

CARE

RISK RATING AGENCY

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

Montevideo, April 2023

4	GENERAL OVERVIEW
7	I INTRODUCTION
12	II THE TRUST AND THE PARTICIPATION CERTIFICATES
15	III. THE MANAGEMENT
21	IV. UNDERLYING ASSET AND FUTURE CASH FLOW
27	V THE ENVIRONMENT
39	VI. RISK RATING

**Update of the Public Offering Rating of Participation Certificates of the Trust
“Fideicomiso Financiero Bosques del Uruguay”**

April 13, 2023

Subscription Date: August 5, 2011

Term: Until all the assets and obligations of the Trust are liquidated

Name: Fideicomiso Financiero Forestal Bosques del Uruguay

Issue Amount: USD 50,000,000

Securities: Participation Certificates

Allocations: Whenever there is Distributable Net Income after each fiscal year-end, or because of the sale of the Trust assets, or the final distribution of the Remaining Net Income.

Financial Structuring: Ferrere Abogados

Manager: Agroempresa Forestal S.A.

Registered Agent: Bolsa Electrónica de Valores del Uruguay S.A.

Registrar Agent: EF Asset Management Administradora de Fondos de Inversión S.A.

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

Validity of the Rating: November 30, 2023.

Rating Committee: Julio Preve, Adrián Tambler and Martín Durán Martínez.

Risk Rating: BBB +.uy

Manual used: Manual de Calificación de Finanzas Estructuradas Administradas por Terceros [Third Party Managed Structured Finance Rating Manual]

¹The 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 Financiero 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, duly highlighted and validated in the course of time.
- It is a project with adequate consistency between the proposed business plan, land purchase actions, planted areas, forest management and the first harvests. From an economic and financial point of view, for the investor, this business withstands the non-business stresses to which the issuer and the rating agency have reasonably subjected the project. The last cash flows update carried out in March 2023 estimated an IRR of 4.9%, which is lower than that estimated in the prospectus and slightly lower than that of the previous year (5.0%), but it still maintains a reasonable value.
- The Manager's reports, validated by the Surveillance Committee, are generally satisfactory for the progress of the project.
- Its corporate governance structure minimizes risk to investors, and until the preparation of this report, it has adequately operated (Manager's reports, meetings of the Holders of the Participation Certificates and Surveillance Committee's reports).
- The management capacity of the Project Management company, Agroempresa Forestal, complies with the standards of efficiency evaluated in the previous update reports, and it has been confirmed in the different reports of the parties involved. It is worth noting that the Manager carries out three more projects, which have very similar financial characteristics and, for the time being, no major setbacks have been encountered. The company currently manages more than 80,000 hectares of forests between the 4 trusts and has invested around USD 11.5 million in Participation Certificates.
- As of December 2022, the Trust “Fideicomiso Financiero BDU” owns a total of 9,536 hectares, of which 5,424 hectares are

forested and 230 hectares are available for planting, obtaining an average utilization rate of 60%.

- On December 31, 2022, the last valuation of the Trust's lands and plantations was carried out by two entities. One of them is the national consulting firm, Agroclaro, which valued the lands. The other one is a New Zealand company, Woodlands Pacific, which valued the forests, the grazing income, and the carbon certificates². This valuation reached a total amount of USD 76.22 million, comprising USD 29.57 million for the land, USD 0.81 million for future grazing income, USD 7.60 million for carbon certificates and USD 38.24 million for forestry income. The Trust's book value of equity as of December 31, 2022, was USD 66.3 million, being above the value of the Participation Certificates' issuance.
- In 2022, wood sales revenues were 31% higher than budgeted and mainly accounted for domestic sales to a local pulp mill. Also, a small percentage of the production of pulp chips was exported to China, becoming the first shipment of E. Dunnii chips to that country. Production activities (thinning and clear-cutting) were also carried out with the remaining wood, which will be commercialized in 2023. The increase in income and production advances resulted in a 37% increase in production costs. At the end of the year, the operating income was higher than budgeted, amounting to USD 3.4 million.
- In 2022, the consequences of the conflict between Russia and Ukraine, the cooling of the global economy, and of China in particular, as well as the zero COVID-19 measures implemented by this country had a significant impact on that year. These phenomena brought about changes in the world economy, trade, and increased price volatility. The first half of the year was marked by the war and, as a result, the prices of raw materials and energy rose, leading to higher international inflation. On the other hand, measures to control inflation led to the appreciation of the dollar. In the second half of the year, depressive factors had a greater impact on prices, especially those related to the growth of the world economy and the sharp reduction in demand from China.

². In this valuation, for the first time, future sales of carbon certificates are included in the valuation of assets. For the time being, only those certificates already validated are considered. This item has not yet been included in the trust's financial statements.

In the second half of 2022, the measures taken by China had a very significant impact on imports of some of its products, affecting, among others, the demand for pine and eucalyptus raw wood. India maintained its demand for pine and Europe its demand for pulp. The price of pulp has remained firm because

of demand from Europe, however, it is expected to weaken in the short term. Section V provides updated and more detailed information on these aspects, in particular, about the evolution of the prices of land and wood.

- The market for agricultural land (including forestry) shows long-term trends of increasing prices, due to the sustained increase in demand for food and wood and the fact that, in general, the possibilities for expanding the agricultural frontier are increasingly limited. In the case of Uruguay, the expected increases in the price of land will be more moderate than those in the decade between 2004 and 2014. However, in the short and medium term there could be an improvement in nominal land values, above the long-term trend, as a result of the increase in commodity prices, the fall in land prices in recent years and the high international inflation. The latest official information of the Agricultural Statistics Office (DIEA, for its acronym in Spanish) refers to the prices in 2021 and showed an increase of 6.2% compared to 2020.
- In the last spring and summer, the country has experienced a severe drought, which has affected the development of some forests, especially the areas with shallower soils. The Manager's reports show that new trees and some areas of very shallow soils have been affected by such severe drought, and that the response of these trees will be known in the coming months.
- Regarding public policies, the threats related to a possible change in policy in the forestry sector have been cleared up. On the other hand, in this case, the forests were implanted, and all the permits were granted. Therefore, there are no threats in terms of public policies.

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 in possession of the Financial Trust “Fideicomiso Financiero Forestal Bosques del Uruguay” (hereinafter “Bosques del Uruguay”), with a nominal value of USD 50,000,000 (fifty million U.S. dollars), whose characteristics are detailed in the websites of the Central Bank of Uruguay, www.bcu.gub.uy, the Electronic Stock Exchange, www.bevsa.com.uy, and of CARE, www.care.com.uy.

Risk rating implies the stating of a specialized point of view given by a company authorized for this purpose by the Central Bank of Uruguay (CBU), who 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 to be made, the rating should be considered as one point of view, among others. CARE neither audits nor verifies the accuracy of the data submitted as it comes from sources regarded as reliable.

The conceptual framework of this rating implies a prospective exercise in which a trust is given a grade that qualifies its expected performance and its capacity to generate profits over time, in accordance with 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 obtaining those figures. In fact, this is not the case of an issue with a fixed return commitment. Therefore, the grade will not depend strictly neither on the extent of the Internal Rate of Return 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 in April 1998. Its rates are based on its methodology, duly approved by such authority. In addition, the necessary professionals, who will integrate the rating committee, are selected for each case. CARE judges according to its 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, Julio Preve, and Adrián Tamber. CARE hired the services of Herrera Profesionales Asociados, law firm, whose report was attached to the original rating. CARE also regularly hires forestry experts to prepare reports and performs site visits.

2. General background and most relevant events in the period

A. General background

The main purpose of the Financial Trust "Fideicomiso Financiero Forestal Bosques del Uruguay" is:

(a) to issue Participation Certificates subscribed by the Beneficiaries according to the terms and conditions set forth in the Trust Agreement and the Issuance Document (stage completed),

(b) to implement the Production Project, which basically consists of an investment project that creates a Forestry Estate in Uruguay to produce and commercialize wood in the Uruguayan and international markets; and,

(c) to distribute the proceeds arising from the implementation of such Project among the Holders, as set forth in the Trust Agreement.

