

CARE

RISK RATING AGENCY

UPDATE OF THE RISK RATING OF
PARTICIPATION CERTIFICATES IN
POSSESSION OF THE TRUST
"FIDEICOMISO FINANCIERO
FORESTAL BOSQUES DEL
URUGUAY 4"

Montevideo, April 2023

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Update of the Public Offering Issue Rating

April 26, 2023

Name: Fideicomiso Financiero Forestal Bosques del Uruguay 4
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 330,000,000
Initial Public Offering Date: April 10, 2019
Allocations: Whenever there is Distributable Net Income according to the results and after the third year, as provided by the established procedure.
Trust Assets: Land and forests.
Term: 30 years maximum.
Validity of the Rating: November 30, 2023.
Risk Rating: BBB+.uy¹
Rating Committee: Julio Preve, Adrián Tamber and Martín Durán Martínez.
Manual used: Manual de Calificación de Finanzas Estructuradas Administradas por Terceros [Third Party Managed Structured Finance Rating Manual]

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

GENERAL OVERVIEW

CARE has updated the rating of the Participation Certificates in possession of the Trust “Fideicomiso Financiero Bosques del Uruguay 4”, 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 financial flow update is available, which yields an IRR for the baseline scenario of 8.6%, slightly lower than that estimated in 2022 (IRR 8.9%), but equally attractive.
- This project has the same basic characteristics of three other similar projects, which are in the same business and run by the same participants. All of them have fulfilled their business plans without major inconveniences. All the projects are rated by CARE with investment grade rating. The deviations observed have been duly justified by the Manager and the Surveillance Committee and, in principle, have not changed the project's progress.
- This project comprises 55,365 hectares acquired; of which, as of December 31, 2022, 33,712 hectares are already planted and 1,489 hectares are available for planting, obtaining an average harvest of 64%. This Trust also leases a total of 6,030 hectares, of which 3,539 are planted. The forested area, including owned and leased fields, amounts approximately to 39,000 hectares.
- A tract of land was acquired with an ongoing business, which considerably mitigated the risks of acquisition and planting. The business plan provides replanting a good part of the already planted area (pine) with eucalyptus to produce high quality timber.
- 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.
- It is noteworthy the incentive alignment between the Trust and the Manager, since the latter acquired Participation Certificates (PC) for 0.6% of the total amount of the initial public offering. Likewise, Agroempresa Forestal is bound to acquire each year in the secondary market the Participation Certificates offered, for an amount equivalent to 0.6% of the initial issue, until acquiring a total participation of 3% in the fifth year from the initial offering date. As of December 2022, the company has already acquired PCs from the "Bosques del Uruguay" Trusts for approximately USD11.5 million.
- There were two very different periods in 2022. In the first half of this year, demand from the foreign market was sustained, mainly India for pine wood. On the other hand, in the second half of the year, demand was very weak, leading to a virtual halt in harvests and exports from August onwards. As a result, total wood sales were 22% below budget, and some deviations were reported mainly due to export sales of eucalyptus. This was a consequence of the global economic downturn, which particularly affected the Chinese market in the second half of the year. In addition, higher operating costs, the weak dollar and logistical difficulties reduced unit margins, putting some strain on cash flow. In 2022, the management result² was USD -1.80 million, when it was expected to be USD +1.03 million, the results of the valuations were not considered.
- Investments in plantations were significantly below budget, 55% less than planned, because some authorisations were not obtained in time, and therefore the original planting plan could not be conducted. The costs per hectare of planting were higher than budgeted, as the authorisations were not granted, the seedlings that were purchased could not be planted.
- The implementation of the Olimar industrial project is ongoing. The foundations for the plant are currently under construction, the construction and the plant managers have been selected, the containers with the equipment are already in the country and the boiler has been installed. The construction of the plant is progressing according to schedule. The plant is expected to start operations by the end of the third quarter of 2023.

². Management result: Sales revenue- (operating costs + investments + expenses + financial c

- 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 452.6 million, comprising USD 161.05 million for the land, USD 3.16 million for future grazing income, USD 288.43 million for forestry income. This new valuation showed a 11.9% increase, which mainly resulted from the increase in the forests value. The Trust's book equity as of December 31, 2022, was USD 463.66 million, being above the value of the issuance, which was USD 330 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 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 4”.

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, Julio Preve and Adrián Tamber. CARE also hired Mr. Leandro Rama, Attorney at Law, for the legal risk assessment when the original rating was performed. 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. The biannual evolution of the business plan set forth in the Prospectus is considered a significant event.

