

CARE

RISK RATING AGENCY

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

Montevideo, April 2023

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Update of the Public Offering Rating of Book-Entry Participation Certificates

April 19, 2023

Name: Fideicomiso Financiero Forestal Bosques del Uruguay III
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 190,000,000
Initial Public Offering Date: December 6, 2016
Term: 20 years
Allocations: According to the results, pursuant to the established procedure.
Trust Assets: Land and forests
Rating Committee: Julio Preve, Adrián Tamber and Martín Durán Martínez.
Risk Rating: BBB +.uy¹
Validity of the Rating: November 30, 2023
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 III", 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 flow update is available, which yields an IRR of 5.98%, slightly lower than that estimated in 2022 (IRR 6.63%).
- As of December 31, 2022, the Trust assets amount to a total of 45,228 hectares, of which 27,236 hectares are forested and 1,666 hectares are available for planting, obtaining an average harvest rate of 63%. On this occasion, a tract of land was acquired with an ongoing business, which considerably mitigated the acquisition and planting risks. The business plan provides replanting a good part of the already planted area (pine and eucalyptus pulpwood) with *Eucalyptus grandis* to produce high quality timber.
- It is worth noting that the same company also manages three other projects with similar characteristics, which were rated by CARE with investment grade rating (Bosques del Uruguay, Bosques del Uruguay II 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 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, the monitoring planting practices and survival rates, budget execution and the Mean Annual Increment (MAI) of the forests are met to satisfaction.
- 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, and adjusted to the incorporation of the new Trusts.
- In 2022, Trust's sales revenues from wood were 35% higher than budgeted, amounting to USD 30 million. This increase mainly accounts for the increase in pine exports in the first half of the year, which almost doubled their budget value for the period. Then, in the second half of the year, due to market problems and very negative margins, harvests were suspended and therefore pine exports. Revenues from pulpwood sales to pulp mills also exceeded forecasts, although to a lesser extent. Finally, the company participated in an export of pulp chips to China and Portugal, which was not originally planned.
- Higher pine harvests and exports than initially budgeted for the year resulted in costs 57% higher than budgeted. Accordingly, at year-end, the Trust closed with a better-than-expected management result², however, still negative (USD -1.2 million), and the result derived from the valuations was not considered. It should be noted that this Trust still has negative cash flows since the strategy of replanting from pine to eucalyptus species is being carried. This situation implies significant capital expenditures in the first years.
- In the third quarter, the land sale approved by the Meeting of the Holders, whose location and percentage of use was generating negative effects on the project's IRR was completed. The total income from the sale of the 4 farms located in Rocha was USD 2.95 million.
- 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 certificates³. This valuation reached a total amount of USD 245.10 million, comprising USD 133.72 million for the land⁴, USD 3.02 million for future grazing income, USD 27.60 million for carbon certificates and USD 80.76 million for forestry income. This new valuation showed a 23% increase over the previous year, which mainly (60%) resulted from the inclusion of carbon credits. In 2021, the valuation amounted to USD 1.45 million

². Management result: sales- (operating costs + investments + expenses).

³. 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.

⁴. In this valuation there were about 1,050 hectares less than the previous year, as 4 farms were sold in the period.

compared to USD 27.60 million in 2022. The Trust's book equity as of December 31, 2022, was USD 230 million, being above the value of the issuance, which was USD 190 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.
- 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 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

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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 III” with a nominal value of USD 190,000,000 (one hundred ninety 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 Martínez, Adrián Tamber and Julio Preve. CARE hired Mr. Leandro Rama, Attorney at Law, for the legal risk assessment at the time of the original rating, whose report is attached to Annex I⁵. CARE also regularly hires forestry experts to prepare reports and performs site visits. Beyond standard updates, the rating may change due to new relevant facts.

⁵ See www.care.com.uy

2. General background and most relevant events in the period

a. General background

The Financial Trust "Fideicomiso Financiero Forestal Bosques del Uruguay III" aims to provide investors with long-term returns essentially obtained from the proceeds of wood and standing timber sale, and the increase in the price of its land asset, and, 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.

As the most relevant precedent, it is worth mentioning that the Trusts "Fideicomisos Financieros Forestales Bosques del Uruguay I, II and IV" issued Participation Certificates in August 2011, October 2014, and April 2019 for the amount of USD 50, USD 70 and USD 330 million, 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, and are rated with investment grade.

The Financial Trust "Fideicomiso Financiero Forestal Bosques del Uruguay III" was created on August 22, 2016, by means of a Trust Agreement by and between EF ASSET MANAGEMENT Administradora de Fondos de Inversión S.A. as "Trustee", Agroempresa Forestal S.A. as "Manager", and the Initial Underwriters of the Securities as "Beneficiaries".

