

CARE

RISK RATING AGENCY

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

Montevideo, April 2023

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

April 14, 2023

Trustee: EF Asset Management Administradora de Fondos de Inversión S.A.
Manager and Organizer: Agroempresa Forestal S.A.
Registrar and Paying Agent: EF Asset Management Administradora de Fondos de Inversión S.A.
Registered Agent: Bolsa Electrónica de Valores del Uruguay S.A.
Securities Issued: Participation Certificates
Currency: U.S. Dollars
Issue Amount: USD 70,000,000
Initial Public Offering Date: January 19, 2015
Term: Until all the assets and obligations of the Trust are liquidated- 30 years maximum.
Allocations: According to the results, pursuant to the established procedure.
Trust Assets: Land and forests
Validity of the Rating: November 30, 2023
Rating Committee: Julio Preve, Adrián Tamber and Martín Durán Martínez.
Risk Rating: BBB +.uy¹
Manual used: Manual de Calificación de Finanzas Estructuradas Administradas por Terceros [Third Party Managed Structured Finance Rating Manual]

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

GENERAL OVERVIEW

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

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

- Its financial structure that from a legal standpoint provides the necessary guarantees, as provided in the legal report in Annex I of the original rating.
- A project that, from an economic-financial point of view, passes various tests to which the issuer and the rating agency have reasonably submitted it. As of March 2023, a new cash flows update is available, which yields an IRR of 7.3%, slightly lower than that estimated in 2022 (7.8%).
- The Manager's reports (Agroempresa Forestal S.A.), validated by the Surveillance Committee, are generally satisfactory for the project's progress. The Surveillance Committee reports that the minimum standards expected in terms of planted areas, monitoring planting practices and survival rates, budget execution and the Mean Annual Increment (MAI) of the forests are met to satisfaction.
- It is worth noting that the same also manages three other projects with similar characteristics (Bosques del Uruguay, Bosques del Uruguay III and Bosque del Uruguay IV), currently operating more than 80 thousand hectares of forests, through the issuance of USD 640 million in total. This company has invested a total of USD 11.5 million in Participation Certificates.
- The management capacity of the Project Management company, Agroempresa Forestal, complies with the standards of efficiency evaluated in the previous update reports, having been confirmed in the different reports of the parties involved.
- 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 Participation Certificates and Surveillance Committee's reports.)

- As of December 31, 2022, the Trust assets amounted to a total of 14,656 hectares, of which 9,201 hectares were forested and 39,395 hectares were available for planting, obtaining an average harvest rate of 65%. The planted area exceeded the one proposed in the Prospectus, which was 8,680, exceeding one of the commitments assumed on the minimum performance standards.
- In December 2022, a new 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 112.89 million, comprising USD 44.04 million for the land, USD 1.31 million for future grazing income, USD 0.48 million for carbon certificates and USD 67.06 million for forestry income. The Trust's book value of equity as of December 31, 2022, was USD 115.8 million, being above the value of the Participation Certificates' (PC) issuance, which was USD 70 million.
- In 2022, the Trust's sales revenues were mostly from pulpwood for pulp mills and, to a lesser extent, from exports of pine and eucalyptus sawnwood. At the end of the year, sales were 8% below budget, largely due to a sharp reduction in eucalyptus exports as a result of market difficulties. Wood sales to pulp mills were higher than budgeted because of its higher volumes and prices. Mainly in the first half of the year, pine exports were also higher than budgeted due to higher volumes but at lower prices.
- Investments (implementation and management), operating costs and expenses were in line with the budget, although there were differences between items. As a result, as of December 31, 2022, the trust closed with a barely positive management result³ (USD 88 thousand), and the result derived from the valuations was not considered.
- 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

³. In this appraisal, 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.

³. Management result: sales- (operating costs + investments + expenses).

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.

- 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 price 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 prices 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 the prices of land 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 II” with a nominal value of USD 70,000,000 (seventy million U.S. dollars).

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; and 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, Adrián Tambler and Julio Preve. CARE hired Mr. Leandro Rama, Attorney at Law, for the legal risk assessment at the time of the original rating. CARE also regularly hires forestry experts to prepare reports and performs site visits.

2. General background and most relevant events in the period

a. General background

The Financial Trust “Fideicomiso Financiero Forestal Bosques del Uruguay II” aims to provide investors with long-term returns essentially obtained from the proceeds of the sales of timber and standing timber, and the increase in the price of its land asset, as well as, although to a lesser extent, from the proceeds of the sale of carbon credits and the grazing of non-forested lands. Investment and management protocols with adequate productive, environmental, and social standards are followed at all times. Regarding the estimated total revenues from sales, 78% will be from the sale of timber, 20.5% from the sale of the land at the end of the project, and less than 1.5% from the sale of carbon credits and grazing⁴.