2. General background and most relevant events in the period

a. General background

- The Financial Trust “Fideicomiso Financiero Forestal Bosques del Uruguay 4” aims to provide investors with long-term returns obtained essentially from the proceeds of the sales of timber and standing timber, and the increase in the price of its land asset, as well as, 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.
- As the most relevant precedent, it is worth mentioning that the Trusts “Fideicomisos Financieros Forestales Bosques del Uruguay I, II and III” issued Participation Certificates in August 2011, October 2014, and December 2016, for the amount of 50, 70 and 190 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 development of the forestry project begins with the acquisition of land and forests, continues with the silvicultural management of the trees, and finishes with the harvesting and commercialization of wood, either for pulp production or sawmilling.
- The maximum term of the Trust is 30 years, or until the Participation Certificated issued by the Trustee are fully paid and all other obligations under the Agreement are met. However, due to the scope of the project and the current age of the asset acquired, the investment is estimated to last approximately 20 years.
- The Financial Trust "Fideicomiso Financiero Forestal Bosques del Uruguay 4" was created on December 17, 2018, 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".
- The Trust acquired a forestry estate already forested and in full operation with the proceeds from the issuance. A total of 55,365 hectares were purchased, comprising two blocks: the North

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(Terena) with 18,802 hectares, and the Northeast (Guanare) with 36,563 hectares. The farms of the Northeast Block are located in the departments of Cerro Largo and Treinta y Tres, and those of the North Block in the departments of Tacuarembó and Rivera.

- There are approximately 33,712 hectares of planted land; there are about 1,487 hectares available for planting, which would result in an average harvest of 64%. Approximately 34% of the area is planted with pine (around 11,400 hectares).
- The Trust also leases a total of 6,030 hectares, of which 3,6539 hectares are planted. The leased farms are located in the departments of Cerro Largo, Treinta y Tres, Tacuarembó, Rivera and Durazno.
- At the end of the project, the estimated total revenues from sales will be 51% from the sale of wood, 33% from the sale of standing timber, and 15% from the sale of land at the end of the project. Revenues from grazing are marginal and estimated by discounting the expected cash flow at a rate of 6%.
- The business plan provides that as pine forests are cut, the harvested areas will be replanted with eucalyptus species to produce knot-free saw wood, and in the less productive areas, eucalyptus species will be planted for the production of pulp.
- On August 28, 2019, the Trust took possession of the acquired farms, and the Manager started operations.
- The Trust's forests are FSC (Forest Stewardship Council) certified. To date (December 2022) the Trust has 60% of its hectares certified and continues working on the incorporation of more farms and areas.
- In order to cover cash deficits from harvesting costs and the export process, the Trust has taken out short-term loans with local private banks (pre-export finance), which have been renewed on several occasions. The Trust has also obtained another long-term loan that is being amortized without any inconveniences. On all occasions, the Surveillance Committee's approval has been obtained and the trustee has duly notified the Rating Agency.

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- 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 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.
- On September 7, 2021, the notarial deed for the lands which have not been registered because they were not certified by the Social Security Institution (BPS for its acronym in Spanish) was executed. Thereafter, the entire area remained in the name of the Trust.
- In January 2022, the Trust Agreement was amended to include the "Industrial Projects" execution in the Business Plan, which would allow investors to receive a higher return. This amendment was made to start making progress on the Olimar project, which consists of the investment in a plywood plant of eucalyptus roll.
- On 16 June 2022, a meeting of the Beneficiaries was held, which unanimously approved the anticipated sale of a 139-hectare plot of land located in Ruta 27, 3 km away from the city of Rivera. The decision of this sale, approved by the Surveillance Committee, is based on the fact that the farm is very close to the city of Rivera. As a result, it would be very difficult to reforest it because of the risk of fire in its proximity to the surrounding populated areas. Moreover, this farm would have an important real estate value.
- This meeting of Beneficiaries also approved by an absolute majority the implementation of the Olimar Project, financed by a long-term loan (10 years), which has already been granted.

b. Most relevant events in the period

- Regarding the operations for the implementation of the Olimar project, in this reporting period, the following progress has been made:
 - The Project Management was selected.
 - Soil movement began to set the foundations, the concrete, and the shed of the industrial plant.
 - The 10 containers holding the equipment from China have already arrived in the country.