- The purchase and planting of the lands has already been completed for all the forests; therefore, the project operations essentially involve the maintenance of plantations and wire fences, weed and pest control, pruning, thinning, removal of vines, resprouts management, surveillance, etc.
- Clearcutting of some forests has also begun; therefore, harvesting and replanting of harvested areas is progressively carried out.
- The land assets of BDU amount to 9,536³ hectares of which, as of December 31, 2022, 5,424 hectares are forested and 230 hectares are available for planting, which would result in an average utilization rate of 60%. It comprises 14 farms located in central-eastern and southeastern Uruguay in Cerro Largo (26%), Durazno (16%), Florida (49%), Lavalleja (6%) and Treinta y Tres (3%). The planted species are mainly Eucalyptus Grandis (73%), E. Dunnii (26%).
- Pruning and thinning necessary for the management of timber quality is carried out as the forests reach an adequate development.
- It is estimated that approximately 71% of the planted area will be destined to produce quality timber and 29% to produce pulpwood.
- On April 5, 2017, clause 7 of the Agreement was amended to allow the trust to get into debt up to a certain percentage of its

³. Adjusted to information from the Land Property Register. There is a small difference when considering the hectares measured by satellite information.

RISK RATING AGENCY

assets (15%), requiring the prior approval of the Surveillance Committee and notification to the Risk Rating Agency. As of the end of 2018, obtaining short-term credits for working capital has become a regular management practice, always complying with the requirement of communicating it to the Surveillance Committee and the Risk Rating Agency. To date, there have been no difficulties in complying with the obligations assumed.

- As planned, in 2019 the company began to sale pulpwood from commercial thinning for quality timber, and solid wood from the second half of 2020 onwards.
- In 2019, the consulting firm Deloitte was hired to suggest changes in the corporate governance and management structure of Agroempresa Forestal in order to meet the requirements of managing the assets of 4 trusts amounting to more than USD 600 million.
- The trust is a member of the health committee of the Society of Forestry Producers (SPF, for its acronym in Spanish), whose objective is to monitor and identify pests and diseases in forest plantations.
- On December 28, 2020, a meeting of the Holders of the Participation Certificates (PCs) was held and attended by all of them. At such meeting, it was resolved to modify certain terms and conditions of the PCs. These modifications involved changing the parametric of the adjustment of Agroempresa Forestal Fee and uploading information related to the Trusts to Bosques del Uruguay WEBSITE once a year.
- The Trust has 100% of its hectares FCS®-certified and carries out the necessary tasks to comply with its requirements.

B. Most relevant events in the period

- Between September and December 2022, 96 hectares have been planted. In 2022, the total investment in planting was 14% higher than planned. The main deviation from the budget was the import of seedlings and seeds for the 2023 planting.
- In the reported period, various silviculture and management tasks (pruning and thinning) were carried out. Pruning activities were carried out in well-developed forests, taking advantage of the fact that the machines were on the farms; therefore, at the end of the year the investment in management was over budget.

- In 2022, the trust's sales revenues were mostly from eucalyptus pulpwood to an on-site industry. As a novelty, for the first time, in the third quarter of the year, E. Dunnii chips were exported to China to manufacture cellulose pulp. Given that the yields of harvested timber were higher than expected and prices were also higher than budgeted, wood sales revenues were 31% higher than expected.
- Higher sales, together with the increase in the price of diesel fuel, which had an impact on freight costs, led to an increase in production costs when compared to the budget, especially in the clear-cutting, road construction and freight sectors. As a result, operating costs were 16% higher than budgeted.
- Higher sales revenues offset the highest investment and operating costs, resulting in a higher-than-projected operating income of USD 3.4 million.
- In 2022, the process of repaying the line of credit taken out in the current fiscal year (USD 2 million) to finance the operation went on. As planned, a portion of the long-term voucher taken out in previous years was paid off at year-end.
- In the third quarter of 2022, the annual FCS® audit was carried out by SGS, where the correct implementation of the new FSC® Forest Management STD for Uruguay was verified.
- In the third quarter, the verification of carbon credits by AENOR was completed. Work on the documentation for the required validation under the CCB standard (Climate, Community & Biodiversity Standard) and the verification of carbon credits under the VCS standard (Verified Carbon Standard) has been carried out in order to obtain the stock of certificates available for sale. Verra (the registering body) is currently carrying out a technical review of the AENOR report.
- As of December 2022, the Manager reported that the plantations were generally in good health. It also outlined that 71 hectares of plantation forest showed signs of damage due to the intense drought of last spring and summer. The final effects will be further evaluated.
- The Surveillance Committee inspected some of the Trust's farms and also reported on good growth, trees conditions, completion of tasks, etc.

- In December 2022, a new valuation of the Trust's lands and forests was presented. It reached a total amount of USD 76.22 million, comprising USD 29.57 million for the land, USD 0.81 million for future grazing income, USD 7.60 million for future carbon certificates and USD 38.24 for forestry income. This new valuation determined an increase of 14.4% in the total value of the lands and forests compared to the previous year. Even though, as explained below, this increase mainly accounts for the inclusion of future revenues from carbon certificates, not included in the 2021 valuation, despite having been carried out by the same company.

3. Analyzed information

In this report, the information analyzed was as follows:

- Balance sheet of Agroempresa Forestal as of December 31, 2022.
- Financial statements of the Trustee as of December 31, 2022.
- Financial statements of the Trust as of December 31, 2022.
- Manager's quarterly reports, the latest as of December 31, 2022.
- Surveillance Committee's reports, the latest as of December 31, 2022.
- Relevant information on the forestry sector.
- Rating reports of other similar trusts.
- Appraisals of the lands and plantations as of December 2022 performed by Agroclaro Servicios Profesionales and Woodlands Pacific Forest.
- Updates of financial projections as of March 2023.

II. THE TRUST AND THE PARTICIPATION CERTIFICATES

Participation Certificates in possession of the trust “Fideicomiso Financiero Forestal Bosques del Uruguay”, created by means of the relevant Financial Trust Agreement, were offered in a public offering. This agreement, the certificates and the other agreements mentioned are analyzed in this section.

1. General description

Name:	Fideicomiso Financiero Forestal Bosques del Uruguay
Trustee:	EF Asset Management Administradora de Fondos de Inversión S.A.
Manager:	Agroempresa Forestal S.A.
Registrar Agent:	EF Asset Management Administradora de Fondos de Inversión S.A.
Registered Agent:	Bolsa Electrónica de Valores S.A.
Organizer:	Agroempresa Forestal S.A.
Securities Issued:	Participation Certificates
Trust Assets:	The Trust invested in the purchase of rural properties for forest exploitation.
Currency:	U.S. Dollars
Issued Amount:	USD 50,000,000
Initial Public Offering Date:	August 5, 2011.
Term of the Issue:	Until all the assets and obligations of the Trust are liquidated.
Allocations:	Whenever there is Distributable Net Income after each fiscal year-end, or because of the sale of the

CARE

RISK RATING AGENCY

Trust assets, or the final distribution of the Remaining Net Income.

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 relevant agreements, the compliance with current regulations, etc.

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

Risks considered

Structural legal risk. It includes the analysis of possible defaults in the payments to beneficiaries due to defects in the legal structure. Having carried out the relevant analysis, given that there has been no change in the legal construction and considering the passage of time without any controversies, CARE again 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, it may take some time, which may be difficult to determine. *This risk is medium-low.*

III. THE MANAGEMENT

The characteristics of the issue make it necessary to analyze two managing entities: EF Asset Management (EFAM) as Issuer and Trustee of the Financial Trust, and Agroempresa Forestal S.A. (AF) as Manager of the project.

