damodaran<sup>6</sup>, 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

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

<sup>6</sup> A. Damodaran, "Estimating Equity Risk Premiums" Stern School of Business.

Where:

E(ri): Expected rate of return of capital

$\beta_{im}$ : Own systematic risk compared to market risk<sup>7</sup>. rf: risk-free rate (10-year US Treasury Bonds).

E (Rm) - Rf: Market risk premium. Specific risk premium for the market where the project operates (difference between yields on equity assets<sup>8</sup> and the risk-free rate).

Erp: 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%<sup>9</sup>.

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 Damodaram'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 6.49%. This value would be higher than the last calculated IRR for the most likely scenario (4.8%)<sup>10</sup>. 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.

<sup>7</sup> We considered the average betas of primary agricultural commodity companies in emerging markets according to A. Damodaram.

<sup>8</sup> Equity Risk Premium of the S&P 500

<sup>9</sup> In recent weeks, the rates of these bonds have been rising, probably as a consequence of a higher inflation forecast in the US

<sup>10</sup>. It is important to clarify that while this is a valid analysis from a financial point of view, institutional investors do not have this opportunity cost as they cannot invest in global markets.

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.

### 3. Economic and productive management

**Income.-** Total sales for 2020 were significantly higher than budgeted for the year, almost 40% higher in dollars. In the first half of the year, it was not possible to meet the planned exports of roundwood, due to market problems for that type of product. Still, the demand became very important from the end of the second half and during the rest of the year, so the year ended above projections. Sales of pulpwood, which is sold in the domestic market, did not face significant problems in terms of placement and also ended the year above budget.

**Table 6. 2020 sales, projected and actual (USD).**

Activity	Actual	Budget	Difference
Eucalyptus pulp	3,250,276	2,464,369	785,907
Eucalyptus + 20	780,932		780,932
Eucalyptus + 30	0	484,903	-484,903
UTE columns (+20)	54,783	0	54,783
<b>Total</b>	<b>4,085,991</b>	<b>2,949,272</b>	<b>1,136,719</b>

Source: operator

More than 80% of the return on investment depends on the future sale of timber, when the forests are developed. In this regard, forest management and monitoring are essential during these years.

**Production costs.-** Higher sales mean that actual costs were significantly higher than expected, since many of them are associated with clear-cutting, export costs, road and freight costs.

**Investments.-** The expenses associated with the investment in planting were also higher than expected, since no area to be replanted had been budgeted, which needed to be done. Management tasks (pruning and thinning), as well as "other" expenses, were lower than projected.

**Table 7. 2020 costs and investments, real and projected (USD).**

Activity	Actual	Budget	Difference
Production costs	3,284,977	2,238,899	1,046,078
Implantation investments	86,190	33,341	52,849
Management investments	216,246	294,494	-78,248
Expenses	847,376	1,132,074	-284,698
<b>Total</b>	<b>4,434,789</b>	<b>3,698,808</b>	<b>1,136,719</b>

Source: operator

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

### 4. 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 53.71 million. The total value of assets shows an increase of 7.9% over the previous year, calculated with the same methodology.

The methodology used assumes that the present value is the future income 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 139/forested ha, and USD 35/cattle ha), and the land has this income for its use. Wood has no price increases during the period, while land does have it, but it will be just 10.6% at the end of the period.

Thus, as the land only has a fixed annual income from rents, which has an increase of just 10.6% in the period, with an 8 per cent discount of the income flow, for accounting purposes the value of the land is USD 2,241/ha, lower than the market price according to the appraiser (2,881 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 59.75 million instead of USD 53.7 million.

For BM2C, the value of the land asset alone, according to its calculation methodology, would be USD 21.4 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 27.5 million.

Table 8 shows the evolution of the values of the Trust's fields and forests, according to the information from the annual appraisals. The series starts once the purchase period is completed in order to make the data comparable. It should be clarified that the appraisal values were made under different methodologies and consider land and forests as a whole.