- The construction of the boiler is completed, and the boiler is ready to be transferred to Treinta y Tres.
 - The plant manager was selected.
 - The plant is expected to start operations by the end of the third quarter of 2023.
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- In 2022, 724 hectares were reforested, approximately 889 hectares less than budgeted. This significant reduction in the reforested area occurred because the planting permits from the National Directorate for Quality and Environmental Assessment (DINACEA, for its acronym in Spanish) were not issued. Permits are expected to be obtained by the first quarter of 2023. This permit delay caused a significant loss of seedlings, previously ordered and paid to the nurseries, as they had to be discarded. This loss resulted in a significant increase in the cost of planting per hectare.
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- As of December 2022, the Trust's revenue from wood sales was 22% below budget, amounting to USD 37.5 million. This downward shift was mainly due to lower eucalyptus exports and, to a lesser extent, to lower domestic sales of pulp and pine. Revenues from pine exports were in line with budget, even though the volume of pine exported was lower. This is explained due to the fact that better prices were obtained and practically all of it was exported in the first half of the year. The international market for eucalyptus was particularly affected by the slowdown in the world economy and lower imports from China.
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- Production costs were 15% under budget due to lower activity levels, which affected freight and export costs. Harvesting and freight rates increased as a result of higher diesel prices, labour costs and the fall of the U.S. dollar in nominal terms against the Uruguayan peso. Overall costs were also higher than budgeted, mainly due to the unbudgeted Olimar project-related efforts.
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- The year-end operating result was USD -1.8 million (against a budget of +1.03 million), as a result of a significant reduction in sales, a lower gross margin per unit sold, and higher fixed maintenance costs and interest expenses.
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- In December, the planting practices and survival rates in fall 2022 were 92%, far exceeding the target rate of 80%.

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- The grazing area improved significantly in the second half of the year as a 91% occupancy of the total potential area was achieved.
- 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.
- As of December 2022, the Manager reported that the plantations were generally in good health. It also outlined that 91 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, a new valuation of the Trust's lands and plantations was presented by the same two entities who carried out the asset valuation in 2021. 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. This valuation reached a total amount of USD 452.64 million, comprising USD 161.05 million for the land, USD 3.16 million for future grazing income and USD 288.43 million for forestry income.

3. Analyzed Information

In this report, the information analyzed was as follows:

- Balance sheet with audit's report of Agroempresa Forestal as of December 31, 2022.
- Financial statements of the Trustee as of December 31, 2022.
- Financial statements of the Trust as of December 31, 2022.
- Manager's 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 III, 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 4”, 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 4
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:	Agroempresa Forestal S.A.
Securities Issued:	Participation Certificates
Trust Assets:	The Trust invested in the purchase and/or lease of rural properties for forest exploitation.
Currency:	U.S. Dollars
Issued Amount:	USD 330,000,000
Allocations:	Whenever there is Distributable Net Income after each fiscal year-end, or because of the sale of the Trust Assets or the final distribution of the Remaining Net Income. (Between years 0 and 2, there will be no distribution of funds, even if they exist, as they will be used to finance the business plan).
Risk rating:	BBB +.uy

2. Legal Analysis

The legal analysis was added in Annex I (“Fideicomiso Financiero Forestal Bosques del Uruguay 4”. Legal Report). It ruled out any possible conflict arising from, for example, the legal structure, the relevant agreements, the compliance with current regulations, etc.

At the beginning of the report, the introduction stated that *“after comparing all these documents, it is concluded that the legal and regulatory provisions for financial trusts are complied with, both in terms of its formal constitution and aspects related to its capacity and recognition of the parties. As for the substance, there are no legal obstacles that prevent or jeopardize the expected yield from the participation certificates to be issued.”*

Finally, the report 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 noncompliance 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, II and III, 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. 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 the 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.

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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.).

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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 Agreement was entered into on December 17, 2018, by and between EFAM (Trust) and AF (Manager). On March 18, 2019, the Central Bank of Uruguay authorized the Trust registration in the Stock Market Registry and the subsequent issue of the Participation Certificates for the amount of USD 330 million.

Therefore, Participation Certificates were issued for USD 330 million (the maximum authorized amount) and fully paid in three successive issues made between April 11, 2019, and August 26, 2019, thus complying with the beginning of the forestry business plan described in another section of this report.

The tables below show the Trust's Financial Statements for the year ended December 31, 2022.

