

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, October 2022

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

October 4, 2022

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 retained earnings, 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: April 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 2022, a new cash flow update is available, which yields an IRR of 6.63%, slightly lower than that estimated in 2021 (IRR 6.8%).
- As of June 30, 2022, the Trust assets amounted to a total of 46,269 hectares, of which 27,572 hectares were forested and 2,226 hectares were available for planting, obtaining an average utilization rate of 64%. 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 converting a good part of the already planted area into pines and eucalyptus.
- It is worth noting that the same company also manages three other projects with similar characteristics (Bosques del Uruguay, Bosques del Uruguay II and Bosques del Uruguay IV), currently operating more than 80 thousand hectares of forests, through the issuance of USD 640 million in total.
- The Manager's reports (Agroempresa Forestal S.A.), ratified by the Surveillance Committee, are generally satisfactory for the project's progress. The Surveillance Committee reported 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.

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- 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, the projected Trust's revenues (USD 27.6 million) will be mostly from pulpwood for pulp mills and, to a lesser extent, from exports of pine sawnwood. This year it is not expected to sell solid eucalyptus wood. At the end of the first half of the year, sales were well above budget (+86%), due to an increase in pine exports. Production costs were more than doubled, owing to higher harvesting and freight costs, and also because wood remained in the selling process. The Manager estimated that by the end of the year these differences will be reduced but will still result in higher revenues (+22%) and expenses (+20%) than budgeted. The operating result (before adjustment for valuations) will still be negative but slightly lower than projected for the year. It is important to consider that this Trust is in the process of conversion and in the midst of an investment phase.
- The last valuation of the Trust's lands and plantations was performed by two entities in December 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 198.67 million, comprising USD 130.99 million for the land, USD 1.45 million for future grazing income and USD 63.63 million for forestry income.
- After the general sharp fall in commodity markets, detrimentally affected by COVID-19, the markets have showed a strong rebound since 2021. The international price of wood pulp increased until the end of 2021, and then remained relatively stable during the first months of 2022, increasing again in the upcoming months. In this regard, international demand for wood pulp has recovered and is showing a good outlook for the following years, maintaining the long-term trend. Domestic demand for wood pulp for sawmills is expected to grow when the country's third pulp mill starts operations, which may even lead to some tension on supply.
- Meanwhile, demand for eucalyptus solid wood for export, ultimate objective of this Trust, has shown a substantial growth since the second half of 2020 and remained at good levels in 2021. However, in the second half of this year, it is expected that these markets will shrink given the global context of high inflation, logistics costs (high freight rates), the reduction in demand of this type of product from large consumer countries

(Europe, China, USA) with economic problems and its decrease in domestic consumption. The prices of pine sawnwood have risen sharply compared to previous years, as have exports, and a similar behavior to that of eucalyptus is expected, based on the same reasons. 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) has shown long-term trends of increasing prices, due to the sustained increase in demand for food and wood and the fact that, in general, the possibilities for expanding the agricultural frontier are increasingly limited. In the case of Uruguay, the expected increases in the price of land will be more moderate than those in the decade between 2004 and 2014. However, in the short and medium term, there could be an improvement in nominal land values, above the long-term trend, as a result of the increase in commodity prices, the fall in 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 of land in 2021, showing an increase of 6.2% compared to 2021.
- Regarding public policies, the threats related to a possible change in policy in the forestry sector have been cleared up. In this opportunity, the forests are implanted, and although all permits and prior authorisations were granted, difficulties may arise when reforestation is carried out as a result of the provisions of Decree 405/21 dated December 2021.

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 run. 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 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, when the legal risk assessment of the original rating was performed, whose report is attached to Annex I².

² See www.care.com.uy

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.

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.

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 a 65% of 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 asset.
- 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 pulpwood, this species was replanted to obtain solid wood.