As the most relevant precedent, it is worth mentioning that the Trusts “Fideicomisos Financieros Forestales Bosques del Uruguay I, III and IV” issued Participation Certificates in August 2011, December 2016, and April 2019 amounting to 50, 190 and 330 million dollars, respectively. These trusts, managed by the same entity as this one, are satisfactorily complying with their original business plans, which are similar to the one presented in this report.

- The land asset of BDU II as December 31, 2022, is composed of 20 farms comprising a total area of 14,656 hectares, of which 9,201 are planted and 395 are available for planting, which would result in an average harvest rate of 65%. The acquired lands are located in Lavalleja, Cerro Largo Florida, and Treinta y Tres.
- As of December 2022, according to the Surveillance Committee, Pinus taeda plantations accounted for 15% of the total area of the forest asset. Meanwhile, eucalyptus pulpwood plantations accounted for a total of 19%, while Eucalyptus grandis plantations, whose main destination is the production of solid wood, account for 66% of the total area.
- The land purchase transaction has been completed, as well as the planting of trees. The project's future operations will mainly involve forest and wire fence maintenance, weed control, pruning, thinning, harvesting, stump removal, regrowth management, monitoring, reforestation, etc.
- In October 2018, the Cruz Roja farm, which comprises an area of 1,782 hectares, was sold to the Trust "Bosques del Uruguay III", 1,350 hectares of this farm were available for planting and 51% was already planted. This sale was approved by the Surveillance

⁴. Chapter IV of the Prospectus: Objective and characteristics of the investment.

Committee and unanimously by the Holders of the Participation Certificates according to the resolution of the meeting held on April 16, 2018.

- On June 13, 2019, a meeting of the Holders of the Participation Certificates was held and attended by all of them. For the first time, at such meeting, it was unanimously resolved to make an advance of Allocations for the amount of two million dollars due to the existence of Distributable Net Income.
- On April 5, 2017, the Trust Agreement was amended to allow the trust to get into debt up to a certain percentage of its assets (15%), requiring the prior approval of the Surveillance Committee and notification to the Risk Rating Agency.
- As of July 2020, obtaining short-term credits for working capital has become a regular management practice, as well as 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.
- On December 28, 2020, a meeting of the Holders of the Participation Certificates 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's forests are FSC (Forest Stewardship Council) certified. To date (December 2022) the Trust has 63% of its hectares certified and is working to complete their certification.

b. Most relevant events in the period

- Throughout 2022, between fall and spring harvests, 236 hectares were planted as provided in the budget. In addition, the planned activities (-6%), and the total investment was in line with the budget, although there were some deviations between items.
- In the reported period, various silviculture and management tasks (pruning and thinning) were carried out, although there were some minor deviations from the budget. At the end of the

year, total management investment was 24% higher than planned, because a larger area was managed.

- In 2022, the trust's sales revenues were mostly from pulpwood for pulp mills and, to a lesser extent, from exports of pine and eucalyptus sawnwood. Sales were 9% lower than budgeted due to the fall in export markets and sales of eucalyptus for sawmilling were mainly affected. On the other hand, a larger amount of pulpwood was sold to pulp mills and of pine wood was exported (mainly in the first half of the year).
- The trust management result was barely positive, around USD 90,000, and slightly higher than projected (USD 30,000).
- In the fourth quarter of 2022, the process of repaying the line of credit taken out in the current fiscal year to finance the operation went on. It is worth mentioning that in January 2023, financial vouchers of approximately USD 230,000 were paid off, consequently the trust does not hold any financial liabilities.
- In the third quarter of 2022, the annual FCS® audit was performed by SGS, where the correct implementation of the new FSC® Forest Management STD for Uruguay was verified.
- Work on the documentation required for the validation and registration of carbon credits under the CCB (Climate, Community & Biodiversity Standard) is being carried out. This standard shows how the fund interacts with the community and allows the issuance of higher value carbon credits. In the third quarter, the audit performed by the company Aenor was completed.
- 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.
- As of December 2022, the grazing area represented 82% of the total potential area. There is an area with young plantations where animals cannot graze yet.
- In December 2022, a new valuation of the Trust's lands and forests was presented. This valuation reached a total amount of USD 112.89 million, comprising USD 44.04 million for the land, USD 1.31 million for future grazing income, 0.48 for carbon

certificate income and USD 67.06 million for forestry income. This new valuation determined an increase of 14% in the value of the lands and forests, which mainly resulted from the increase in the value of forests.