1. EF Asset Management (EFAM)

The trustee is EF Asset Management Administradora de Fondos de Inversión S.A (EFAM). It is a closed joint stock company with the purpose of managing investment funds and trusts of any 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 (CBU) authorized the company to operate under the Investment Funds Law 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 pursuant to Law No. 17,703 of October 27, 2003. Additionally, on that date, the company was registered as Financial Trustee in the Securities Market Registry of the Central Bank of Uruguay.

On May 23, 2005, the Central Bank of Uruguay authorized EFAM to act as a Professional Trustee in accordance with the aforementioned Law (No. 17,703). On the same date, the company was registered in the Register of Professional Trustees, General Trustees Section of the Central Bank of Uruguay.

Economic and financial situation

The analysis of the financial statements as of December 31, 2022, showed a situation of robust solvency, even though a deficit was recorded in the period not due to the Trust's current operations but to its financial results. The liquidity ratio remained below one. It is worth noting that the non-current assets are largely made up of security deposits, to which the firm is bound, in accordance with the current regulations, because the trusts it manages are of restricted availability. This accounts for the financial liabilities incurred to constitute such securities, which once they are released, those financial liabilities will be paid off. 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.

Table 1. Statement of Financial Position of EFAM (thousands of UYU)

Item	12/31/2022	12/31/2022	12/31/2022
Current Assets	29,947	18,989	15,859
Non-current Assets	245,553	281,068	228,346
Total Assets	272,507	300,057	244,205
Current Liabilities	43,807	33,484	27,348
Non-current Liabilities	204,187	230,681	180,257
Total Liabilities	247,994	264,165	207,605
Equity	24,512	35,891	36,600
Total Liabilities and Equity	272,507	300,057	244,205
Current Ratio	0.62	0.57	0.58

Source: Financial Statements of EFAM

The results for the fiscal year ended in 2022 showed a significant drop compared to the previous year as presented in the table below.

Table 2. Income Statement of EFAM (thousands of UYU)

Item	12/31/2022	12/31/20202	31/12/2010
Operating Revenues	80,546	75,867	60,275
SG&A	(66,556)	(63,018)	(53,901)
Operating Result	13,990	12,849	6,373
Financial Results	(28,054)	(12,734)	2,566
Income before taxes	(14,064)	116	8,939
Revenues Tax on Economic Activities (IRAE)	2,685	(824)	(2,686)
Income for the year	(11,379)	(709)	6,253
Revenues from Operating Activities	17.37%	16.94%	10.57%
Income for the year	-14.13%	-0.93%	10.37%

Source: Financial Statements of EFAM

Notwithstanding the foregoing, EFAM will retain its position as trustee.

EFAM manages an important portfolio of trusts, both in number and diversity; therefore, its suitability for this function is beyond doubt.

2. Agroempresa Forestal S.A. (AF)

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

CARE's performance in reviewing the evolution of each project is the best source of information available to assess capacity of the company.

Succinctly, AF Global S.R.L. is the holding company under which AF Administraciones Forestales operates. The other two divisions are La

RISK RATING AGENCY

Novillada (weed control and sales of agrochemicals) and AF Maderas, focused on the export of logs for sawmilling and wood 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 has managed more than 100,000 hectares.

The most relevant precedent of AF in Uruguay is that it manages, among others, the assets of four trusts (including this one) rated by CARE, which together had an original value of more than USD 630 million. Given their good performance to date, all of them have been rated with an investment grade.

With the starting-up of the fourth trust, AF considered it was crucial to restructure its organization to adapt it to the new and growing needs. Therefore, the consulting firm Deloitte was hired to suggest the improvements that AF should implement in this regard.

This work took six months, resulting in a series of recommendations detailed in the previous update. In general terms, it is not necessary to repeat these recommendations as they have already been implemented and analyzed in this report.

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

The new structure, complementary and supportive to the corporate structure has been defined. Also, changes in the various professional positions comprising such structure are periodically reported. In this regard, on this occasion, the company informed CARE that no major changes were made in the corporate structure in the period.

Key persons

The basic structure consists of a Board of Directors, an Audit Committee and a Compliance Committee.

- **Francisco Bonino, Agricultural Engineer**, continues to be the keyman as Chairman of the Board and member of the Audit Committee.
- **Dan Guapura, Industrial Mechanical Engineer**, General Manager.
- **Maria Stella, Economist, MSc.**, in charge of reporting to investors, the annual valuations (BEVSA/Independents/AF), the financial projections and the evolution of key variables (prices, comparable transactions, etc.).

One aspect to highlight is that AF works in project teams operating with members living in Uruguay, Chile and Brazil. In this regard, the incorporation of new employees had to be planned considering both the

new person joining the company and those who already have their ongoing activities and responsibilities.

Economic and financial situation

The company's balance sheet closes each December 31. CARE had access to the latest available balance sheet as of December 31, 2022, audited by Price Waterhouse Coopers Ltda.

According to such financial statements, the company shows a positive and growing evolution of its assets, consistent with the evolution of the results obtained. AF's participation in the 4 trusts it manages is worth mentioning. At the fiscal year ended 2022, the company's assets approximately amounted to USD 11,5 million in Participation Certificates, issued by EFAM.

In view of the above, the capacity of AF to carry out this and the other operations mentioned above is considered positive. It is also worth recalling that AF, as trust asset manager, is subject to strict controls, including its possible replacement in the event any of the contingencies provided in the relevant agreements may occur.

The Trust

The Trust BDU was created in May 2011. In August 2011, EFAM (the Trustee) issued on its behalf book-entry Participation Certificates for a nominal value of USD 50 million. The land acquisition stage and the planting campaign were reasonably completed on schedule, and the operating company is now working on the management and maintenance tasks related to this type of exploitation according to the different species.

The Trust fiscal and accounting year ends on December 31 in accordance with article 330 of the Compilation of Securities Market Regulations of the Central Bank of Uruguay.

A summary of the statement of financial position and the income statement of the Trust for the year ended 2022 is presented in the tables below.

Table 3. Statement of Financial Position of the Trust			
Thousands of USD	12/31/2022	12/31/2021	12/31/2020
Current Assets	4,148	2,059	1,688
Non-current Assets	67,969	65,760	53,717
Total Assets	72,117	67,819	55,405
Current Liabilities	3,514	2,628	1,019
Non-current	2,234	3,598	3,732
Total Liabilities	5,748	6,226	4,751
Equity	66,369	61,593	50,654
Total Liabilities and Equity	72,117	67,819	55,405
Current Ratio	1.18	0.78	1.66

Source: Financial Statements of the Trust "Fideicomiso Financiero Bosques del Uruguay"

RISK RATING AGENCY

The book value of the Trust's equity as of December 31, 2022, amounted to USD 66.3 million as shown in the table above, recording a growth compared with the book value of equity for the year ended 2021, and remaining above the value of the issuance of Participation Certificates, which was USD 50 million.

After performing the relevant valuations at the end of each year, the book value of the Trust's biological assets was USD 38.2 million, considering an operating write-off of USD 2.7 million and an increase of USD 3.4 million.

The book value of the Trust's land and improvements was USD 29.7 million, including a revaluation of USD 1.1 million.

Liabilities comprise loans taken out with local banks, including one for USD 2 million to finance these short-term activities.

The income statement of the Trust for the year ended December 31, 2022, is summarized in the table below.

Table 4. Income Statement of the Trust			
Thousands of USD	12/31/2022	12/31/2021	12/31/2020
Operating revenues	11,434	3,489	4,199
Change in the fair value of biological assets	3,407	5,507	2,914
Cost of goods sold	(10,223)	(2,942)	(3,158)
Gross margin	4,618	6,055	3,955
SG&A	(1,202)	(1,180)	(1,036)
Financial results	(419)	(13)	57
Miscellaneous income	1,110	7,034	719
Income for the year before Revenues Tax on Economic Activities	4,107	11,896	3,695
Income Tax	669	(957)	(625)
Income for the year	4,777	10,938	3,070
Other comprehensive income			
Comprehensive income for the year	4,777	10,938	3,070

Source: Financial Statements of the Trust "Fideicomiso Financiero Bosques del Uruguay"

It is worth mentioning that given the characteristics of the forestry business, it is logical to expect negative or of little value results in the first years, since the main item that the trust sells is harvested wood. Therefore, the first logging is expected approximately 10 years after planting (2022 onwards). Indeed, this is what occurred in 2022, when it was recorded a significant sale of wood amounting to USD 11.2 million. In previous years, the positive results mainly accounted for asset revaluations rather than for commercial operations.