- With the proceeds from the issuance, the Trust acquired an area comprising 46,269 hectares, of which 55% was already forested with the most widely planted commercial species in Uruguay: eucalyptus and pine. The plantations were in the middle of their productive cycle and the business plan aimed to reach to a 65% the forested area.
- The acquired farms were 47 in total, and originally had a high proportion of pine trees (more than 50%). Currently, eucalyptus pulpwood plantations account for 30% of the total area and Eucalyptus grandis plantations, whose main purpose is the production of solid wood, account for approximately 20% of the forest estate.
- The business plan established to cut the pines at the end of their cycle and to replace them with Eucalyptus grandis and dunnii species. Also, some pine forests poorly grown and maintained were cut before the end of their cycle. Those areas were replanted with Eucalyptus grandis. Likewise, after clearcutting

the eucalyptus trees for pulp, this species is replanted to obtain solid wood.

- The project is located in the central-eastern part of the country, distributed as follows: Cerro Largo (38%), Lavalleja (24%), Treinta y Tres (19%), Florida (17%) and Rocha (2%), as this is an area with great potential for forestry exploitation.
- The Prospectus projected that from the total estimated sale revenues, 70-80% will be from wood and/or standing timber sales, 20-25% from land sales at the end of the project, and less than 1.5% from the sale of carbon credits and grazing.
- In October 2018, the Cruz Roja farm, owned by the Trust "Bosques del Uruguay II", was purchased. Such farm comprises an area of 1,782 hectares, of which 1,350 hectares are available for planting and 51% was already planted.
- In September 2018 a last capital call for USD 8,997,000 was made, therefore completing the issuance.
- On February 11, 2020, the meeting of the Holders of the Trust's Participation Certificates was held and attended by all of them. At such meeting, it was resolved to amend certain terms and conditions 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 the notification to the Risk Rating Agency.
- In order to cover cash deficits from harvesting costs and the export process, the Trust has taken out short-term loans from local private banks (overdraft agreements and export financing), which have been renewed on several occasions. The Trust has also obtained another loan payable in 48 installments, being the last one in April 2024. On all occasions, the Surveillance Committee's approval has been obtained and the Trustee has duly notified the Risk Rating Agency.
- The Trust's forests are FSC (Forest Stewardship Council) certified. To date (December 2022) the Trust has 100% of its hectares certified.
- On December 28, 2020, a meeting of the Holders of the Trust's Participation Certificates was held and attended by all of them. At such meeting, it was resolved to modify certain terms and conditions of the Participation Certificates. 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.

- This Trust, BDU III, is undergoing a transformation process, making progress in the harvesting of eucalyptus pulp, acquired standing together with the Trust's estate, and replanting E. grandis and eucalyptus species. When evaluating the process of changing those species, the pine area has been gradually decreasing and turning into an E. grandis and eucalyptus pulp area. Currently, a 31% of the area is covered by E. grandis (quality), a 28% by eucalyptus pulp and a 41% is still covered by pine.
- The Trust's outlook for the commercialization of the carbon credit stock in the next few years seems promising. Carbon credit verification began in 2021, which has enabled to verify tree growth and carbon accumulation according to plan.
- In April 2022, the Trustee took out a long-term (10-year) loan for a total of USD 7 million with a local bank, to further progress in the conversion investments and taking advantage of the current low interest rates. The Surveillance Committee approved this operation, complying with the applicable regulations. The loan will be paid in 120 installments and amortization has already begun.
- In February 2022, an international bidding process was carried out in which 200 thousand tons of carbon were sold. The delivery of those carbon credits will be in 2023. However, the delay in the audit and registration process with Verra has delayed such delivery. Consequently, one of the deals fell through and the other client agreed to deliver them in the first half of 2023.

b. Most relevant events in the period

- Two thousand and twenty-two began with good commercial opportunities in the sale of pine trees. This made it possible to continue with the early harvesting of a significant area, thus enabling reforestation with eucalyptus. However, in the second half of the year, the mismatch between prices and freight costs worsened, which added to a drop in prices and business in INDIA - Uruguay's main market for pine logs - forced the company to halt harvests and suspend exports.