3. Analyzed information

In this report, the information analyzed was as follows:

- Financial statements of the Trustee as of December 31, 2022.
- Financial statements of the Trust as of December 31, 2022.
- Balance sheet with audit's report of Agroempresa Forestal as of December 31, 2022.
- Manager's reports, the latest as of December 2022.
- Surveillance Committee's reports, the latest as of December 2022.
- Rating reports of other similar trusts.
- Relevant information on the forestry sector.
- Appraisals of the lands as of December 2022 performed by Agroclaro and Woodlands Pacific.
- 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 II”, created by means of the relevant Financial Trust Agreement, were offered in a public offering. This agreement, the certificates and the other agreements mentioned above were analyzed in the legal report when the original valuation was carried out.

1. General description

Name:	Fideicomiso Financiero Forestal Bosques del Uruguay II
Trustee:	EF Asset Management Administradora de Fondos de Inversión S.A.
Manager:	Agroempresa Forestal S.A.
Registrar and Paying Agent:	EF Asset Management Administradora de Fondos de Inversión S.A.
Registered Agent:	Bolsa Electrónica de Valores S.A.
Stock Exchange Listing:	Bolsa Electrónica de Valores S.A.
Organizer:	EF Asset Management Administradora de Fondos de Inversión S.A.
Securities Issued:	Participation Certificates
Trust Assets:	The Trust will invest in the creation of a forest estate, including purchasing and/or leasing rural properties and planting forests.
Currency:	U.S. Dollars
Issued Amount:	USD 70,000,000

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Term of the Issue: Until all the assets and obligations of the Trust are liquidated. 30 years maximum.

Initial Public Offering Date: January 19, 2015

Allocations: According to the results, pursuant to the established procedure

Risk Rating: BBB +.uy

2. Legal analysis

The legal analysis was added in Annex I of the original rating report. It ruled out any possible conflict arising from, for example, the legal structure, the 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 noticeable 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 for failing to comply with any regulation in force, and the possible enforcement of court orders as a result of claims for damages by possibly injured parties. Having verified the aforementioned report, which essentially resembles the reports of Trusts I and III, and considering the passage of time without any controversies, CARE 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 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 the 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 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 II was created on August 14, 2014, pursuant to its Trust Agreement, and on December 5, 2014, the Central Bank of Uruguay authorized its registration. On January 19, 2015, Participation Certificates amounting to USD 70 million were placed in BEVSA under a deferred integration regime as provided in the Issuance Document and in the Prospectus. The Participation Certificates were fully paid after a process that began in January 2015 and ended in February 2017.

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	12/31/2022	12/31/2020
Current Assets	2,313	5,630	2,393
Non-current Assets	117,217	104,132	81,922
Total Assets	119,530	109,762	84,315
Current Liabilities	1,101	3,872	1,273
Non-current Liabilities	2,602	2,904	1,531
Total Liabilities	3,702	6,775	2,804
Equity	115,827	102,987	81,510
Total Liabilities and Equity	119,530	109,762	84,315
Current Ratio	2.10	1.45	1.88

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

After carrying out the valuations, the book value of the Trust's biological assets was USD 67 million, including an increase of almost USD 11 million due to the revaluation of the plantations.

The book value of Trust's land and improvements was USD 50.2 million, including a revaluation of USD 1.7 million.

The book value of equity as of December 31, 2022, was almost USD 115.8 million as shown in the table above, higher than the amount issued, which was USD 70 million.

Table 4. Income Statement of the Trust			
Thousands of USD	12/31/2022	12/31/2021	12/31/2020
Operating revenues	8,846	8,124	5,080
Biological assets (1)	10,992	12,344	2,293
Continuing operations	19,838	20,468	7,373
Cost of goods sold	(7,304)	(8,337)	(4,811)
Gross margin	12,534	12,131	2,562
SG&A	(1,679)	(1,560)	(1,942)
Operating results	10,855	10,571	620
Sundry income (2)	-	4,646	(1,178)
Financial results	(345)	48	225
Income before taxes	10,511	15,265	(333)
Revenues Tax on Economic Activities (IRAE)			
	823	(686)	(160)
Income for the year	11,334	14,579	(493)
Other comprehensive income (2)	1,675	7,670	-
Deferred tax	(169)	(772)	0
Comprehensive Income for the year	12,840	21,477	(493)

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

(1) Change in the value of the forests

(2) Change in the value of land

Operating revenues for the period mostly account for wood sales and, to a lesser extent, for grazing income and others. A positive result was recorded, although lower than the previous year, mainly due to a lower increase in the revaluation of the land value. Operating revenues are still relatively low.