Risks considered

Management risk, considering the suitability of AF S.A. and EFAM to fulfil their duties, and according to all the analyses carried out in the rating of the BDU, CARE considered that the risk of non-compliance of the Manager and the Trustee with the project's responsibilities is practically non-existent. *Virtually no risk.*

Risk of conflicts is derived from the possibility of lawsuits which may interfere with the mandate received, and of the existence of provisions to face them. For the same reasons as the above mentioned, it is unlikely that even if conflicts arise, the Trustee and the Manager could not resolve them satisfactorily. *Very low risk.*

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

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

IV. UNDERLYING ASSET AND FUTURE CASH FLOW

An investment in the purchase of rural properties located within the territory of the Eastern Republic of Uruguay was made, to develop forestry activities.

The Trust Agreement provides the scope and guidelines within which the Trust develops its strategy to fulfill its purpose.

The company has demonstrated its ability to make progress in the proposed processes and to carry out the activities properly according to the reported schedule. To date, all planned activities are underway. The initial planting schedule has been completed, and the maintenance and management tasks are carried out without major setbacks. Likewise, harvesting activities have already begun, either for pulp mills from thinning or for solid wood.

The total area acquired was 9,536 hectares, of which 5,424 hectares have already been forested, representing a utilization of 60% of the total area harvested.

1. Evaluation of the return on investment and the Internal Rate of Return

The Prospectus estimated an internal rate of return of 8.58%. Subsequently, the Manager has updated the expected cash flows and the project has been adjusting its profitability downwards. In this report (March 2023), a new update of the cash flow is presented with actual information as of December 2022, and estimating it until the termination of the trust.

In this new estimate of the cash flows, the Manager presented a series of possible scenarios, estimating different price trends for wood, production costs and land from 2023 until the termination of the Trust in 2031. According to CARE, the most likely scenario is based on the following assumptions:

- Product prices are adjusted for U.S. inflation (projected by BEVSA)⁴. Real price increases are not projected either for pulpwood or solid wood.
- The prices of land have increased by 3% per year in current dollars.
- Internal costs are adjusted for U.S. and Uruguayan inflation. Uruguay's devaluation and inflation are projected based on BEVSA's valuation criteria.

Additionally, projected yields remain in line with the actual behavior observed in the forests, and prices and costs are based on current levels.

⁴. Historical U.S. inflation is estimated to be around 2.1-2.3%. Inflation is currently well above these values, but for the time being there is no change in the projections, and the U.S. monetary authorities maintain their expectations of bringing inflation to historical values.

Based on this projection, the IRR for the entire project period of the Trust would be 4.9%, slightly lower than that estimated the previous year (5.0%).

The following table shows the IRR results after considering the most and the least favorable scenarios.

Table 5. IRR results for different scenarios	
Scenario	TIR
1 Wood adjusts for U.S. inflation, plus 1.5% growth. Costs adjust for USD UY inflation, and land increases a 1.5%	4.9%
2 Wood adjusts for U.S. inflation. Costs adjust for USD UY Inflation, and land increase a 1.5%.	4.8%
3 Wood and land prices increase a 1.5%.	4.4%
4 Land price increases a 1.5%.	4.3%
5 All other factors unchanged	4.2%
6 Same as 2 but land increases a 3%	4.9%

Source: Manager and CARE

As this table shows, there is little variation in the expected rate of return for the different scenarios, implying that the IRR is relatively robust.

CARE considers **scenario 6** to be the most likely, as it assumes an increase in the prices of wood similar to US inflation, that is, no change in prices in real terms. World Bank projections for the next thirteen years assume an annual increase in the price of wood between 1.1% and 1.5%, depending on its origin (see Section V). In the case of land, an annual increase of 3% seems reasonable and conservative, as it is the minimum value that the rating agency generally uses for projections.

Scenario 4 assumes that the prices of wood and production costs would remain constant in nominal terms throughout the period and that only the prices of land would increase by 1.5%. This scenario is the most unfavorable, as it is shown in the table above, in which even if the prices of wood or land do not increase in the remaining years, the IRR would still be positive (4.2%).

2. New estimate of the opportunity cost of capital

In theory, the opportunity cost of capital provides the minimum expected profitability of a project and is the key indicator to discount expected cash flows. In this regard, CARE updated the estimation of the opportunity cost of capital using the Capital Asset Pricing Model (CAPM) and, following Damodaran⁵, we added a premium that considers the specific risk of the market in which the project is executed (country risk was considered in this case).

Therefore, the formula for calculating the cost of equity is as follows:

⁵. A. Damodaran, "Estimating Equity Risk Premiums" Stern School of Business.

CARE

RISK RATING AGENCY

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

Where:

β_{im} : Own systematic risk compared to market risk. The value of beta for paper and forest products industry is provided by Damodaran.

r_f : risk-free rate. The yield of the 10-year Treasury Bonds of the general reserve of the United States of America was considered.

$E(R_m) - R_f$: Market Risk Premium. Specific risk premium for the market where the project operates (the difference between yields on equity assets and the risk-free rate.) To estimate the return on equity assets, the equity market risk premium provided by Damodaran (Equity Risk Premium of S&P 500) was considered.

Er_p : Premium for specific risk to the company or project evaluated. Uruguay's country risk (Uruguay Bond Index) was considered. Yields of Uruguayan sovereign bonds measured with the República AFAP (Pension Fund Administrator) Uruguay Bond Index were considered.

To estimate the opportunity cost of capital, CARE has chosen to consider the average of the last 5 years for all variables, avoiding minimizing cyclical variations, both upward and downward, and taking a medium-term view.

The value of Damodaram's "beta unlevered" parameter for the average of the last 5 years is 1.10, indicating that investing in forestry production entails a higher risk and variability than the average of all the activities in that market. CARE considered 2.07% as the yield of the U.S. Bonds, 140 basis points for the country risk (Uruguay Bond Index), and 4.94% for the equity market risk premium.

Using these values results in an expected rate of return on equity of 6.63%. This value would be higher than the last calculated IRR for the most likely scenario (4.9%)⁶. While these comparisons cannot be taken in a strict sense, they should be considered as a reference that, among others, help to form a judgment about the investment.

In the current situation, the values of the risk-free rate and the stock market return are higher than the average for the period under consideration, however, the country risk is lower than the average for the last few years. The opportunity cost of capital would be slightly higher (6.85%) if current values were applied.

Other indicators that the expected IRR of the Trust could be compared with are the yield curves, which are possible investment options since they are estimated for the case of Uruguay.⁷ Currently, the 10-year Indexed Unit Yield Curve (CUI, for its acronym in Spanish) is at 3.24% and

⁶. It is important to point that although this is a valid analysis from a financial viewpoint, institutional investors do not have this opportunity cost since they cannot invest in global markets.

⁷. Yield Spot Curve of Uruguayan Sovereign Securities issued in national currency indexed to inflation, as the case may be.

RISK RATING AGENCY

the 10-year Yield Curve in Dollars (CUD, for its acronym in Spanish) is at 4.68%. Considering the CUD as the opportunity cost, the investment's IRR of the project would be comparable to that of the project.

3. Economic and productive management

In 2022, pulpwood was sold to pulp mills and chips from commercial thinning of E. Grandis and clear-cutting of E. Dunnii were exported.

The table below shows a comparison between the budgeted and actual revenues as of December 2022.

Table 6. Actual sales and budget 2022 (USD)			
Activity	Actual	Budget	Difference
Eucalyptus Pulp 2021	1,435,262	1,119,196	316,066
Eucalyptus Pulp	9,838,900	7,484,841	2,354,059
Grazing	133,728	140,324	-6,596
Total	11,407,890	8,744,361	2,663,529

Source: Manager

As mentioned above, actual revenues in 2022 were much higher than budgeted, due to higher yields in harvested areas and to better prices of wood for pulp mills.