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- In 2022, a total of 2,263 hectares were planted (1,366 in fall and 830 in spring). Planting was slightly below estimates because one of the farms included in the projection was sold.
- At year-end, management investment was in line with projections (+2%), although some deviations between items were recorded. 4,863 hectares of the 5,221 hectares budgeted were pruned (93%),
- In this period, various silviculture and management activities (pruning and thinning) were carried out, reporting some deviations from the budget.
- In 2022, wood sales were 35% higher than budgeted, amounting approximately to USD 30 million due to the increase in pine exports in the first part of the year and, to a lesser extent, to the advance of pulp deliveries to the pulp mill, as well as to the chip exports. The prices of wood for pulp mills were slightly higher than budgeted, however, in the case of pines they were lower, and some exports even generated losses.
- AENOR verified the carbon credits and presented a favorable report to the registering entity (Verra). This information was submitted, and the validation audit was performed under the CCB standard (Climate, Community & Biodiversity Standard). Verra is in the process of validating both Aenor's reports. This process provides a more accurate percentage of the volume of carbon credits that the Trust is able to issue to date, as well as to deliver the volumes already committed.
- The year-end production costs were higher than budgeted (+57%) as a result of the increase in pine exports. The largest increase of production costs was recorded for export expenses and pine freight. Secondly, an increase in the costs of eucalyptus clearcutting due to the advance of pulp sales to the mills and also to the export ship that had not been budgeted were recorded.
- Financial results for the year improved slightly compared to projections, but are still negative, as the conversion strategy from pine to eucalyptus is being developed. This strategy implies a higher capital investment in the first years.
- 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.

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- Also, in the third quarter, as approved by the Meeting of Holders, those farms whose location and percentage of use were having a negative impact on the project's IRR were sold. The total revenue from the sale of the 4 farms (1,051 hectares) located in Rocha was USD 2.95 million. New farms are currently sought to replace those that were sold.
- As of December 2022, the Manager reported that the plantations were generally in good health. It also outlined that 505 hectares of plantations showed signs of damage due to the intense drought of last spring and summer. The final effects will be further evaluated.
- In December 2022, a new valuation of the Trust's lands and forests was presented. It reached a total amount of USD 245.10 million, comprising USD 133.72 million for the land, USD 3.02 million for future grazing income, USD 27.60 million for future carbon certificates and USD 80.76 for forestry income. This new valuation determined an increase of 23% in the total value of the lands and forests. This increase mainly accounts for the value of carbon credits and the forests.

3. Analyzed Information

In this report, the information analyzed was as follows:

- Financial statements of EF Asset Management 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 and their updates of the Financial Forestry Trusts: Fideicomisos Financieros Forestales Bosques del Uruguay I, II and IV, performed by CARE.
- 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 III”, 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 III
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 190,000,000
Term of the Issue:	20 years. 30 years maximum.

Initial Public

Offering Date: December 6, 2016.

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

Risk Rating: BBB +.uy

2. Legal Analysis

The legal analysis attempts to rule out any possible conflict arising from, for example, the legal structure, the relevant agreements, the compliance with current regulations, etc.⁶

This report reviews the objective and subjective contingencies of the agreements and finally concludes: “***...In conclusion, 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.***”

3. 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 II 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.*

⁶. See Annex I of the original rating, available at care@care.com.uy.

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	12/31/2020	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.

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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 it is not necessary to repeat them 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 III was created on August 22, 2016, pursuant to its Trust Agreement and on November 16, 2016, the Central Bank of Uruguay authorized its registration. On December 12, 2016, Participation Certificates amounting to USD 190 million were placed in BEVSA. They had been fully paid after a process that began on December 7, 2016, when the first subscription was made. The second one was made on February 13, 2017, being the largest (USD 161 million), and the last one was made on September 24, 2018.

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)			
Item	12/31/2022	12/31/2021	12/31/2019
Assets	248,153	221,268	172,307
Current Assets	16,057	8,123	13,264
Non-current Assets	232,097	213,144	159,042
Liabilities	18,560	14,349	11,115
Current Liabilities	6,518	5,931	7,526
Non-current Liabilities	12,042	8,418	3,589
Equity	229,593	206,919	161,191
Total Liabilities and Equity	248,153	221,268	172,307
Current Ratio	2.46	1.37	1.76

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

The valuation of lands and forests at year-end showed a higher value for the plantations of approximately USD 20.6 million. The value of the land increased by almost USD 5 million. Losses were recorded in both cases. In the case of the plantations, harvested and commercialized wood was written off for about USD 9.5 million, and there was also a loss of land and its related improvements of USD 2.3 million.

In short, the book value of the Trust's assets as of December 2022 showed that the value of the forests is USD 80.8 million, and the value of the lands (including their improvements) is USD 151.3 million.

Regarding liabilities, the balance of the Trust's bank loans was USD 7.55 million at the year-end.