Table 3. Statement of Financial Position of the Trust (thousand of USD)

Item	12/31/2022	12/31/2021	12/31/2020
Current Assets	13,401	13,024	10,259
Non-current Assets	471,224	422,304	411,156
Total Assets	484,626	435,328	421,415
Current Liabilities	9,843	11,006	8,490
Non-current Liabilities	11,122	5,785	5,439
Total Liabilities	20,965	16,791	13,929
Equity	463,661	418,537	407,487
Total Liabilities and Equity	484,626	435,328	421,415
Current Ratio	1.36	1.18	1.21

Source: Financial Statements of the Trust

The new valuation of the forests as of December 2022 showed an increase in value of USD 42.4 million. Meanwhile, the total book value as of December 31 was USD 288.43 million. The land valuation showed an increase in value of approximately USD 6.7 million, reaching a total value of USD 161 million.

As presented in the table above, the book value of equity was USD 463.66 million, higher than the amount issued USD 330 million.

Considering liabilities, as of December 2022, the balance of the Trust's bank loans was USD 10.6 million. Most of them are short term with the exception of one loan taken out in April 2022 for USD 5.2 million over 10 years.

Table 4. Income Statement of the Trust

Thousands of USD	12/31/2022	12/31/2021	12/31/2020
Operating revenues	37,458	43,529	27,451
Change in the value of biological assets	42,396	(27,161)	86,949
Cost of goods sold	(30,198)	(35,441)	(19,790)
Gross margin	49,656	(19,073)	94,610
SG&A	(10,258)	(7,876)	(7,457)
Financial results	(1,253)	(224)	(131)
Miscellaneous income	-	3,188	(3,188)
Income for the year before Revenues Tax on Economic Activities (IRAE)	38,146	(23,986)	83,834
IRAE	856	(391)	(2,496)
Income for the year	39,001	(24,377)	81,338
Revaluation of land	6,658	38,218	-
Associated deferred IRAE	(536)	(2,790)	-
Comprehensive income for the year	45,123	11,051	(8,338)

Source: Financial Statements of the Trust

Note: The item Miscellaneous income also refers to Revaluation of Land.

RISK RATING AGENCY

According to the table above, income for the year is almost entirely from wood sales, and also from marginal income from grazing and others. The change in the value of biological assets and the revaluation of land is also noteworthy, which, in contrast to the previous year, were recorded with a positive result. This will be further discussed in more detail in this report.

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 limited. In addition, their replacement is considered in the event of any deviations that justify it. *Very low risk.*

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

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

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

IV. UNDERLYING ASSET AND FUTURE CASH FLOW

1. Trust assets and descriptive aspects of the project

An investment in the purchase of a forestry project was made, under the conditions set forth in the Agreement, to become part of the Trust assets and to develop forest exploitation, in accordance with the provisions of the Business Plan.

The forestry project has already been set up; therefore, the forests will be exploited for about 20 years, mainly by harvesting them, selling wood, and replanting the harvested areas with eucalyptus. The land and standing timber will be sold at the end of the project.

2. Evaluation of the return on investment and the Internal Rate of Return, associated risks and sensitivities

The Project outlined in the Prospectus estimated for the baseline scenario an Internal Rate of Return for the investor of 7.67%. Subsequently, the Manager has been updating the expected cash flows, which have shown higher values for the IRR. In this report, a new financial flow with actual data as of December 2022 and a projection for the 2022-2039 period 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 2039. According to CARE, the most likely scenario is based on the following assumptions:

- Product prices are adjusted for U.S. inflation (projected by BEVSA)³. 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 opportunity cost estimated by CARE in this report (6.6%).

Investment income in PCs is projected in the new flow, which would begin in 2024 and end with the termination of the Trust in 2039.

³. Historical U.S. inflation is estimated to be around 2.1-2.3%. Inflation is currently well above these values, but for the time being there is no change in the projections, and the U.S. monetary authorities maintain their expectations of bringing inflation to historical values.

Based on this projection, according to CARE, the IRR for the entire project period of the Trust in the most likely scenario would be 8.6%, slightly lower than that estimated a year ago (8.9%), however, it is still higher than the one provided in the Prospectus.

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

Table 5. IRR results for different scenarios	
Scenario	TIR
1 Wood adjusts for U.S. inflation, plus 1.5% growth. Costs adjust for USD UY inflation, and land increases a 1.5%	8.6%
2 Wood adjusts for U.S. inflation. Costs adjust for USD UY Inflation, and land increases a 1.5%.	8.4%
3 Same as 2 but land increases a 3%	8.6%
4 Wood and land price increase a 1.5%.	7.6%
5 Wood price increases a 1.5%	7.4%
6 All other factors unchanged	7.2%

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 U.S. inflation, that is, no change in prices in real terms. World Bank projections for the next ten years assume an increase in the price 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, 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 (7.2%).