- This 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.
- The Cruz Roja farm, owned by the Trust "Bosques del Uruguay II", was purchased in October 2018. Such farm comprises an area of 1,782 hectares, of which 1,350 hectares are available for planting and 51% was already planted.
- The last capital call for USD 8,997,000 was made in September 2018, therefore, completing the issuance.
- The meeting of the Holders of the Trust's Participation Certificates was held on February 11, 2020, 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 annual audit of the FSC (Forest Stewardship Council) certification was carried out in December 2020, and the certificate was renewed without any major observations. To date, this Trust has 100% of its hectares certified.
- A meeting of the Holders of the Trust's Participation Certificates was held on December 28, 2020, and attended by all of them. At such meeting, it was resolved to amend certain terms and

conditions of the Participation Certificates. These amendments involved changing the parametric of the adjustment of Agroempresa Forestal Fee and uploading information related to the Trusts to Bosques del Uruguay WEBSITE once a year.

- The last valuation of the Trust's lands and plantations was performed by two entities in December 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 198.67 million, comprising USD 130.99 million for the land, USD 1.45 million for future grazing income and USD 63.63 million for forestry income.
- This Trust 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.

B. Most relevant events in the period

- There have been good commercial opportunities for the sale of pine trees in 2022, as it did in the previous year. This made it possible to continue with the early harvesting of a significant area, thus enabling reforestation with eucalyptus. Land use is becoming the main objective of the fund, the production of solid wood for pulp as a by-product. Although the current situation of the price and costs does not leave large margins³, harvesting and forest management-commercial thinning operations could be performed.
- In the first half of the year, 1366 hectares of eucalyptus were planted (autumn) and in spring 2022, 1200 hectares will be planted, thus completing the annual plan.
- Various silviculture and management activities (pruning and thinning) were conducted during this period. By 2022, a total of 5,221 hectares will be pruned and 1,160 hectares will be

³. In some cases, margins became slightly negative as a result of having to renegotiate an ocean freight rate on the spot market at higher prices.

thinned. At the end of the first semester, management investments were slightly below projections (-10%), because fewer pruning activities were performed due to the lack of development of some stands.

- Revenue from wood sales is estimated to reach USD 27.3 million by 2022. This revenue will be mostly from pulpwood sales to pulp mills and to a lesser extent from exports of pine sawnwood. The Manager updated the original budget forecast upwards, mainly due to higher pine export markets and unbudgeted new business from pulp sales.
- An international bidding process was carried out in February 2022, in which prices were above budget and 200 thousand tons of carbon were sold. Those volumes of carbon will be delivered in the second half of the year.
- Operating costs were in line with the increase in production in the first half of the year. This growth is explained by higher harvest and freight costs, together with the fact that all production costs (harvest and freight) were incurred for an export that will be invoiced in the second half of the year.
- Financial results 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 of the fund. However, if these projections continue, the expected result, while still negative, would be lower than initially estimated.
- The Trust still has approximately 3,700 hectares free of animals. Grazing not only is a source of revenues but also helps to keep the lands cleaner and prevents fire.
- In April 2022, the Trustee took out a long-term (10 years) loan for a total of USD 7 million with a local bank, in order to keep making progress in the conversion investments and to take advantage of the current low interest rates. The Surveillance Committee approved such operation, in compliance with the established regulations. This loan will be amortized in 120 instalments and its payment has already begun.
- On 14 January 2022, a fire broke out in one of the Trust's farms, burning 2 hectares of 6 months and grazing area. The protocol was applied, and significant damage was prevented.
- The Manager and the Surveillance Committee reported that the plantations were generally in good health as of June 2022.

- In the first half of the year, the Trust had the possibility of selling 4 plots of land covering 1,051 hectares which, due to their location, access, soil quality and production focus, the Trust was interested in selling. The Meeting of Holders and the Investment Committee approved this sale in the third quarter of the year, as the Manager reported. This operation will be discussed in the next update. The destination of the proceeds of this sale is under evaluation.
- In May 2022, the planting practices and survival rates for the 604 hectares planted in September 2021 were taken. The measurement result was very good in all farms (92%), above the minimum standards of compliance, as reported by the Surveillance Committee.
- The grazing area represented 59% of the total of area of the Trust as of June 2022. There is an area with young plantations where animals cannot graze yet and the rest is in the award procedure.