The Trust's book equity was just under USD 230 million, higher than the amount issued, USD 190 million.

A summary of the Income Statement of the Trust is presented below.

Table 4. Income Statement of the Trust			
Thousands of USD	12/31/2022	12/31/2021	12/31/2020
Operating revenues	30,475	24,438	24,879
Change in the value of biological assets	20,569	22,643	5,007
Cost of goods sold	(29,025)	(23,346)	(23,332)
Gross margin	22,018	23,735	6,554
SG&A	(4,951)	(4,357)	(4,786)
Financial results	(1,196)	(114)	185
Sundry income	897	2,334	(2,334)
Income for the year before Revenues Tax on Economic Activities (IRAE)	16,769	21,598	(381)
IRAE	1,791	(2,169)	(4,407)
Income for the year	18,560	19,429	(4,788)
Revaluation of property, plant and equipment	4,416	29,837	(7,183)
Associated deferred IRAE	(302)	(3,538)	3,869
Comprehensive income for the year	22,674	45,727	(8,103)

Source: Financial Statements of the Trust

The strong increase in operating revenues was mainly due to the sale of wood. The change in value of biological assets is the other relevant item. The structure of the results is similar to last year; the main difference is the amount of the revaluation of property, significantly lower than in 2021. For this reason, there is a difference in the final result, however, it is still positive.

Risks considered

Management risk, considering the suitability of AF S.A. and EFAM to fulfil their duties, and according to all the analyses performed, CARE considered that the risk of non-compliance of the Manager and the Trustee with the project's responsibilities is *virtually nil*.

RISK RATING AGENCY

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 forest manager is also provided for in the agreement depending on different results, circumstances and the eventual vacancy of the current AF president Francisco Bonino, Engineer. *Very low risk.*

IV. UNDERLYING ASSET AND FUTURE CASH FLOW

An investment in the purchase of rural properties was made to develop forestry activities, 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 9.19%. Subsequently, the Manager has updated the expected cash flows and, in this report, a new financial flow with actual data as of December 2022 and a projection until the termination of the Trust in 2036 is included.

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)⁷. 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%, higher than that used in the valuation (7.5%) and also higher than the WACC opportunity cost estimated by CARE in this report (6.6%), 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 2036.

Based on this projection, the IRR for the entire project period of the Trust would be 6.0%, slightly lower than that estimated a year ago (6.6%).

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

⁷. 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 by 1.5%	5.8%
2 Wood adjusts for U.S. inflation. Costs adjust for USD UY inflation and land increases by 1.5%.	5.7%
3 Same as 2 but land increases by 3%	6.0%
4 Wood and land price increase by 1.5%.	5.1%
5 Land price increases by 1.5%	5.0%
6 All other factors unchanged	4.6%

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 the origin (see Section V). In the case of land, an increase of 3% per year seems reasonable, as it is the minimum value that the rating agency generally uses for projections (between 3 and 4%).

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 (4.6%).

2. New estimate of the opportunity cost of capital

In theory, the opportunity cost of capital establishes 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 Damodaran⁸, 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.

⁸. A. Damodaran, "Estimating Equity Risk Premiums" Stern School of Business.

rf: 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.

Erp: 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 Damodaram's "beta unlevered" parameter for the average of the last 5 years (2019-2023) 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 (6.0%), indicating that the investment would have a lower profitability than the opportunity cost⁹.

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.¹⁰ 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.

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.

⁹. It is important to clarify that while this is an acceptable analysis from a financial point of view, institutional investors do not receive this opportunity cost as they cannot invest in global markets.

¹⁰. Yield Spot Curve of Uruguayan Sovereign Securities issued in national currency indexed to inflation, as the case may be.

3. Economic and productive management

The characteristics of the project make the economic results sensitive to the actions carried out by the Manager: purchase of land, establishment and maintenance of the forests, forest conversion 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 satisfaction¹¹.

- Land purchase: Completed since the beginning of the project.
- Plantable area: As of December 2022, there has been no area available for planting for more than 12 months.
- Planting practices and survival rates: The percentages of planting practices and survival rates recorded in were 87% and 92% in Fall and spring 2021, respectively (80% minimum required).
- Budget compliance: Planting, pruning, thinning, clear-cutting, and budget expenses may show variations of less than 25% according to the budget submitted to the Surveillance Committee. There were larger deviations in 2022, but these were adequately justified.
- Mean Annual Increment (MAI) of the plantations: The MAI recorded in the last measurement (September 2022) reasonably meets the expected values.