The return on investment depends 80% on wood sales, which have already begun, and will increase as quality timber grows in the forests. Therefore, forest management and monitoring are key elements during these years.

The table below shows a comparison between budgeted investments and costs for 2022, and actual results.

Table 7. Actual costs and investments vs. budget in 2022 (USD)			
Activity	Actual	Budget	Difference
Production Costs	7,608,987	5,545,158	2,063,829
Implantation Investments	19,650	174,304	24,346
Investments in Management	37,494	22,131	15,363
Expenses	1,298,596	1,063,538	235,058
Total	9,143,727	6,805,131	2,338,596

Source: Manager

The actual increase in production costs compared to the budget is accounted for a higher volume of harvest and freight.

The company has demonstrated its ability to make progress in the proposed processes and to carry out the activities properly according to the reported schedule.

4. Land and forests valuation

In this report, CARE presents the valuation of the Trust's lands and forests as of December 31, 2022. As in the previous year, two valuations were performed by two different companies, which were the same as in 2021. Agroclaro carried out the land valuation without considering the value of the forests, and Woodlands Pacific carried out the valuation of the forests considering the land value estimated and provided by the former.

Table 8 shows the evolution of the Trust's lands and forest values, according to data from the valuations performed annually. It should be clarified that these valuations were carried out under different methodologies and considered both the land and forests together. In addition, this latest valuation also considered the future income from carbon certificates, which has not been included in previous valuations.

Table 8. Evolution of land and forest valuations	
Year	Millions of USD
2014	31.05
2015	31.91
2016	33.30
2017	34.60
2018	48.47
2019	50.11
2020	53.71
2021	66.61
2022	76.22
Rate 2014-2022 (compound annual growth)	11.9%

Source: CARE based on valuations

This valuation estimated a total asset value of USD 66.61 million as of December 31, 2022, which is much higher than the previous year's (14.4%). This evolution shows an uptrend in assets, which has been growing at a compound annual growth rate of 11.9%, mainly due to the growth of the forests.

This significant increase in 2021 accounts for a change in the methodology use and the 2022 increase because the future revenues from the sale of carbon certificates were included.

This valuation was based on the following:

- a. The land value is measured by combining two concepts: the real market value of similar farms that were commercialized and the valuation based on the current rent assuming a cap rate of 3.4%.
- b. The value of forests, grazing and carbon certificates is estimated by discounting future income flows at a rate of 7.5%.

- c. Regarding carbon certificates, only those already certified to date were included, thus considering it a conservative criterion.

The table below presents the valuation results for 2022, divided into the different items, and compared with the previous year's results. It shows that a large part of this increase in value occurred because carbon credits were included in the estimate.

Table 9. Valuations in millions of dollars			
	2021	2022	Variation
Wood production	37.29	38.24	2.5%
Grazing	0.86	0.81	-5.8%
Carbon credits	-	7.60	
Land value	28.46	29.57	3.9%
Total	66.61	76.22	14.4%

Source: Care based on 2021 and 2022 valuations

5. Risks considered

Cash flows generation risk. In view of the foregoing, the aim is to show the ability to generate cash flows within the agreed term. This risk is considered low and can be timely monitored. It is noted that this risk has been lower since the plantations have been completed. *Medium low risk.*

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

V. THE ENVIRONMENT

The environmental analysis refers to the evaluation of future factors that may affect the generation of the projected cash flows, 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, which may have a direct impact on the fulfillment of the project's objectives.

By public policies, we mean not only domestic policies, but also those of the countries with which the Trust always trades. Regarding the country's sectoral policy, the doubts related to the Bill intending to limit afforestation to priority forestry land and the planting of yielding forests were clarified. For the time being, no changes in forestry policy are foreseen.

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 certifications in this regard.

Once the initial effects of the COVID-19 pandemic were overcome, demand and prices showed a marked recovery from 2021 onwards. However, the outlook of a cooling global economy could lead to a further weakening of demand, raising red flags for the coming years. On the other hand, the fact that the third pulp mill started operations in Uruguay and the development of new industrial projects for the mechanical transformation of wood could lead to better conditions for boosting the sector.

Given the extended time frame of the projections based on the nature of the project itself, the environmental analysis is provided according to major trends in the evolution of the prices of wood and land.

5. 1. Economic and market risk

In this case, this report will focus on the prices of wood and land as they are key elements of the Trust.

A) Wood prices

It is the most important price and, therefore, the most decisive item for the rating agency since the price of wood accounts for 80% of the investment returns.

In the case of this project, the price of quality timber will have the most significant impact on its final result since this is the main objective of this Trust. Likewise, the expected price for pulpwood is also important, as a

certain percentage of wood is always destined for pulp, and in particular, in the first years, it has been the most relevant destination.

In the long-term, the prices of wood are expected to have an uptrend, at least in nominal values, because demand will grow hand in hand with the increase in the world population and the economic growth of emerging countries. This increase in demand is expected for both solid wood for furniture or housing construction, and for pulp, due to increased consumption of paper. The main uses of paper are communication, packaging and hygiene (tissue paper).

On the other hand, this increase in demand faces a supply that has been constrained by increasing protective measures for native forests, as well as by the control over the yield of forests. Meanwhile, policies aimed at mitigating the impacts of climate change also promote the protection of forests as they are important carbon sinks. In this regard, it is worth noting that the carbon market seems to be consolidating as the sale of carbon credits could provide new income for some forestry projects. Negotiations, currently conducted in the international markets, aim to advance towards environmental commitments to reduce emissions, therefore demand for carbon credits should also grow in the medium and long term.

However, this long-term trend may be affected by unfavorable circumstances, which may have a negative impact on demand and, consequently, on prices, as it happened between 2019 and 2020. Thus, after a sharp upward spike in prices in 2018, wood values showed a very significant drop of 35-40% at international, regional and domestic levels, being the largest one in 2019. Afterwards, practically throughout 2020, prices showed an attenuated fall or remained at those depressed levels. However, this fall was temporary, and in 2021 prices quickly recovered their long-term trend.

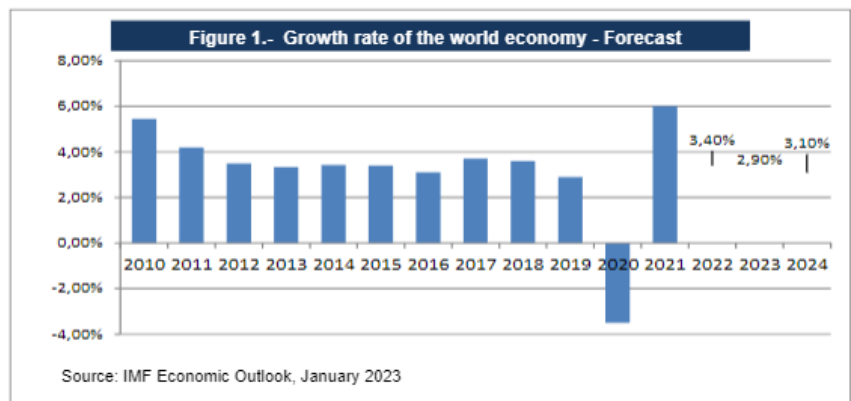
In 2022, the consequences of the conflict between Russia and Ukraine, the cooling of the global economy, and of China in particular, as well as the zero COVID-19 measures implemented by this country had a significant impact on that year. These phenomena brought about changes in the world economy, trade, such as increases in raw material prices, higher international inflation and freight costs, while measures to control inflation led to an international appreciation of the dollar. This situation created greater volatility in the wood market, and the increase in costs narrowed the margins of the business. In the second half of 2022, the measures taken by China had a significant impact on the imports of some of its products, affecting, among others, the demand for eucalyptus wood.