3. Analyzed Information

In this report, the information analyzed was as follows:

- Financial statements of the Trustee as of June 30, 2022.
- Financial statements of the Trust as of June 30, 2022.
- Balance sheet with audit's report of Agroempresa Forestal as of December 31, 2021.
- Manager's quarterly reports, the latest as of June 30, 2022.
- Surveillance Committee's reports, the latest as of March 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.

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. Such 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.

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Initial Public

Offering Date: December 6, 2016.

Allocations: According to the retained earnings, 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.⁴

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.*

⁴. 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 June 30, 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	06/30/2022	12/31/2021	12/31/2020
Current Assets	21,205	18,989	15,859
Non-current Assets	240,950	281,068	228,346
Total Assets	262,154	300,057	244,205
Current Liabilities	38,262	33,484	27,348
Non-current Liabilities	200,639	230,681	180,257
Total Liabilities	238,901	264,165	207,605
Equity	23,253	35,891	36,600
Total Liabilities and Equity	262,154	300,057	244,205
Current Ratio	0.55	0.57	0.58

Source: Financial Statements of EFAM

The results for the fiscal year ended 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	06/30/2022	06/30/2021	31/12/2021
Operating Revenues	39,409	33,177	75,867
SG&A	(30,976)	(26,312)	(63,018)
Operating Result	8,433	6,865	12,849
Financial Results	(20,984)	(6,143)	(12,734)
Income before taxes	(12,551)	722	116
Revenues Tax on Economic Activities (IRAE)	(87)	(502)	(824)
Income for the year	(12,638)	219	(709)
Revenues from Operating Activities	21.40%	219%	16.94%
Income for the year	-32.07%	0.66%	-0.93 %

Source: Financial Statements of EFAM

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. On all occasions the company's evaluation in terms of its capacity to carry out the different projects has been positive, therefore, from now on, it will only be followed up, flagging any relevant fact that may justify a review of such opinion.

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

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

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Novillada (weed control and sales of agrochemicals) and AF Maderas, focused on the export of logs for sawmilling and wood sales in the domestic market.

AF started operations in Uruguay in 2000; in 2007 in Chile, and in 2010 in Brazil. Combining the three countries, AF has managed more than 100,000 hectares.

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

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

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

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, 2021, audited by Deloitte.

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 2021, the company's assets approximately amounted to USD 8.8 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.

3. 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.

The accounting and fiscal year ends each December 31. A summary of the interim statement of financial position and the interim income statement of the Trust for the period ended June 2022 is presented in the tables below.

Table 3. Statement of Financial Position of the Trust (thousands of USD)			
Item	06/30/2022	12/31/2021	12/31/2020
Assets	227,732	221,268	172,307
Current Assets	15,584	8,123	13,264
Non-current Assets	212,148	213,144	159,042
Liabilities	18,939	14,349	11,115
Current Liabilities	7,665	5,931	7,526
Non-current Liabilities	11,274	8,418	3,589
Equity	208,792	206,919	161,191
Total Liabilities and Equity	227,731	221,268	172,307
Current Ratio	2.03	1.37	1.76

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

As it is widely known, for interim statements, valuations of the assets making up the Trust estate are not performed. Therefore, the values

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determined in December 2021 are maintained with the actual additions/deductions to the management of the project, in particular, the ones related to wood harvesting.

The increase in current assets is consistent with the wood stock that has not been commercialized yet, as mentioned above in this report.

Regarding liabilities, the balance of the Trust's bank loans amounted USD 8.6 million as of December 2021. One of these loans taken out in May 2020 amounted to USD 3 million, of which 50% has already been amortised. Most recently, in April 2022, another bank loan amounting to USD 7 million was taken out. This loan will be amortized in 120 instalments and its payment has already begun, as mentioned in this report.