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

Table 6. Project compliance

Item	Prospectus	Executed
Land Price (USD/ha) as of 2022 (*)	3,328	2,957
Forest Harvesting (%)	60%-65%	58%
Total Area	47,281	46,272
Forest Area (real)	31,300	27,236

40% 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 already provided in the prospectus. In the last two years, the price of and increases have already met this percentage.

At the end of 2022, wood sales revenues amounted to USD 30 million. They were mainly from pulpwood for pulp mills and, to a lesser extent, from exports of pine sawnwood.

¹¹. Trust Agreement, Section 10.

The following table shows a comparison between budgeted revenues for 2022 and actual revenues.

Table 7. Actual Sales and Budget 2022 (USD)			
	Actual	Budget	Difference
Eucalyptus Pulp in 2021	4,633,351	5,029,790	-396,439
Eucalyptus Pulp in 2022	13,148,770	8,950,376	4,198,394
Pine Exports +20	12,342,721	8,395,318	3,947,403
Grazing	363,732	329,881	33,851
Carbon Credits	0	900,000	-900,000
Total	30,488,574	23,605,365	6,883,209

Source: Manager

As the table shows, actual revenues in 2022 were well above budget (+35%) mainly due to higher pine exports, and also due to higher sales of wood for pulp production (wood for pulp mills and chips for export).

The return on investment depends 80% on the wood sales that will be made in the future when the conversion process is completed, and 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 following table shows a comparison between budgeted investments and costs for 2022, and actual results.

Table 8. Actual investments and costs, and budget 2022			
Activity	Actual	Budget	Difference
Production Costs	23,258,698	14,843,978	8,414,720
Implantation Investments	4,259,599	4,500,361	-240,762
Investments in Management	1,977,044	1,933,974	43,070
Expenses	3,700,912	3,341,485	359,427
Total	33,196,253	24,619,798	8,576,455

Source: Manager

Implantation and management investments were relatively in line with the budget; however, expenses were slightly above it. Production costs were significantly higher than budgeted (+57%) due to higher harvests and exports of pine and unplanned exports of chips.

Even though, the management result of the Trust at the end of the year was slightly negative, it was slightly better than forecast (forest revaluation was not considered). As mentioned above, the business plan is in the process of a conversion phase, facing significant investment costs. Therefore, negative financial results are expected in the first few years.

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

The objective of permanent plots is to measure two parameters of tree growth, height and diameter, which are crucial for estimating production.

To date, the growth results from the permanent-plot measurements are as follows:

- (1) E. grandis: It is the target species of the business plan. The objective is to maximize its planted area. Its timber is destined to the production of solid wood.
- (2) E. dunnii: Its destination is 100% pulpable. It is planted in areas unsuitable for E. grandis. The older ones were purchased standing by the fund and those planted by the Trust were 5 years old. 2022 measurements place forests on minimum curve.
- (3) Pinus taeda: Its destination is solid wood. This species was purchased standing. Two thousand and twenty-two measurements place commercially aged forests with volumes in the upper zone of the most likely curve.

5. Land and forests valuation

In this report, CARE presents the valuation of the Trust's lands and forests as of December 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 valuation of the forests considering the land at the value estimated and provided by the former.

Table 9 shows the evolution of the Trust's land 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.

Table 9. Evolution of land and forest valuation	
Year	Millions of USD
2016	160.2
2017	173.7
2018	181.0
2019	145.7
2020	139.8
2021	198.7
2022	245.1
Annual variation 2022/2016	7.3%

Source: CARE based on Valuations

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

This valuation estimated a total asset value of USD 245.1 million, a much higher value than the previous year's (23.4%). This evolution shows an uptrend in assets, which has been growing at a compound annual growth rate of 7.3%, mainly due to the growth of the forests and the carbon credits.

This valuation was based on the following:

- a. The value of land 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 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 carbon credits and secondly by the appreciation of the forests.

Table 10. Valuation in millions of USD			
	2021	2022	Variation
Wood production	63.63	80.76	26.9%
Grazing	2.60	3.02	16.2%
Carbon credits	1.45	27.60	1803.4%
Land value	130.99	133.72	2.1%
Total	198.67	245.10	23.4%

Source: Care based on 2021 and 2022 valuations

Note: In 2022, 4 farms totalling approximately 1,050 hectares, consequently the two valuations cannot be well compared.

According to these assumptions, the valuation of the Trust's lands and forests as of December 2022 was USD 245.10 million, comprising 80.76 MM for forests, 27.6 MM for carbon credits, 3.02 MM for grazing and 133.72 MM for land.

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 medium-low*.