<b>Table 8: Land and plantation valuation evolution</b>	
<b>Year</b>	<b>Millions of USD</b>
2014	31.05
2015	31.91
2016	33.30
2017	34.60
2018	48.47
2019	50.11
2020	53.71
<b><i>2014-2020 rate (annual cumulative)</i></b>	<b><i>9.6%</i></b>

Source: CARE, based on appraisals

The evolution shows an upward trend in assets, which are growing at an annual cumulative rate of 9.6%, basically explained by the growth of the forests. Current valuation values are slightly above the issue.

### 5. Risks considered:

**Flow generation risk.** Based on the above, the aim is to indicate the capacity to generate the flows within the agreed time frame. The risk is considered to be low and possible to be controlled in time. It is noted that the risk has been reduced as the plantings have been completed. *Low, medium risk*

**Risk of currency mismatch.** The most relevant income and expenditures are foreseen in the same currency, so this risk is *virtually nil*.

### 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.

##### *B) The price of wood*

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 more than 80% 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 wood, since this is the main objective of this trust. However, the expected price for pulpwood is also important, since a certain percentage of the timber is always destined for pulp, and particularly in the first years, it is the most relevant destination.

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.

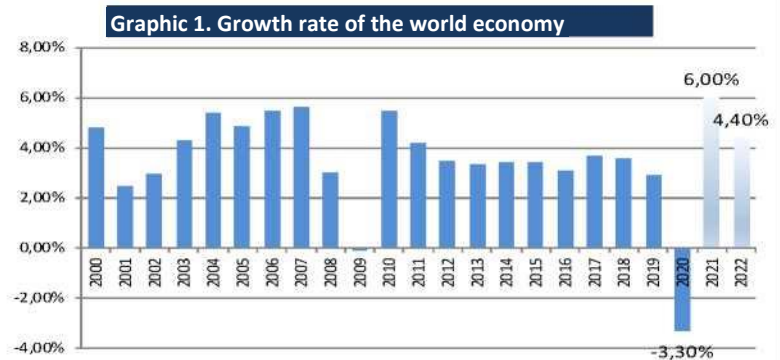
In the case of eucalyptus wood for sawmilling, prices and demand has shown a behavior similar to that of cellulose, although the recovery of demand seems stronger. After a very uncertain start of 2020, marked by the slowdown in exports at the end of 2019 and the declaration of a pandemic at the beginning of 2020, the second half of the year showed great momentum and consolidated the market recovery. It should be noted that the record of 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.

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 product 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 International Monetary Fund (IMF), in its world economic outlook for the coming years, has been adjusting its projections, which it describes as highly uncertain given the impact of the Covid-19 pandemic that has led the world to an unprecedented crisis. In its last report of April 6, 2021, the IMF estimates a 3.3% decline in the world economy for 2020, and a 6 per cent increase for 2021, and a 4.4% increase for 2022. The upward revision reflects the stronger fiscal support in a few large economies, the expected recovery in the second half of 2021 due to vaccines, and the continued adaptation of economic activity to reduced mobility. In 2020, China was the only country to experience economic growth, of about 2.3%.

6% increase by 2021 and 4.4% per cent by 2022. The upward revision reflects the stronger fiscal support in a few large economies, the expected recovery in the second half of 2021 due to vaccines, and the continued adaptation of economic activity to reduced mobility. In 2020, China was the only country to experience economic growth, of about 2.3%.