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 Damodaran⁴, 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:

⁴. A. Damodaran, "Estimating Equity Risk Premiums" Stern School of Business.

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

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 (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 (7.3%), indicating that the investment would have a lower profitability than the opportunity cost. While these comparisons cannot be taken in a strict sense, they should be considered as a reference that, among others, help to form a judgment about the investment.

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

Other indicators that the expected IRR of the Trust could be compared with are the yield curves, which are possible investment options since

they are estimated for the case of Uruguay.⁵ 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: 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.

As previously reported, the Trust acquired farms that were already forested; therefore, revenues from wood sales were already recorded since the first year.

In 2022, exports were mainly from sawnwood sales and to a lesser extent from pulpwood to pulp mills.

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

Table 6. Gross actual sales and budget 2022 (USD)			
	Actual	Budget	Difference
Eucalyptus pulp	5,816,579	8,339,375	-2,522,796
Pine export and domestic market	14,562,380	14,515,300	47,080
Eucalyptus export and domestic market	14,549,609	23,841,274	-9,291,665
Standing timber domestic sales and Firewood	2,018,509	713,462	1,305,047
Grazing	560,394	437,783	122,611
Total	37,507,471	47,847,194	-10,339,723

Source: Manager

As already mentioned, the weakness of the international timber market, especially in the second half of the year, led to a sharp drop in the Trust's exports, especially in eucalyptus sawnwood. Pine sales were in line with forecasts, but recording very narrow margins, especially in the second half of the year.

The return on investment depends 84% on the wood and forest sales that will be made in the future when the conversion process is completed, and the forests grow. Actual sales are from the forests already established on the purchased land and from those forests where

⁵. Yield Spot Curve of Uruguayan Sovereign Securities issued in national currency indexed to inflation, as the case may be.

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.

	Actual	Budget	Difference
Production Costs	30,659,073	36,094,990	-5,435,917
Implantation Investments	1,623,935	2,831,179	-1,207,244
Investments in Management	248,348	289,244	-40,896
Expenses	7,117,617	6,344,905	772,712
Total	39,648,973	45,560,318	-5,911,345

Source: Manager

Implantation investments were well below budget (-43%). As previously mentioned, this was due to the fact that a smaller area was planted because the corresponding permits were not obtained.

Production costs were 15% below budget as the activity levels were lower too due to a drop in eucalyptus exports, which was partially offset by higher unit costs of some items.

The Trust ended the year with a negative management result, although it was expected to be positive. As already mentioned, this is mainly explained by the sharp drop in eucalyptus exports.

Despite this adverse situation, the company has demonstrated its ability to make progress in the proposed processes and to carry out the activities properly according to the reported schedule.

4. Land and Forests valuation

In this report, CARE presents the valuation of the Trust's lands and forests as of December 2022. As in the previous year, two valuations were presented 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.

This valuation is considered as a photograph of the Trust's existing forests as of December 31. Therefore, if this valuation is compared to the previous year's, a biological growth of the trees and also a variation in the number of hectares was recorded.

Table 8 shows the evolution of the values of the Trust's land and forests, according to the data from the valuations performed annually. It should

be clarified that the 2020 valuation was carried out by another company and under a different methodology, which undervalued the land value.

Table 8. Evolution of the land and forests valuation in millions of USD

	Land	Forests	Grazing	Total
2020	112,98	275,46		388,44
2021	154,39	246,05	3,66	404,10
2022	161,05	288,43	3,16	452,64
Variation 2022/2021	4,3%	17,2%	-13,7%	12,0%

Source: Valuations

This valuation was based on the following:

- a. The value of the 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 and grazing was estimated by discounting future income flows at a rate of 7.5%.

According to these assumptions, the Trust's land and forests valuation as of December 2022 was USD 452.64 million, comprising 288.43 MM for the forests, 3.16 MM for grazing and 161.05 MM for the land.

Between 2021 and 2022, the value of the land and forests together increased by 12%. This increase is largely explained by the increase in the forests and land value, which was 17.2% and 4.3%, respectively. On the contrary, future grazing income fell by 13.7%.