In the long term, there are no elements to assume changes in the trends described in the prospectus, however, unfavorable scenarios, such as

the one occurred between 2019 and 2020, should not be totally ruled out.

In this rating, CARE updated key information on the forestry sector, confirming that in the future there should be no major deviations in the expected trajectory.

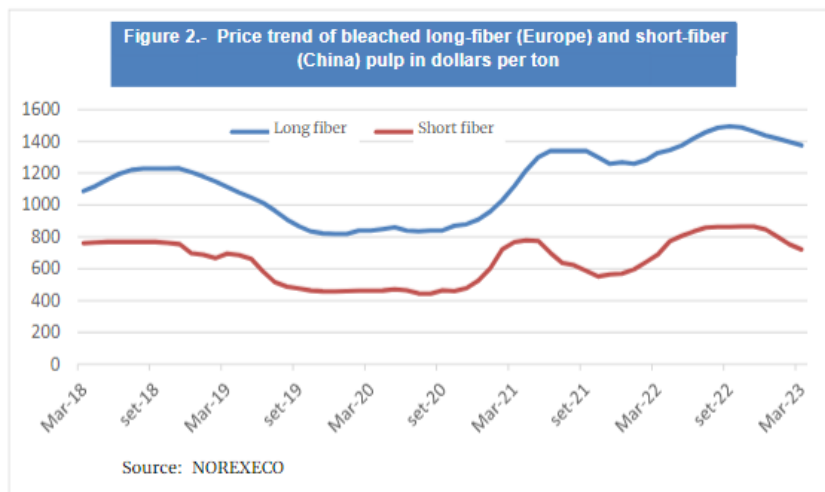
According to the latest International Monetary Fund (IMF) report of January 2023, *“global growth is projected to fall from an estimated 2.9% in 2023, which is 0.2% point higher than predicted in the previous report of October 2022, but below the historical (2000–19) average of 3.8%. The rise in central bank rates to fight inflation and Russia’s war in Ukraine continue to weigh on economic activity. The rapid spread of COVID-19 in China dampened growth in 2022, but the recent reopening has paved the way for a faster-than-expected recovery. Global inflation is expected to fall from 8.8% in 2022 to 6.6% in 2023 and 4.3% in 2024, still above pre-pandemic (2017–19) levels of about 3.5%.”*



The outlook is uncertain. *“On the upside, a stronger boost from pent-up demand in numerous economies or a faster fall in inflation are plausible. On the downside, severe health outcomes in China could hold back the recovery, Russia’s war in Ukraine could escalate, and tighter global financing costs could worsen debt distress.”* Consequently, given this scenario, it can be assumed that the world economy will not be an engine for sustaining high commodity prices, but it will possibly act as a brake on their growth or even a downturn.

Regarding pulpwood, its reduction in consumption caused by the pandemic initially led to an abrupt fall in demand and prices. After a period of relatively low international pulp prices in historical terms, from 2021 onwards, a process of marked growth was observed, with some volatility due the aforementioned situation.

The following graph provides information on prices per ton for two types of pulp: the NBSK⁸ (main international quotation for long-fiber coniferous pulp in Europe), and the BHSK⁹ (short-fiber pulp in China). As the graph shows, both products recovered strongly as of 2021, then fell slightly, but from 2022 onwards, they recovered a growth trend at least until September 2022, when they began to fall again. The 2022 increase derived from a series of particular conditions: supply problems in some European plants working with wood in Russia, logistic problems and strikes in some plants.



From a medium-term outlook, the price in current terms is above the levels recorded in 2018. If a longer time series data is considered and prices in dollars are deflated by the U.S. CPI (in order to approximate purchasing power), current values would also be above the average of the last 14 years, which could justify the steady trend of these values in the short term, or even some reduction as shown in the figure.

CARE had access to some projections which estimate that the downward trend in pulp prices will continue until finally stabilize slightly above the average values of the last 6 years (8.3% above for long fiber and 2.4% above for short fiber).

There is no information available estimating the outlook for the evolution of international prices for pulp in the long term. Even though, prices should probably evolve in line with the rest of the forest products (raw wood) (see graph 5). In the last 10 years, the annual increase in the international price of pulp has been 3.9%, which is an indicative value, since there is no certainty that in the future it will remain the same as in the past.

⁸.Northern Bleached Softwood Kraft. Long-fiber bleached pulp.

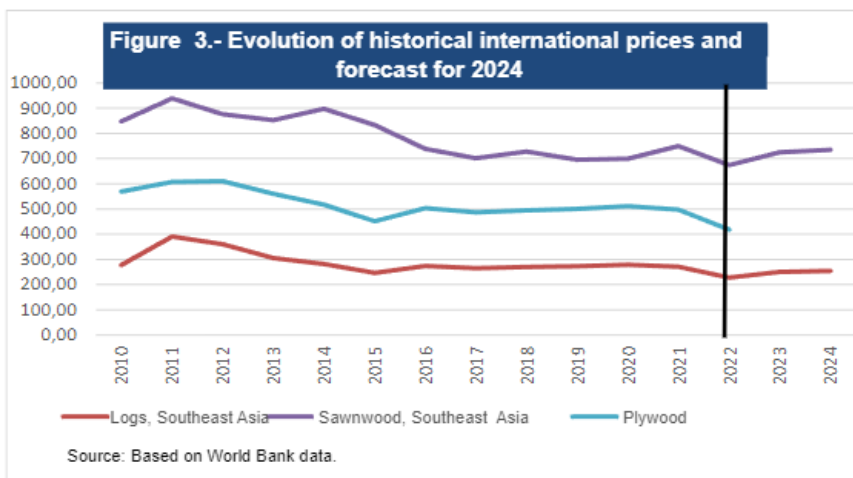
⁹.Blanched Hardwood Kraft Pulp. Bleached short-fiber cellulose pulp.

Regarding raw eucalyptus wood for sawmilling, prices and demand have shown a behavior similar to that of pulp, although less marked, beginning to recover a few months earlier than in the case of pulp. 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 as the market recovery consolidated. This trend continued throughout 2021 and until mid-2022. In the second half of 2022, China practically exited the market, causing a significant drop in demand, which strongly affected Uruguayan exports.

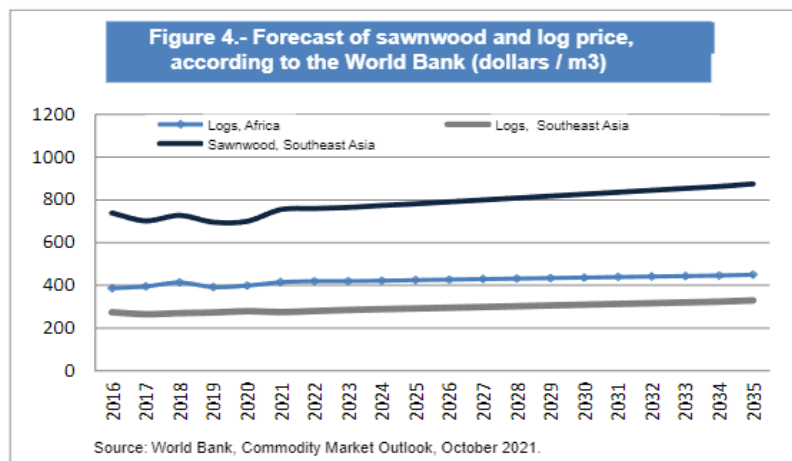
In the case of pine sawnwood, prices and demand have shown a behavior similar to that of eucalyptus, as demand recovered from mid-2020 and this trend continued throughout 2021. However, in 2022 difficulties returned, basically due to the abrupt drop in purchases from China and the increase in maritime transportation costs; but in the case of pine, India continued purchasing this type of wood.

According to the latest World Bank price report of October 2022, the price of wood and sawnwood will show a slight increase in the next two years, around 3 to 5% per year.