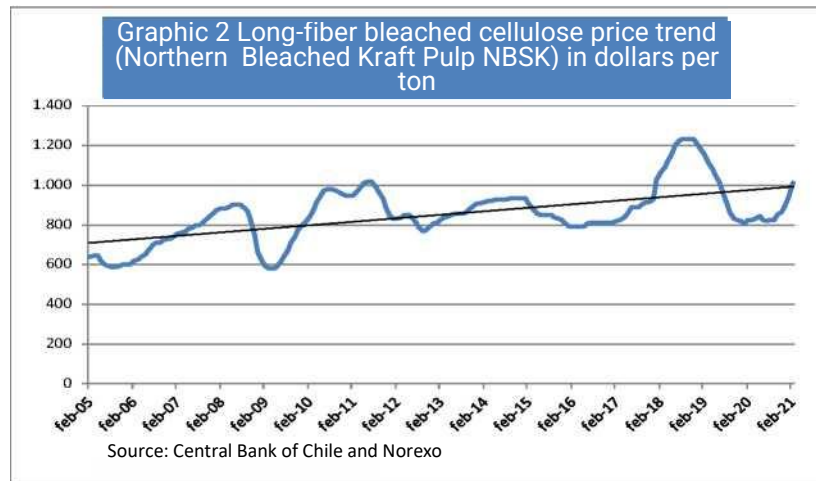


The latest IMF report shows that, while *“the contraction of activity in 2020 was unprecedented, the extraordinary supporting measures prevented even worse, economic consequences. One year after the onset of the Covid-19 pandemic, the end of its health and economic crisis looks increasingly close, but 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.

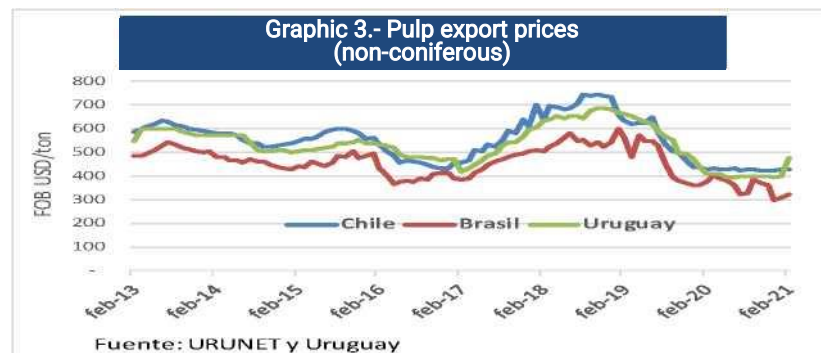


Prices of long-fiber pulp in Europe, which are taken as a general reference to define price trends (NBSK conifers <sup>11</sup>), are currently around USD 940 per ton, compared to USD 1,230 at the end of 2018.



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 BHKP<sup>12</sup> 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.



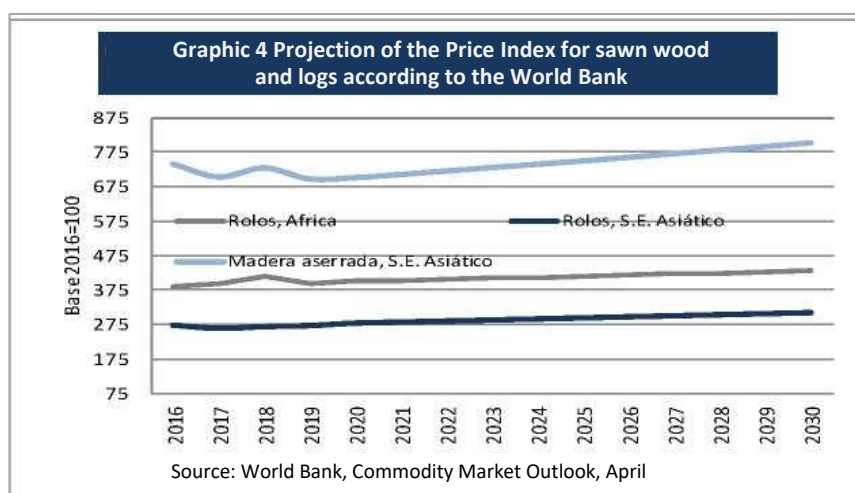
<sup>11</sup>. Northern Bleached Softwood Kraft. Long fiber bleached pulp

<sup>12</sup>. Blanched Hardwood Kraft Pulp

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.

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.