The increase in the forests value provided in the valuation dated December 2022 is basically a consequence of the forests' growth and the projection of better prices of wood. In turn, the increase in the projected transportation and logistics costs and the delay in sales flows had the opposite effect.

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

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 84% of the 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 to produce solid eucalyptus timber, the acquired property initially was approximately 39% 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.

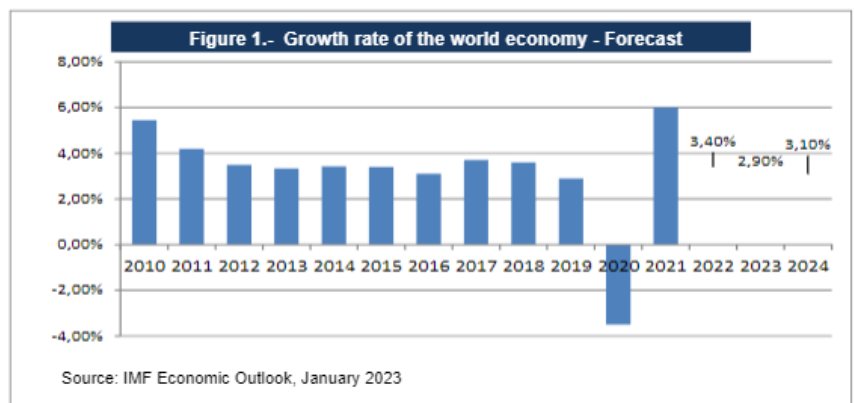
In 2022, the consequences of the conflict between Russia and Ukraine, the cooling of the global economy, and of China in particular, as well as the zero COVID-19 measures implemented by this country had a significant impact on that year. These phenomena brought about changes in the world economy, trade,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

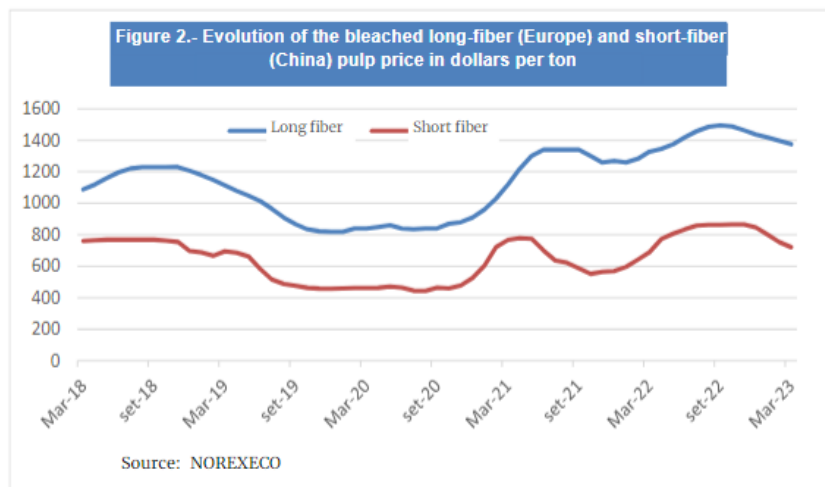


The outlook is uncertain. *“On the upside, a stronger boost from pent-up demand in numerous economies or a faster fall in inflation are plausible. On the downside, severe health outcomes in China could hold back the recovery, Russia’s war in Ukraine could escalate, and tighter global financing costs 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 NBSK⁶ (main international quotation for long-fiber coniferous pulp in Europe), and the BHSK⁷ (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

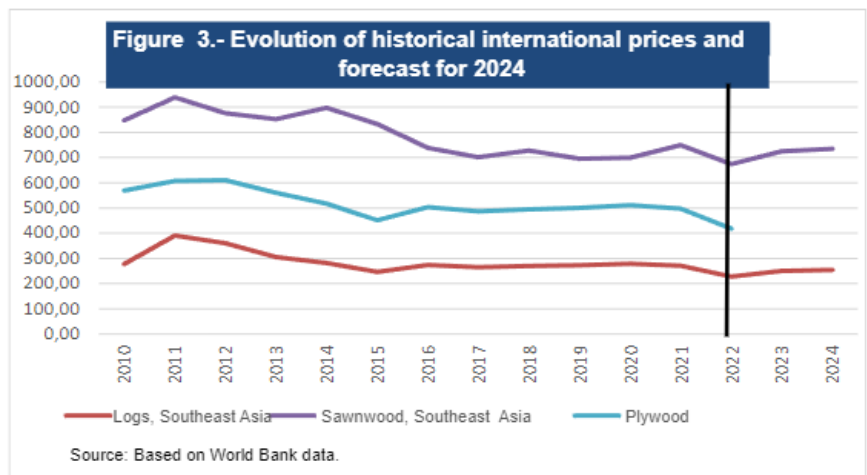
⁶.Northern Bleached Softwood Kraft. Long-fiber bleached pulp.