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 Trust BDU II, CARE considered that the risk of non-compliance of the Manager and the Trustee with the project's responsibilities is *virtually nil*.

Risk of conflicts is derived from the possibility of lawsuits which may interfere with the mandate received, and of the existence of provisions

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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 to develop forestry activities was made, in accordance with the conditions set forth in the Agreement, and to become part of the Trust's assets. The Trustee invested in those Properties recommended by the Manager, in accordance with the Business Plan and following the procedures provided in the Agreement.

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

The Project outlined in the Prospectus estimated an Internal Rate of Return for the Investor of 8.55%. Subsequently, the Manager has updated the expected cash flows. In this report (March 2023), a new financial flow with actual data as of December 2022 and a projection until the termination of the Trust is included.

In this new estimate of the cash flow, 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)⁵. 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. It assumes that certain degree of inflation in dollars is sustained, thus penalizing future margins.

Additionally, projected yields remain in line with the actual behavior observed in the forests, and prices and costs are based on current levels. The final value of the forests is the future income stream of 20 years, discounted at 8.5%, which is a conservative assumption.

Investment income is projected in the new flow, which would begin in 2024 and end with the termination of the Trust in 2035. The profit distribution made in 2019 for USD 2 million was also considered as income.

Based on this projection, the IRR for the entire project period would be 7.3%, slightly lower than that estimated a year ago (7.8%).

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

⁵. 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.

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%	7.3%
2 Wood adjusts for U.S. inflation. Costs adjust for USD UY inflation, and land increases a 1.5%.	7.1%
3 Same as 2 but land increases a 3%	7.3%
4 Wood and land price increase a 1.5%.	6.4%
5 Wood price increases a 1.5%	6.3%
6 All other factors unchanged	6.0%

Source: Manager

As the 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 3** 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 ten years assume an increase in the prices of wood between 1.1% and 1.5% per year, depending on its origin (see Section V). In the case of land, an increase of 3% per year seems reasonable and conservative, as it is the minimum value that the rating agency generally uses for projections.

Scenario 6 assumes that the prices of wood and land, as well as production costs would remain constant in nominal terms throughout the period. This is the most unfavorable scenario, in which even if the prices of wood or land do not increase in the remaining years, the IRR would still be positive (6.0%).

This new IRR calculation is consistent with the severe sensitivity analysis to which CARE subjected the cash flows in the original rating. On that occasion, the cash flows were subject to adverse effects in terms of:

- The rate of forest growth
- The expected increase in the prices of land

The worst-case scenario assumed that the increase in forest growth rate would be 25% lower than expected and that there would be no increase in the prices of land during the entire period. Apparently, to date, a reduction in the growth rate of this magnitude cannot be verified, according to the results of the permanent plots of land.

The results for a simulation of 10,000 iterations if assuming an unfavorable scenario showed that the expected nominal IRR would be 6.58% and that there was a 95% probability that the expected nominal IRR would be higher than 5.74%.

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. CARE updated the estimation of the opportunity cost of capital using the Capital Asset Pricing Model (CAPM) and, following Damodaran⁶, we added a premium that takes into account 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:

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

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 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 Damodaran'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. When applying these values, the expected rate of return on equity is 6.63%. This value is lower than the last calculated IRR for the most likely scenario (7.3%), which indicates that the investment would have a higher profitability than the opportunity cost. While these comparisons cannot be taken in a strict

⁶. A. Damodaran, "Estimating Equity Risk Premiums" Stern School of Business.

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 the 10-year Yield Curve in Dollars (CUD, for its acronym in Spanish) is at 4.68%. The expected IRR for the investor in the PCs exceeds the opportunity cost in all cases.

3. Economic and Productive Management

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

In this regard, the Surveillance Committee reported that the minimum requirements established are met to satisfaction.