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, CARE means 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 investment returns.

In the case of this project, the price of quality eucalyptus and pine timber will have the most significant impact on its final result. As mentioned above, the business plan provides the replacement of pine trees with

eucalyptus species managed for quality timber. While the long-term objective will be on solid eucalyptus timber, the acquired property was initially approximately 50% planted with pine, which will be sold over the first few years. Finally, as in all forestry projects, some areas are planted to produce pulp and pulpwood, as well as for thinning and commercial waste from quality forests.

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).

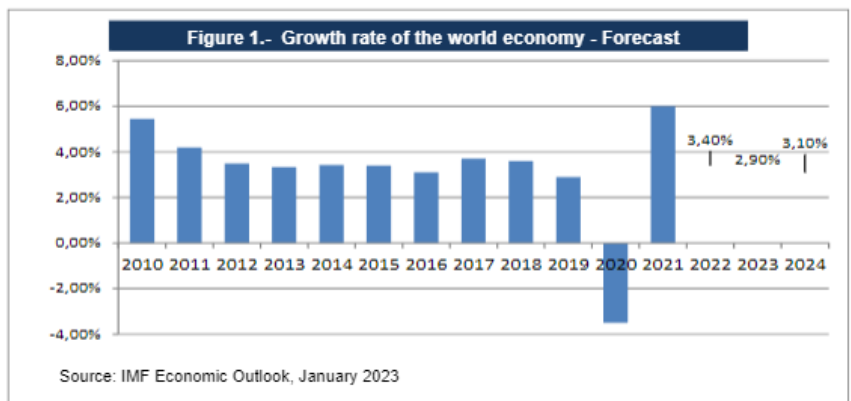
On the other hand, this increase in demand faces a supply that has been constrained by increasing protective measures for native forests, as well as by the control over the yield of forests. Meanwhile, policies aimed at mitigating the impacts of climate change also promote the protection of forests as 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.

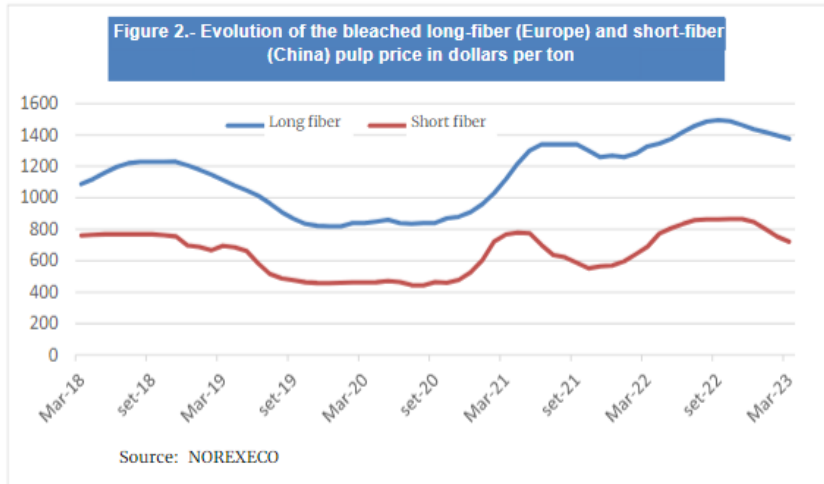
According to the latest International Monetary Fund (IMF) report of January 2023, “global growth is projected to fall from an estimated 2.9% in 2023, which is 0.2% point higher than predicted in the previous report of October 2022, but below the historical (2000–19) average of 3.8%. The rise in central 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 graph below provides information on prices per ton for two types of pulp: the NBSK¹² (main international quotation for long-fiber coniferous pulp in Europe), and the BHSK¹³ (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 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

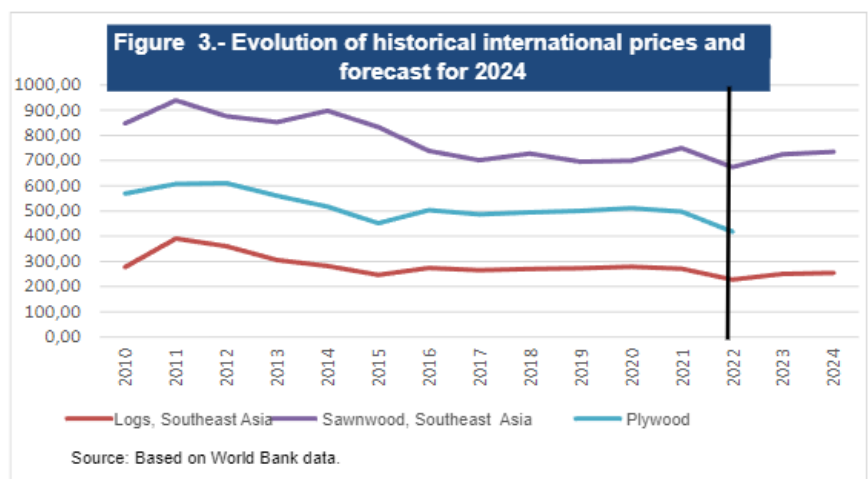
¹².Northern Bleached Softwood Kraft. Long-fiber bleached pulp.