The long-term outlook for raw wood for sawmilling or sawnwood showed a slight growth in nominal values, in the long term. In the case of roundwood, the World Bank¹⁰ projections report a 0.95% annual cumulative growth and a 1.5% annual cumulative growth for sawnwood. These price increases would not cover the devaluation of the dollar, consequently they could experience a slight fall in real terms. These projections are consistent with those for food commodities, for which a slight reduction in values in real terms (positive nominal increases but somewhat lower than the long-term devaluation of the dollar) is also projected.

¹⁰. World Bank Commodities Price Forecast. This forecast was presented in the report of October 2021, in 2022 only prices for 2023 and 2024 are projected.



In 2022, Uruguay's forestry exports were once again at an all-time high, exceeding the previous year's figure by approximately 11%. Revenues from pulp exports account for 75% of exports, a percentage that will probably increase as of 2023 with the start-up of the third pulp mill. Almost all forestry products showed a positive variation in 2022, except for pine logs, which fell by 38%, and in the case of plywood, by just 3%.

The increase in exports accounts for the higher export prices, especially for pulp and chips.

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

	2017	2018	2019	2020	2021	2022	Variation
Pulp	1,310	1,660	1,527	1,107	1,576	1,818	15%
Logs (except Eucalyptus)	88	150	89	132	204	127	-38%
Plywood boards	64	76	55	67	105	102	-3%
Chips (eucalyptus and pine)	64	95	102	21	74	119	61%
Coniferous and non-coniferous sawn wood	93	115	97	104	159	184	16%
Paper and Cardboard	34	32	36	25	26	30	14%
Eucalyptus logs	21	29	14	21	23	34	50%
Total	1,673	2,158	1,921	1,477	2,167	2,414	11%

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

Note: Exports of logs to the Free Trade Zone were not included, as CARE considered pulp exports from this destination.

It is worth highlighting the continued growth of sawn wood (coniferous and non-coniferous) exports, which has become the second largest forest export product after pulp.

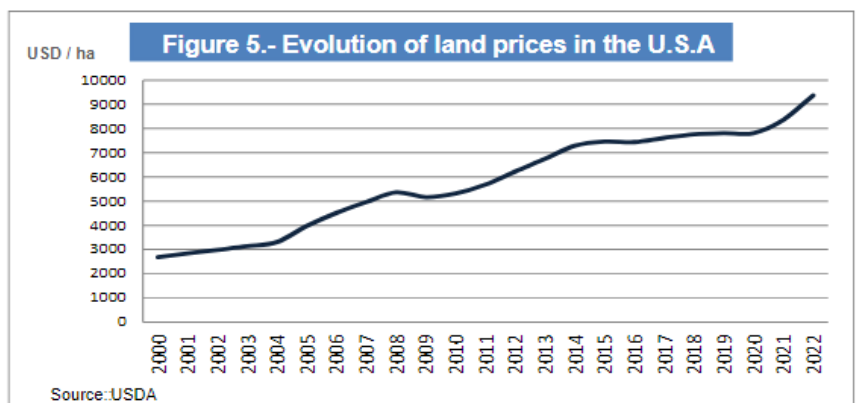
B) Land prices

The outlook for international land demand is encouraging and, in the short and medium term, prices are expected to be at rising levels, but at more moderate rates than in the past. This is a consequence of the difficulties for expanding the agricultural frontier and the need for a rational and sustainable use of soil resources. However, it does not imply that there may be short-term variations that may deviate from this trend because the evolution of several variables may affect nominal land prices, such as interest rates, currency devaluation, international inflation or the price of commodities.

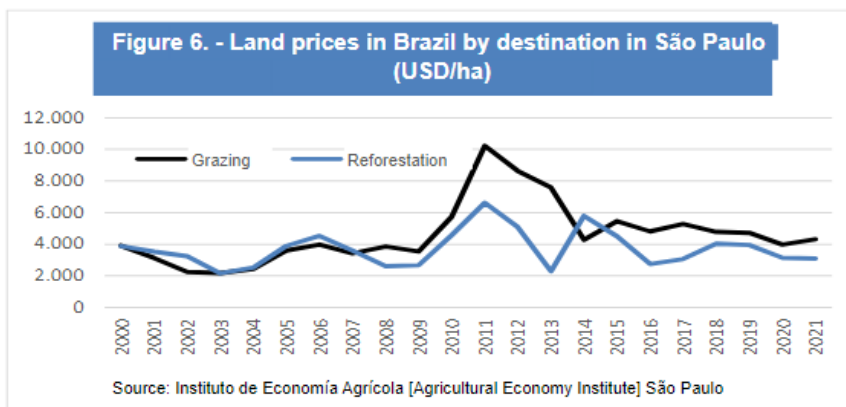
In this report, CARE updated the price trends in those countries which could provide important information about what may occur in our country.

Regarding the price of land in the United State, in the 21st century the trend for increased prices has been steady, with some exceptions (2009 and 2015) when minimal reductions were verified, but such trend has not changed. The price of land 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.

The price of land (average) has remained relatively stable between 2017 and 2020, with increases similar to the U.S. inflation rate, but apparently it has recovered an upward trend in real terms in the last two years. In 2021, average prices of land increased by 7% and in 2022 by 12%. If agricultural and livestock land is analyzed separately, the former had an increase of 14.3% between 2022 and 2021, while the latter had an increase of 11.5%. Such trend could be mainly explained by price increases in agricultural commodities. Rising inflation in the U.S. would also account for these recent increases in the price of land, especially the one in 2022.



In Brazil, the prices of land are influenced by the effect of the exchange rate as in that country the prices of this asset are denominated in local currency (Brazilian Real). Therefore, price fluctuations are amplified by this effect. In 2011 there was a very significant growth in land values that has changed in the following years. From 2014 onwards, it recovered a more stable behavior showing small annual variations.



By 2021, last year reported by the Institute of Agricultural Economics of São Paulo, the prices of land in U.S dollars have had an increase of 8%, recovering part of the reduction verified in the previous year (16% for grazing land) as a result of the devaluation of the real.

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

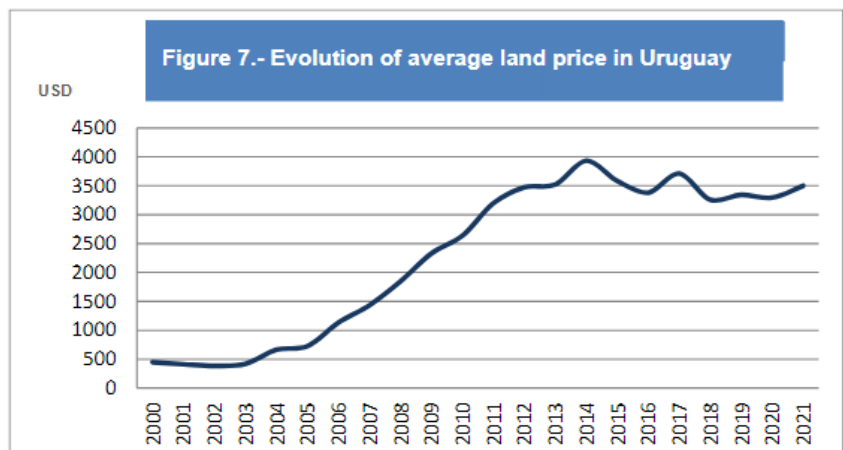
A recent publication of the Argentine Chamber of Rural Real Estate (CAIR, for its acronym in Spanish) shows that rural real estate activity decreased by 31% year-on-year between 2020 and 2021, reaching the lowest historical minimum since the InCAIR (activity index estimated by the Chamber) was computed at the beginning of 2022. This institution also provided some specific values for the core zone of Argentina, which ranged between 13 to 15 thousand dollars per hectare. These values would be below lands of similar quality in the U.S. This difference may be related to the difficulties mentioned above.