- Land purchase: Completed. The objective was to purchase 13,200 hectares and lease 800 ha, and 14,656 hectares have already been purchased.
- Plantable area: No area has been reported as "available for planting" for more than 24 consecutive months.
- Planting practices and survival rates: The percentage of planting practices and survival rates recorded in May 2022 was 96% on average.
- Mean Annual Increment (MAI) of the plantations:
 - Eucalyptus dunnii (pulp): development aligned as foreseen in the prospectus and above the maximum expected curve.
 - Eucalyptus grandis (quality timber): above the maximum expected curve.
 - Pinus taeda: the forests are between 13 and 14 years old. They have reached their total volume, but the minimum expected commercial volume curve has not been reached yet.

Overall, there is a good level of compliance with the performance standards.

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

Table 6. Project compliance

Item	Prospectus	Executed
Land Price (USD/ha) as of 2022 (*)	4,043	3,005
Distance to Montevideo (km)	270	267
Forest Harvesting (%)	60%-65%	61%
Rel. E.Grandis/Dunnii area	2.7	3.4
Total Area	14,000	14,656
Forest Area (current)	8,680	9,077

15% of the area is forested with pine

Source: Surveillance Committee

(*) The prospectus projected a 3% nominal annual increase in the prices of land, which has not occurred. As presented in Section V, after a very significant adjustment in prices between 2004 and 2014, values fell and have not followed the historical trend of growth. Probably, a positive growth rate for land will be recovered over the years, as provided in the prospectus.

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

In 2022, pulpwood from commercial thinning of E. Grandis and clear-cut timber of E. Dunnii were sold to pulp mills, as well quality timber from eucalyptus and pine to sawmills.

The table below shows a comparison between budgeted and actual revenues in 2022.

Table 7. Actual results vs. budget 2022 (USD)

Activity	Actual	Budget	Difference
Eucalyptus Pulp in 2021	3,546,918	3,056,494	490,424
Eucalyptus Pulp in 2022	3,513,439	3,372,624	140,815
Eucalyptus + 20	77,218	2,236,971	-2,159,753
Eucalyptus + 14	205,119	0	205,119
Columns UTE	48,376	0	
Pine Exports	783,02	220,500	562,523
Grazing	195,726	168,828	26,898
Total	8,369,819	9,055,417	-733,974

Source: Manager

As mentioned above, in 2022, wood sales revenues were 8% below budget. Although eucalyptus exports were low, much of this reduction was offset by the increase in sales of pine and pulpwood.

The return on investment depends 78% on the wood sales that will be made when the forests grow. Actual sales are from forests already

established on the purchased land and from those forests where management thinning has been carried out. 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 8. Investments and costs for 2022, and actual results (USD)			
Activity	Actual	Budget	Difference
Production Costs	5,405,153	5,765,481	-360,328
Implantation Investments	461,060	488,325	-27,265
Investments in Management	834,347	671,693	162,654
Expenses	1,286,219	1,192,696	93,523
Total	7,986,779	8,118,195	-131,416

Source: Manager

Implantation investments were reasonably in line with the budget, however, investments in management were much higher because larger areas were pruned. Production costs were lower as the volume of eucalyptus wood harvested for export decreased.

The management result was slightly positive (forest revaluation was not considered).

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. Results from permanent-plot measurements

Permanent plots were installed on those Trust's forests aged between 6 and 9 years and distributed in different farms. The objective of the permanent plots is to measure two tree growth parameters, height and diameter, crucial for estimating production.

According to the Surveillance Committee, the growth results from the permanent plots showed that *E. dunnii* and *E. grandis* growth rate is in line with the projections provided in the prospectus and within the maximum expected curve. In the case of pines, due to the market, there is an important difference between the total and the commercial volume. Currently, there is no commercial market for logs smaller than 20 cm diameter, producing a difference in volumes. The next measurement will be in September 2023.

5. Land and forests valuation

In this report, CARE presented the valuation of the Trust's lands and forests as of December 31, 2022. As in the previous year, two valuations were carried out 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 forest valuation considering the land value estimated and provided by the former.

Table 8 shows the evolution of the Trust's land and forest values, according to the 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 9. Evolution of land and forests valuation

Year	Millions of USD
2015	26.70
2016	53.10
2017	68.00
2018	66.76
2019	74.99
2020	75.36
2021	99.05
2022	112.89
Rate 2018-2022 (compound annual growth)	14.0%

Source: CARE based on valuations

Note: It is only in 2018 when the area stabilized, in 2015 and 2016 there was less area and in 2018 a larger area, since a farm was then sold to the BDU III.

This evolution shows an uptrend in total assets, considering the forests and land.

This valuation estimated a total asset value of USD 112.89 million as of December 31, 2022, a much higher value than the previous year's (14%). This evolution shows an uptrend in assets, which has been growing at a compound annual growth rate of 14.0%, mainly due to the growth of the forests.