¹³.Blanched Hardwood Kraft Pulp. Bleached short-fiber cellulose pulp.

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.

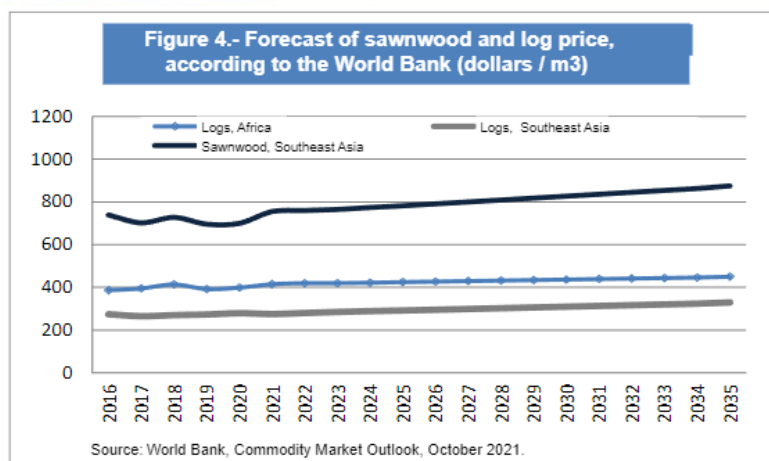
In the case of pine sawnwood, prices and demand have shown a behavior similar to that of eucalyptus, as demand recovered from mid-2020 and this trend continued throughout 2021. However, in 2022 difficulties returned, basically due to the abrupt drop in purchases from China and the increase in maritime 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 Bank¹⁴ 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.

¹⁴. 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 11. 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.

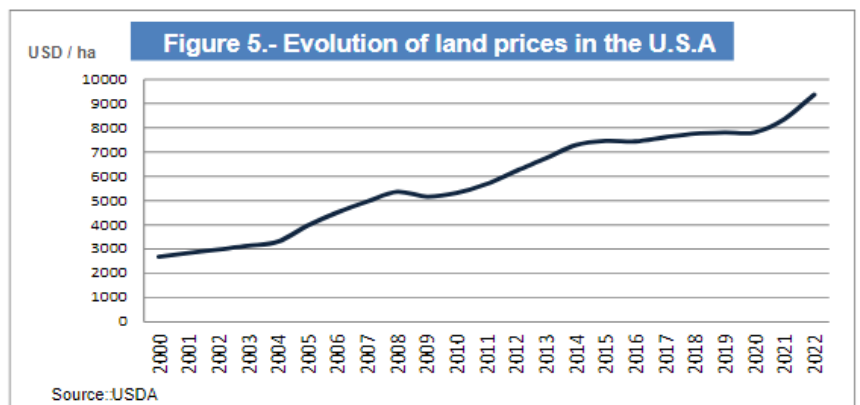
B) Land prices

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.

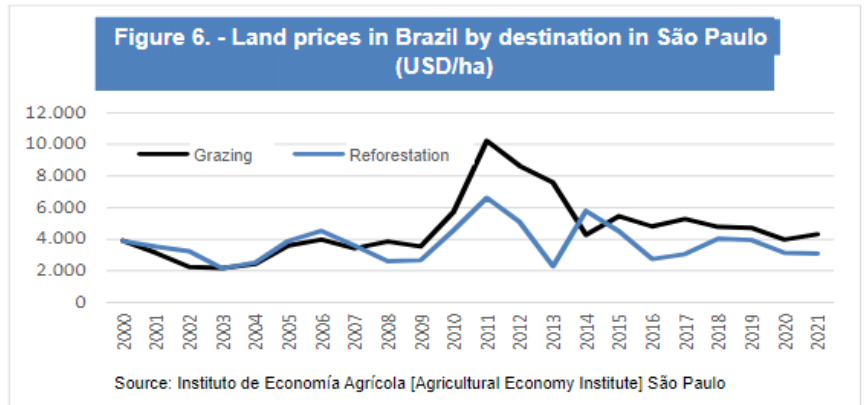
In this report, CARE updated the price trends in those countries which could provide important information about what may occur in our country.