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

Table 4. Income Statement of the Trust (thousands of USD)			
Thousands of USD	06/30/2022	06/30/2021	12/31/2021
Operating revenues	12,929	14,441	24,438
Change in the value of biological assets	-	-	22,643
Cost of goods sold	(10,870)	(13,675)	(23,346)
Gross margin	2,059	767	23,735
SG&A	(2,805)	(2,167)	(4,357)
Financial results	(1,037)	(59)	(114)
Sundry income	-	-	2,334
Income for the year before Revenues Tax on Economic Activities (IRAE)	(1,783)	(1,460)	21,598
IRAE	3,656	51	(2,169)
Income for the year	1,873	(1,409)	19,429
Revaluation of property, plant and equipment	-	-	29,837
Associated deferred IRAE	-	-	(3,538)
Comprehensive income for the year	1,873	(1,409)	45,727

Source: Financial Statements of the Trust

The big difference between previous periods and the year ended December 2021 is based on the fact that no new valuations were performed, therefore results for this item were not recorded.

Revenues from sales almost entirely came from wood sales.

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

Investments were made in the purchase of rural real properties to develop forestry, in accordance with the conditions set forth in the Agreement, and to become part of the Trust estate. 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. The latest update of the financial flow with actual data as of December 2021 and a projection for the period 2022-2036 was presented in March 2022. In this opportunity, since there are no new projections or changes in the assumptions, the same results were presented.

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 2036. According to CARE, the most likely scenario is based on the following assumptions:

- Product prices are adjusted for U.S. inflation (projected by BEVSA)⁵. Real price increases are not projected either for pulpwood or solid wood.
- The prices of land have increased by 3% per year in current dollars.
- Internal costs are adjusted for U.S. and Uruguayan inflation. Uruguay's devaluation and inflation are projected based on BEVSA's valuation criteria. It assumes that certain degree of inflation in dollars is sustained, thus penalizing future margins.

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

Investment income is projected in the new flow, which would begin in 2024 and end with the termination of the Trust in 2036.

According to CARE, these assumptions can be entirely shared.

Based on this projection, the IRR for the entire project period of the Trust, in the most likely scenario, would be 6.63%, slightly lower than that estimated a year ago (6.8%).

⁵. Historical U.S. inflation is estimated to be around 2.3%. Inflation is currently well above these values, but for the time being there is no change in the projections.

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

Table 5. IRR results for different scenarios	
Scenario	TIR
1 Wood adjusts for U.S. inflation, plus 1.5% growth. Costs adjust for USD UY inflation and the price of land increases by 1.5%	6.67%
2 Wood adjusts for U.S. inflation. Costs adjust for USD UY inflation and the price of land increases by 1.5%	6.35%
3 Same as 2 but the price of land increases by 3%	6.63%
4 The price of wood and land increase by 1.5%.	5.12%
5 The price of land increases by 1.5%	5.01%
6 All other factors unchanged	4.61%

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 (4.61%).

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 Damodaran⁶, 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:

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

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

Where:

$E(ri)$: Expected return on investment.

β_{im} : Own systematic risk compared to market risk⁷.

r_f : risk-free rate (10- Year U.S. Treasury Bond).

$E(R_m) - R_f$: Market Risk Premium. Specific risk premium for the market where the project operates (the difference between yields on equity assets⁸ and the risk-free rate).

Er_p : Premium for specific risk to the company or project evaluated. Uruguay's country risk (Uruguay Bond Index) was considered.

The risk-free rate is generally considered to be the U.S. Federal Reserve 10-Year Treasury Bonds yields. The usual procedure consists in using the 5 or 10-year averages of these yields, thus avoiding the high values of the late 1990s and early 2000s (5 to 7%), as well as the very low values of recent years (close to zero in 2020). In the last ten years, this yield was 2.0%, and is currently at approximately 3.4%⁹.