This valuation was based on the following:

- a. The value of land was 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 was 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 shows 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 is due to the appreciation of the forests while, for the time being, carbon credits have very little impact on the results.

	2021	2022	Variation
Wood production	55.43	67.06	21.0 %
Grazing	1.26	1.31	4.0 %
Carbon credits	-	0.48	
Land value	42.36	44.0	4.0 %
Total	99.05	112.89	14.0%

Source: Care based on 2021 and 2022 valuations

6. Risks considered

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

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.

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 78% of the investment returns.

In the case of this project, the price of quality eucalyptus timber will have the most significant impact on its final result since, as mentioned above, 65% of the area is planted with eucalyptus species. Likewise, the

expected price for pulpwood is also important, as 20% of the area is destined for pulpwood production, as well as for thinning and commercial waste from quality forests.

For this project in particular, it is also important, although to a lesser extent, to know what might happen with pine wood, since 15% of the area is planted with such species.

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.

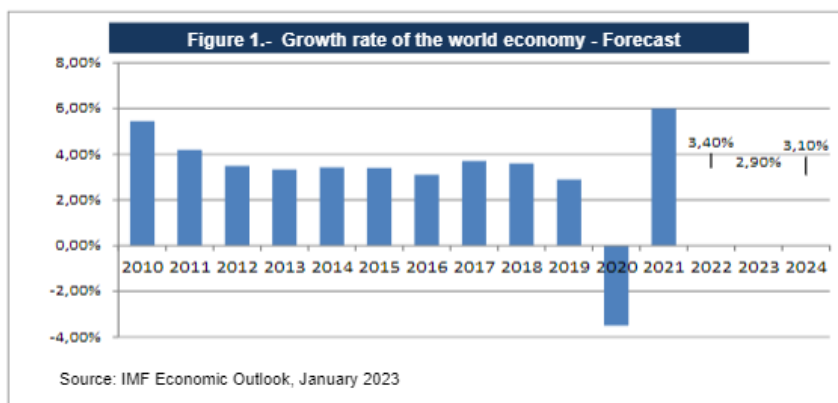
In 2022, the consequences of the conflict between Russia and Ukraine, the cooling of the global economy, and of China in particular, as well as the zero COVID-19 measures implemented by this country had a significant impact on that year. These phenomena brought about changes in the world economy, trade, 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%.”*

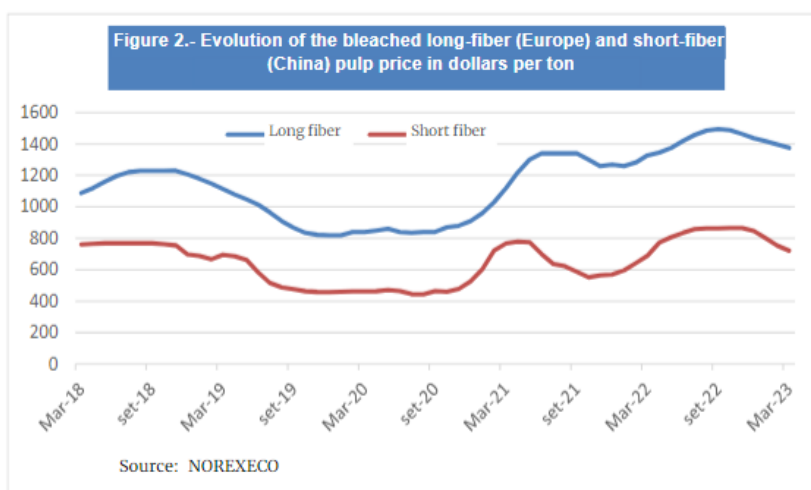


The outlook is uncertain. *“On the upside, a stronger boost from pent-up demand in numerous economies or a faster fall in inflation are plausible. On the downside, severe health outcomes in China could hold back the recovery, Russia’s war in Ukraine could escalate, and tighter global financing costs 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.

The reduction in pulpwood 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 (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 they will eventually stabilize slightly above the average values of the last 6 years (over 8.3% for long fiber and over 2.4% for short fiber).

There is no information available estimating the outlook for the evolution of international pulp prices 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 pulp price 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.