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 Bank<sup>13</sup> 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 9. Export of selected forest products (in millions of dollars FOB)**

	2015	2016	2017	2018	2019	2020	Variation
Cellulose	1,266	1,222	1,310	1,660	1,527	1,107	-28%
Logs (except eucalyptus)	1	5	88	150	89	132	49%
Plywood boards	62	58	64	76	55	67	22%
Chips (eucalyptus and pine)	57	82	64	95	102	21	-80%
Non-coniferous sawn wood	42	38	47	53	46	44	-4%
Coniferous sawn wood	23	27	46	62	52	60	17%
Paper and cardboard	79	52	31	29	28	18	-37%
Eucalyptus logs	24	17	21	29	14	21	48%
<b>Total</b>	<b>1,555</b>	<b>1,500</b>	<b>1,670</b>	<b>2,156</b>	<b>1,914</b>	<b>1,471</b>	<b>-23%</b>

<sup>13</sup>. 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.

### **B) Land prices**

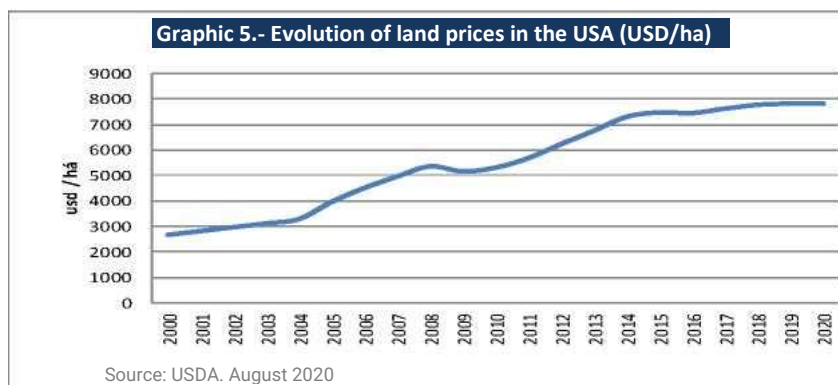
According to the reports of the Directorate of Agricultural Statistics of the Ministry of Livestock Agriculture and Fisheries, for the average of operations throughout the country, the price of land - the second item in importance- has modified its tendency towards a strong appreciation in dollars, has 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.

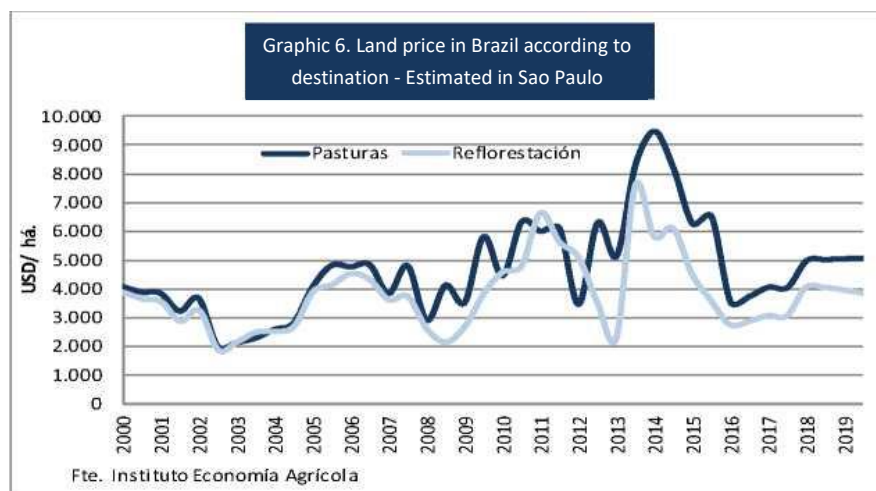
In this case, we updated the trends of prices in different countries we consider important.

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 the previous year. If the data for agricultural land and livestock are analyzed separately, both show the same pattern of evolution of prices.