In order to measure the country risk, CARE considered the yields of Uruguayan sovereign bonds measured with the República AFAP (Pension Fund Administrator) Uruguay Bond Index. In this case, the "anomalous" values of the 2002 crisis should also be avoided. Although in certain periods the Uruguayan economy has gone through crises of this magnitude, it is not very likely that this could occur in the medium term.

The value of Damodaram's "beta unlevered" parameter for January 2022 is 0.96 (1.07, the average of the last 5 years) indicating that investing in forestry production represents the same risk and variability as the average of all the activities in that market.

For the calculation of these indicators, CARE considered the average values of the last 5 years, which are those examined by investors when making their decisions. Therefore, CARE considered 1.96% as the yield of the U.S. Bonds, 1.42 basis points for the country risk (Uruguay Bond Index).

Using these values results in an expected rate of return on equity of 6.68%. This value would be higher than the last calculated IRR for the most likely scenario (6.63%) which would indicate that profitability is only slightly below theoretical¹⁰. 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.

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

⁷. The average betas of paper and wood products companies in emerging markets according to A. Damodaram were considered.

⁸. Equity Risk Premium of the S&P 500. In the last 5 years, the average was 4.73%.

⁹. These bonds' current yield is at rates similar to the average values of the last 5 to 10 years. During the worst part of the health crisis, they were even lower, below 1%, but now they are increasing.

¹⁰. 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.

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: To date (June 2021), 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 were 87% and 92%, in fall and spring 2021, respectively (80% minimum required).
- Budget compliance: Planting, pruning, thinning, clear-cutting, and budget expenses must show variations of less than 25% according to the budget submitted to the Surveillance Committee. This evaluation is performed annually and must be completed by the end of the year.
- Mean Annual Increment (MAI) of the plantations: The MAI recorded in the last measurement (September 2021) reasonably meets the expected values.

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

Item	Prospectus	Executed
Land Price (USD/ha) as of 2021 (*)	3,231	2,830
Forest Harvesting (%)	60%-65%	57%
Rel. E. Grandis/Dunnii area	2.7	3.4
Total Area	47,281	46,272
Forest Area (real)	31,300	26,690
41% 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.

In 2022, there were sales of pulpwood to pulp mills and to a lesser extent exports of pine sawnwood exports. Sales of eucalyptus solid wood are not projected.

¹¹. Article 10 of the Trust Agreement.

The table below shows a comparison between the budgeted revenues for the first half of 2022 and the expected revenues for the whole year (the initial budget and the estimated revenues).

Table 7. Revenues in the first half of 2022 and projection for 2022 (USD)

Activity	First half of 2022			Projected	TOTAL 2022	
	Actual	Budget	Difference		Budget	Difference
Eucalyptus Pulp in 2021	4,633,297	4,276,309	356,988	5,540,115	5,029,790	510,325
Eucalyptus Pulp in 2022	873,903	0	873,903	10,805,376	8,950,376	1,855,000
Pine Exports +20	7,241,237	2,575,955	4,665,282	10,907,318	8,395,318	2,512,000
Grazing	128,544	164,941	-36,397	329,881	329,881	0
Total	12,876,981	7,017,205	5,859,776	27,582,690	22,375,484	4,877,325

Source: Manager

As the table shows, in the first half of the year actual revenues were well above budget, due to higher pine exports, which were almost three times higher than projected. At year-end, total sales are expected to be slightly higher than budgeted (+5%), provided that exports of eucalyptus recover. These differences are expected to narrow by the end of the year, but total sales would still be higher than budgeted (+22%).

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 table below shows a comparison between budgeted investments and costs for the first half of 2022, and actual results. It also shows the expected revenues for the whole year (the initial budget and the estimated revenues).