Regarding raw eucalyptus wood for sawmilling, prices and demand have shown a behavior similar to that of pulp, although less marked, beginning

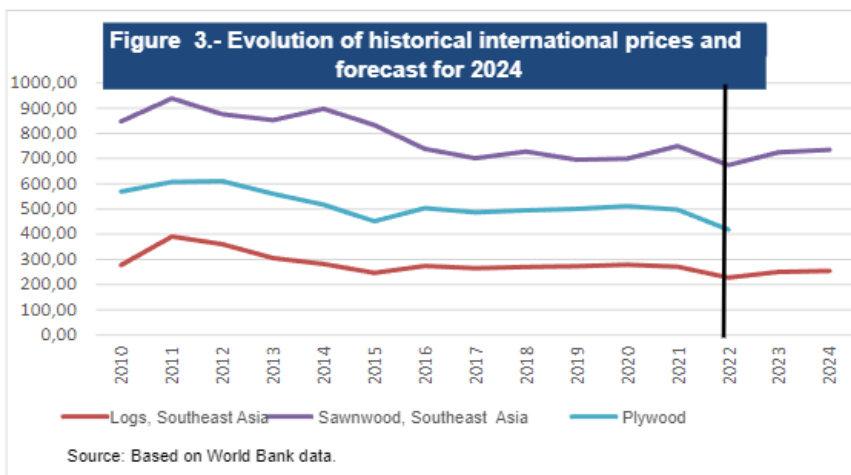
⁸.Northern Bleached Softwood Kraft. Long-fiber bleached pulp.

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

to recover a few months earlier than in the case of pulp. After the uncertain start of the 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 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.

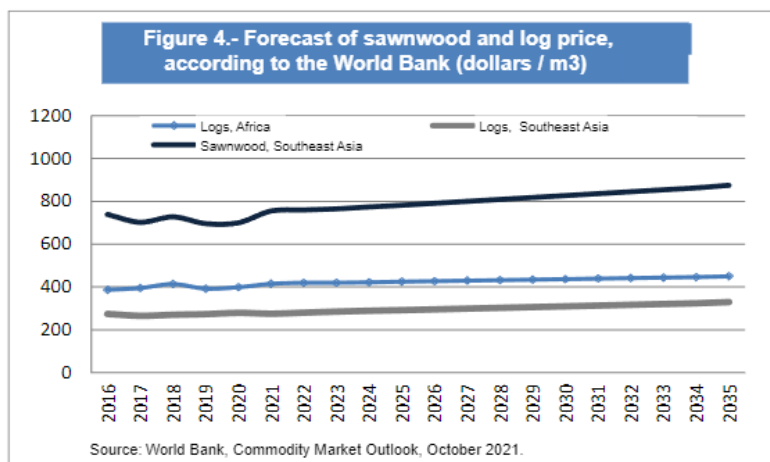
In the case of pine sawnwood, prices and demand have shown a behavior similar to that of eucalyptus, as demand recovered from mid-2020 and this trend continued throughout 2021. However, in 2022 difficulties returned, basically due to the abrupt drop in purchases from China and the increase in maritime 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 prices 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 sawnwood	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 sawnwood (coniferous and non-coniferous) exports, which has become the second largest forest export product after pulp.

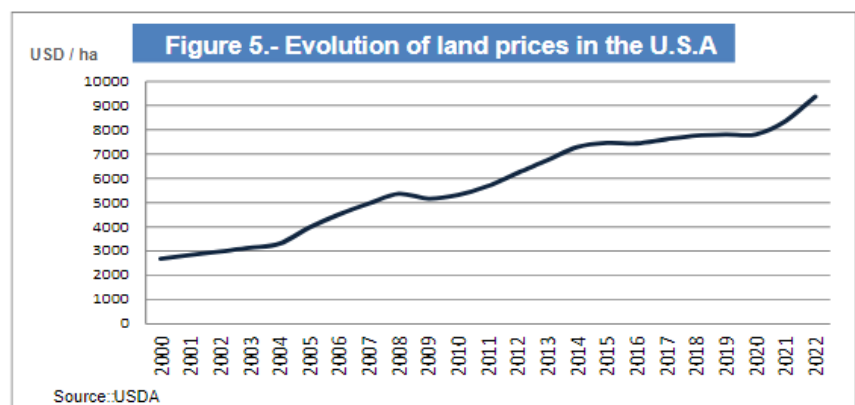
B) Land prices

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.