⁷.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.

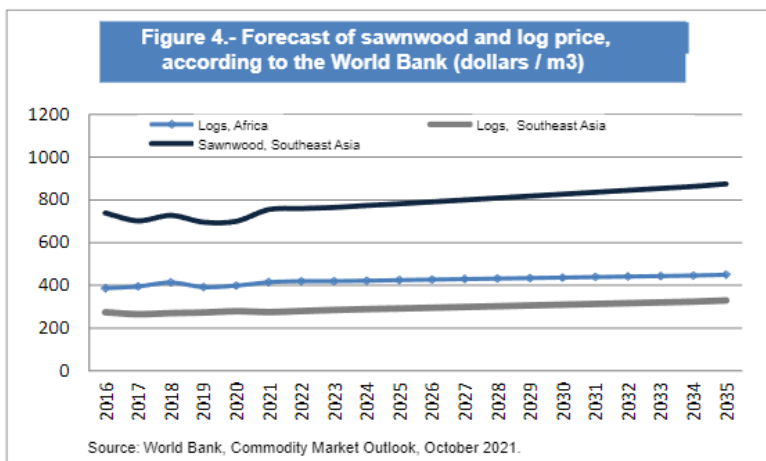
In the case of pine sawnwood, prices and demand have shown a behavior similar to that of eucalyptus, as demand recovered from mid-2020 and this trend continued throughout 2021. However, in 2022 difficulties returned, basically due to the abrupt drop in purchases from China and the increase in maritime 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 Bank⁸ 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.

⁸. 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 9. 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.

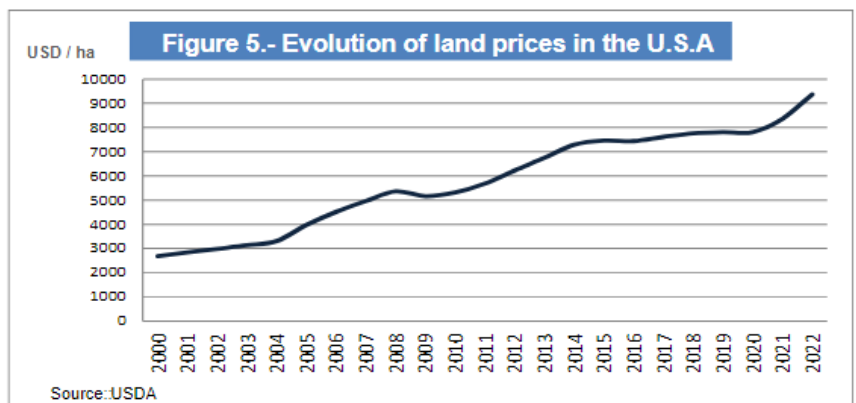
B) Land prices

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.

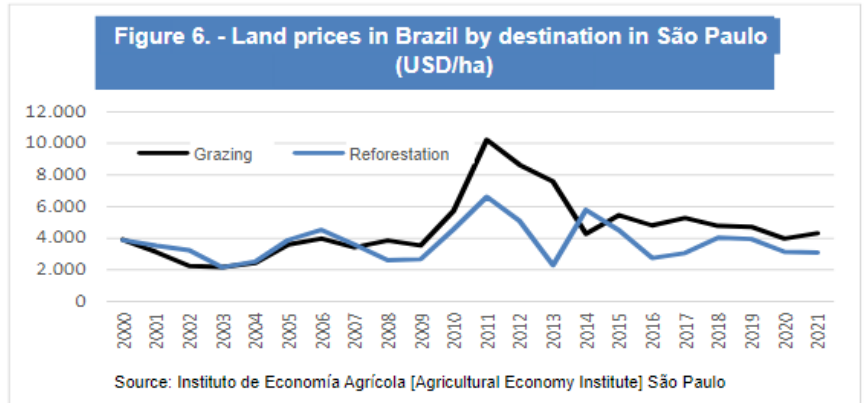
In this report, CARE updated the price trends in those countries which could provide important information about what may occur in our country.