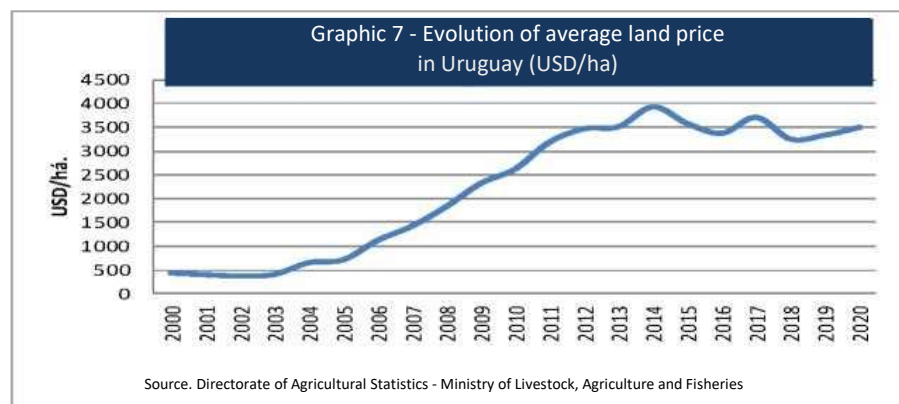
Land price in Brazil is affected by the exchange rate, as in this country all the prices of lands are quoted in local currency. Therefore, price fluctuations are amplified by this effect. In 2014, it began a sharp fall in land prices, which started to reverse in 2017.



In 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 2020<sup>14</sup>, 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 operators<sup>15</sup>, which seek to contemplate land quality by correcting the values by the CONEAT index and thus make values more comparable. There is a proven relationship<sup>16</sup> 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.

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

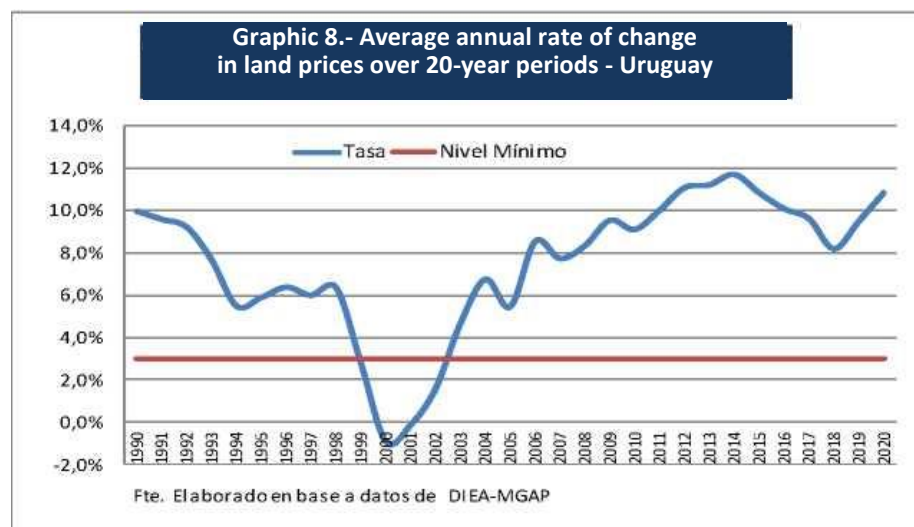
<sup>15</sup>. SERAGRO, Agroclaro and private operators.

<sup>16</sup>. 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%.



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.

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, with the information publicly available, CARE's rating committee understands that the Issue is rated BBB+.uy<sup>17</sup> on CARE's Manual scale.

Rating Committee



Ing. Agr. Adrian Tamber

<sup>17</sup>. **BBB+.uy**. These are instruments issued by companies or corporations with medium-low investment risk. Their capacity to pay principal and interest under the agreed terms and maturities is good. The paper itself, the company's condition, the project's quality, and the environment's characteristics give overall moderate satisfaction to the analyses performed, without prejudice to some weakness in any of the four risk areas (paper, project, company, environment). The risk of the instrument could increase in the event of foreseeable changes in the project as presented, in the issuing company, in the economic sector to which it belongs, 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.**