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, the average price 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.

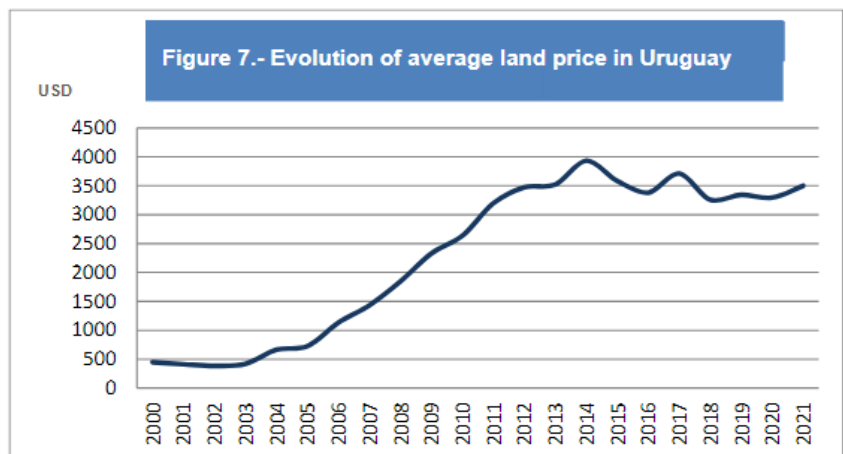
A recent publication of the Argentine Chamber of Rural Real Estate (CAIR, for its acronym in Spanish) shows that rural real estate activity decreased by 31% year-on-year between 2020 and 2021, reaching the lowest historical minimum since the InCAIR (activity index estimated by the Chamber) was computed 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%.¹⁵

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 currency¹⁶. 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.



¹⁵. "Precio de la Tierra" [Land Price] Purchases and Sales 2021, published on March 29, 2022.

¹⁶. 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.

¹⁷. SERAGRO, Agroclaro, Consur and private operators

There are other sources of data provided by consulting firms and market managers¹⁷, 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 relationship¹⁸ 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.

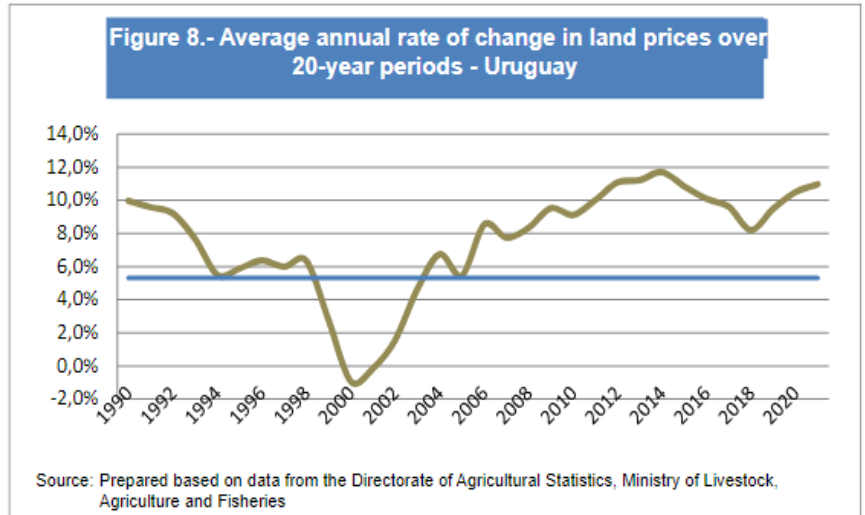
For this purpose, CARE analyzed the annual variation of the prices of land (in current U.S. dollars) for a 52-year series (1970 to 2021) for 20-year periods, which showed the following:

- 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 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).

¹⁸. 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. inflation¹⁹, 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.

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 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.

¹⁹. 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

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

CARE's opinion is built by assigning weightings and scores to the risk factors comprising each risk area (securities, trustee and manager, underlying assets and cash flow, and environment). Arranged in a matrix, the indicators of each factor in each risk area generate scores according to the opinion of the rating committee, which make up the final score. It corresponds to a grade provided in the rating manual. In the rating matrix, the areas are divided into factors, and these into indicators.

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 Securities are rated BBB+.uy²⁰ on the scale of our methodology. This is an investor grade rating.

Rating Committee



Julio Pieve, Engineer



Martín Durán Martínez, CA



Adrian Tamber, Agr. Eng

²⁰. **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.**