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 land price in the United States fell only in the early 1980s due to the change in its monetary policy called the "Voelker Plan" and, to a lesser extent, after the Lehman Brothers financial crisis, in both cases very moderately. Both negative price-level shocks were reversed within a few years.

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.

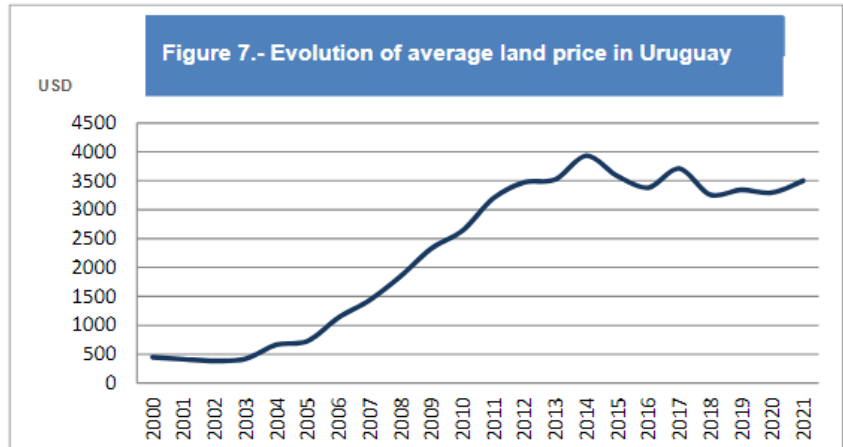
A recent publication of the Argentine Chamber of Rural Real Estate (CAIR, for its acronym in Spanish) shows that rural real estate activity decreased by 31% year-on-year between 2020 and 2021, reaching the lowest historical minimum since the InCAIR (activity index estimated by the Chamber) was computed 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%.⁹

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 currency¹⁰. 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.



⁹. "Precio de la Tierra" [Land Price] Purchases and Sales 2021, published on March 29, 2022.

¹⁰. 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.

¹¹. SERAGRO, Agroclaro, Consur and private operators

There are other sources of data provided by consulting firms and market managers¹¹, 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 relationship¹² between the National Commission for Agro-Economic Soil Studies (CONEAT for its acronym in Spanish) Index and the price of land with CONEAT values above 100. However, when the index is below 100, prices also fall but not exactly in the same proportion as when they are above 100. This is basically explained by the fact that many of the fields with a CONEAT value below 100 are demanded for the production of other products different from meat and wool (rice, afforestation), items considered for the calculation of this index.

Land value is a relatively important component of the Trust's final revenues (16%); 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, consequently, it is important to know what has happened in the past to have some predicting capability for what may happen in the future.

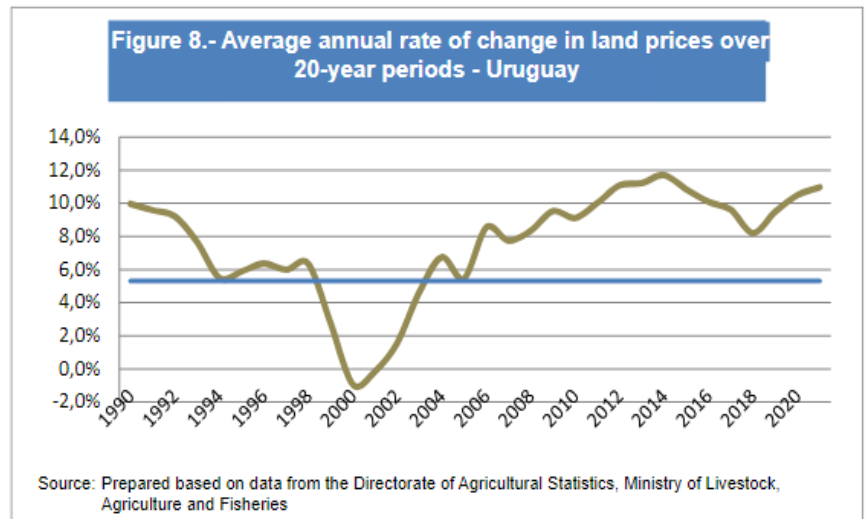
For this purpose, CARE analyzed the annual variation of the prices of land (in current U.S. dollars) for a 52-year series (1970 to 2021) for 20-year periods, which showed the following:

- 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).

¹². 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. inflation¹³, 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

¹³. 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

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.

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+.uy¹⁴ 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

¹⁴. **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.**