In the case of Uruguay, data reported on the average of land transactions by the Directorate of Agricultural Statistics of the Ministry of Livestock, Agriculture and Fisheries, showed a very strong appreciation from 2004 to 2014, when the maximum value was reached. From 2015 onwards, there is a certain downward adjustment, but showing an erratic

behavior, probably as a consequence of a low number of transactions since both quality and location of traded lands had a great influence on the average values. Thus, in 2017, the Directorate of Agricultural Statistics (DIEA for its acronym in Spanish) reported a 9.8% increase in the price of land. In 2018, this institution reported a 12.3% reduction, in 2019, a slight increase of 2.6%, and a new fall in the first half of 2020, when the average price of the average hectare decreased by -1.4%. In 2021, the DIEA reported an increase of 6.2%.¹¹

he low number of transactions in the last few years raises some doubts as to the values obtained, but they will be confirmed in the following years. In 2021, the area commercialized rebounds (52%) compared to the previous year, although it remained below the hectares commercialized per year between 2000 and 2014.

Even though there are no official data for 2022, it is very likely that the growth trend in values was in line with the previous year, as a result of good soybean and beef prices, and the strengthening of the Uruguayan peso against the dollar. This is important because farm transactions are carried out in that currency¹². In turn, high international inflation and the current levels of farm prices, which have not shown a sustained increase since 2014, have also contributed to the increase in prices.



¹¹. "Precio de la Tierra" [Land Price] Purchases and Sales 2021, published on March 29, 2022.

¹². BLOOMBERG, conducted a survey of real estate agents focused on the rural business, who are confirming an increase in land values of between 5 and 10% in 2022.

¹³. SERAGRO, Agroclaro, Consur and private operators

There are other sources of data provided by consulting firms and market managers¹³, which by using different valuation criteria, estimated the land values with similar characteristics, considering the different destinations for the products. The most commonly methodologies are: comparison of real sales of similar lands and valuation according to expected revenues. In general, the market value is calculated combining both methodologies. A study of several land valuations, which CARE had access, showed that by 2022 lands have increased their value between 3 and 4%.

RISK RATING AGENCY

There is a proven relationship¹⁴ between the National Commission for Agro-Economic Soil Studies (CONEAT for its acronym in Spanish) Index and the price of land with CONEAT values above 100. However, 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 the production of other products different from meat and wool (rice, afforestation), items considered for the calculation of this index.

Land value is a relatively important component of the Trust's final revenues (20%) therefore its evolution will have a significant impact on the final return on the investment. The last update of the financial model assumed a cumulative annual valuation of 3% from 2022 to 2031, consequently, it is important to know what has happened in the past to have some predicting capability for what may happen in the future.

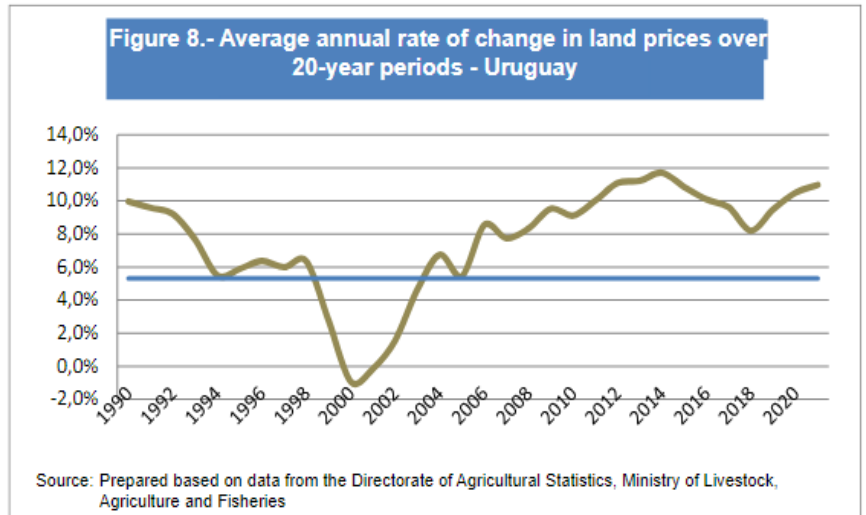
For this purpose, CARE analyzed the annual variation of land prices (in current U.S. dollars) for a 52-year series (1970 to 2021) for 20-year periods, which showed the following:

- On average, the annual evolution of land prices for 20-year moving periods was 7.6%.
- The annual growth rate was only less than 3% for lands sold between 1999 and 2002, that is, land purchased between 1979 and 1982.
- For the remainder of the period, annual land price growth always 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 would be 5%; therefore, in no period the increase in the price of land would be below the value considered.

The annual evolution of this indicator (for 20-year intervals) showed an uptrend until 2014, and then started to fall but remained well above 3% (around a 11% annual growth).

¹⁴. 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)



CARE considers that although sustained increases in the prices of land are to be expected in the medium and long terms, they would not have a similar increase as those of the past. Most likely, increases in prices will compensate the long-term U.S. inflation¹⁵, plus a small component of increased land productivity, therefore, this increase should be between 2 and 4% per year. This does not imply that there will be periods of higher annual growth rates, as may be the case in the next few years. Low international interest rates, the new agricultural cycle and the current prices of land could result in higher price growth rates in the short term.

5.2 Public policies, political risk

The risk of public policies refers to any threats, posed by the State, of acting against the ownership and exploitation modalities proposed by the Trust.

Forestry is strongly regulated by the Forestry Law (No. 16,466), the Land Use and Sustainable Development Law (No. 18,306) and the Environmental Protection Law (No. 17,283), as amended, and their regulatory decrees. Overall, the subsequent amendments to the regulations have been adding new rules and restrictions to growth, through the requirements of the Previous Environmental Authorizations and especially to forest plantations as provided in the last decree of December 2021.

In December 2021, after the Senate approved the Bill to regulate forestry, which had been already approved by the House of Representatives, the Executive Branch vetoed such Bill. Thus, the forestry policy did not undergo any legislative changes. This project proposed to limit the planting of forest plantations to priority forestry lands, as well as to set a limit on the total forested area of 10% of the country's agricultural land. Although for the time being, it has not affected this project, the approval of this regulation, in the future, could

¹⁵. It is estimated at approximately 2%. It is currently well above these values, but it is expected to reasonably return to its historical values.

RISK RATING AGENCY

have an impact on the forestry sector. Being this Bill vetoed, at least for the time being, doubts on the forestry policy have been cleared up.

Also, in December 2021, the Executive Branch issued a decree (No. 405/021) that proposed some changes to forestry regulations, probably in response to some of the concerns related to the Bill vetoed. This decree lowered from 100 to 40 hectares the minimum limit to require prior environmental authorization from the National Directorate for Quality and Environmental Assessment (DINACEA, for its acronym in Spanish) and also required such authorization for those reforestations that originally had not submitted it because they were carried out prior to the approval of such decree. In addition, some soil categorizations and criteria for environmental impact assessments were modified.

These modifications, as well as the general regulations for the sector, will not probably have a major impact on this Trust, since new forest areas will not be incorporated, although it could affect reforestation.

Currently, no new elements could suggest that the government may take policy measures against this type of project and no further conditions are observed that would make it possible to foresee greater threats than those mentioned above.

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 Manager, as well as those carried out by CARE, and with the data publicly available, CARE's rating committee concludes that the Issue is rated BBB+.uy¹⁶ on the scale provided in our Manual.

Rating Committee



Julio Pieve, Engineer



Martín Durán Martínez, CA



Adrian Tamber, Agr. Eng.

¹⁶. **BBB+.uy**. These are instruments issued by companies or corporations with a medium-low investment risk. Its capacity to pay principal and interests on the agreed terms and deadlines is adequate. Its own role, the status of the company, the quality of the project, and the characteristics of the environment, give an overall moderate satisfaction to the analyses carried out, provided, however, there may be some weakness in any of the four risk areas (role, project, company, environment). The risk of the instrument could be increased in the event of foreseeable changes in the project as presented, in the issuing company, in the economic sector in which it operates, or in the economy as a whole. The probability of foreseeable unfavourable changes in the environment is low to medium-low, and compatible with the company's capacity to manage them, although with a slightly higher risk than in the previous categories. **Minimum investment grade. The sign “+” indicates that the rating is closer to a higher category.**