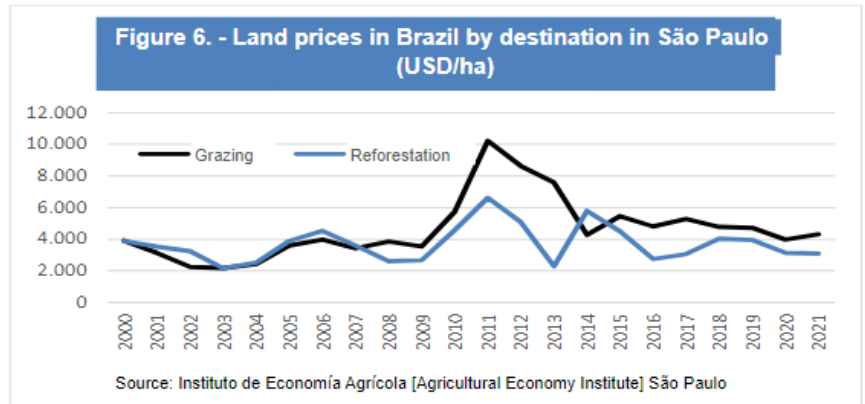
In this report, CARE updated the trends of prices in different countries regarded as important, since they could provide information about what may occur in our country.

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 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, the 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 the prices of land 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.

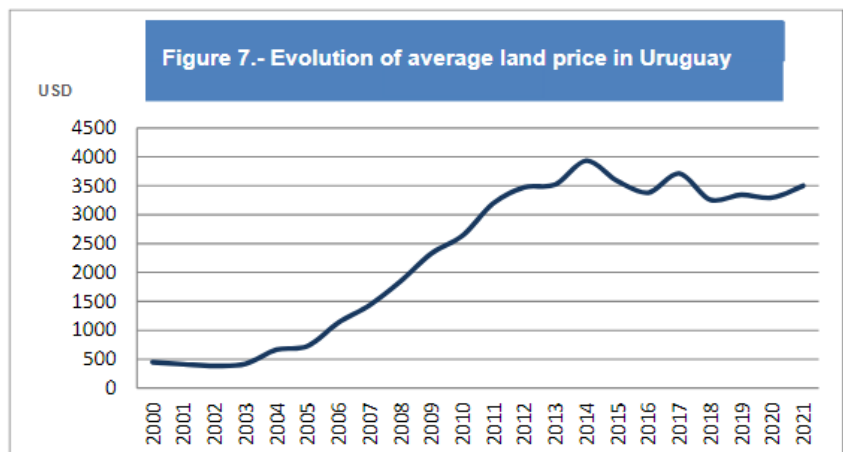
A recent publication of the Argentine Chamber of Rural Real Estate (CAIR, for its acronym in Spanish) shows that rural real estate activity decreased by 31% year-on-year between 2020 and 2021, reaching the lowest historical minimum since the InCAIR (activity index estimated by the Chamber) was computed 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

The 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%.

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.

The value of land 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.

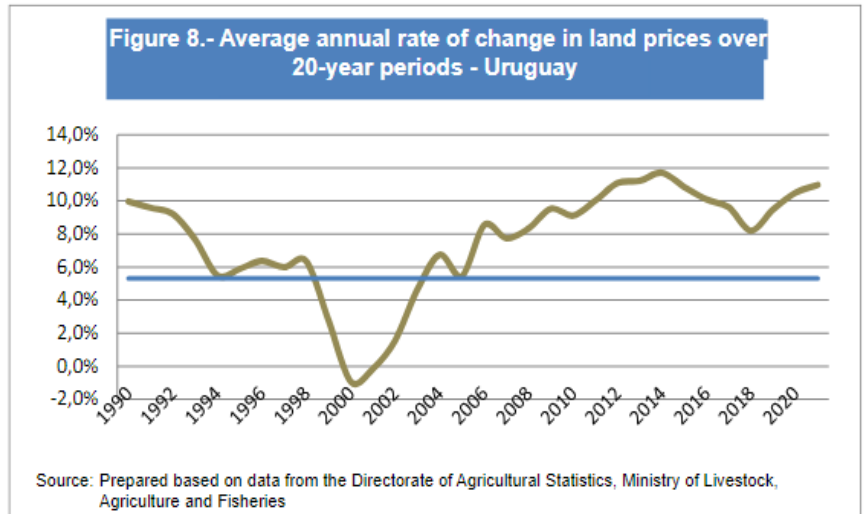
For this purpose, CARE analyzed the annual variation of the prices of land (in current U.S. dollars) for a 52-year series (1970 to 2021) for 20-year periods, which showed the following:

- On average, the annual evolution of the prices of land 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 land price 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 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.

5.4 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.

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 Tambler, 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.**