Table 8. Investments and costs for the first half of 2022, and projections for 2022 (USD)

Activity	First half of 2022			Projected	TOTAL 2022	
	Actual	Budget	Difference		Budget	Difference
Production Costs	11,105,247	5,167,685	5,937,562	19,585,750	14,843,978	4,741,772
Implantation Investments	2,564,599	2,586,248	-21,649	4,505,501	4,500,361	5,140
Investments in Management	671,979	742,454	-70,475	1,981,165	1,933,974	47,191
Expenses	1,785,177	1,830,882	-45,705	3,372,877	3,341,485	31,392
Total	16,127,002	10,327,269	5,799,733	29,445,293	24,619,798	4,825,495

Source: Manager

Implantation investments were relatively in line with the budget while investments in management were slightly below it. This difference with the budget amount is due to the fact that pruning activities are being carried out more slowly.

Production costs were well above budget (more than double), owing to higher pine harvests and exports, as well as to the fact that some harvested production will be sold in the second half of the year.

Provided cost and revenue forecasts are met, the Trust would end the year with a slightly negative management result (already foreseen), without considering the revaluation of the forests.

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) **Pinus taeda:** Measurements showed that the volume of the forests is in the upper zone of the most likely curve.
- (2) **E. dunnii:** Measurements showed that the volume of forests is on the minimum curve, there are earlier planted forests, the Trust's forests will be planted in 2017.
- (3) **E. grandis:** Plantations are still too small to have volume, their data were not yet presented.

5. Land and forests valuation

The last valuation of the Trust's lands and forests was presented in December 2021. Two valuations were performed by two different companies. Agroclaro conducted the land valuation without considering the value of the forests, and Woodlands Pacific conducted the forest valuation considering the land value estimated and provided by the former.

Table 9 shows the evolution of the Trust's land and forest values, according to the data provided in the valuations performed yearly. It should be clarified that these valuations were carried out under different approaches 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
Annual variation 2020/2016	4.4%

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 198.67 million as of December 31, 2021, a much higher value than the previous year's (42%). This evolution shows an uptrend in assets, which has been growing at a compound annual growth rate of 4.4%, mainly due to the growth of the forests.

This significant increase in 2021 accounts for a change in the approach used. As discussed in depth in previous CARE ratings, this agency had some difficulty with the approach as the price of land is punished by undervaluing it below the current market value.

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%.

Under these assumptions, the valuation of the Trust's lands and forests as of December 2021 amounted to USD 198.67 million, comprising USD 63.63 million of forests, USD 2.60 million of grazing and USD 130.99 million of 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; CARE 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 is carried out to determine future factors, affecting 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 refers not only to domestic policies, but also to those of the countries with which the Trust commercializes. 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. This measure would not have affected the business plan as all the necessary permits for the forestry assets have been granted. However, would it have been a change in sectoral policy, the forestry operations would have been affected.

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, have stood out for their care and certifications in this regard.

The COVID-19 pandemic initially had a negative impact on the international wood supply and demand, however, from 2021 onwards this trend is beginning to show a substantial recovery in demand, and prices have largely recovered the higher records of recent years.

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 focuses on the prices of wood and land as they are key elements of the Trust.

2. Prices of wood

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

In the case of this project, the price of quality eucalyptus and pine wood will have the most significant impact on its final result since this is the main objective of this Trust. 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 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.

As for pulpwood, the reduction in the consumption of different types of paper (printing, packaging, office paper) was not compensated by the increase in the consumption of tissue paper. In addition, some industries had to temporarily stop their activities as a result of cases of COVID-19 among their employees. This situation led to a decrease in the imports of pulpwood and wood for pulp production (logs and chips) from the main markets (China, Japan, Europe). In the second half of 2021, once the aforementioned difficulties were overcome, demand and prices had steadily recovered to reach levels similar to those in 2018.

In the case of eucalyptus wood for sawmilling, prices and demand have shown a similar behaviour as pulpwood, although the recovery in demand began earlier than in the case of such product. After a very uncertain

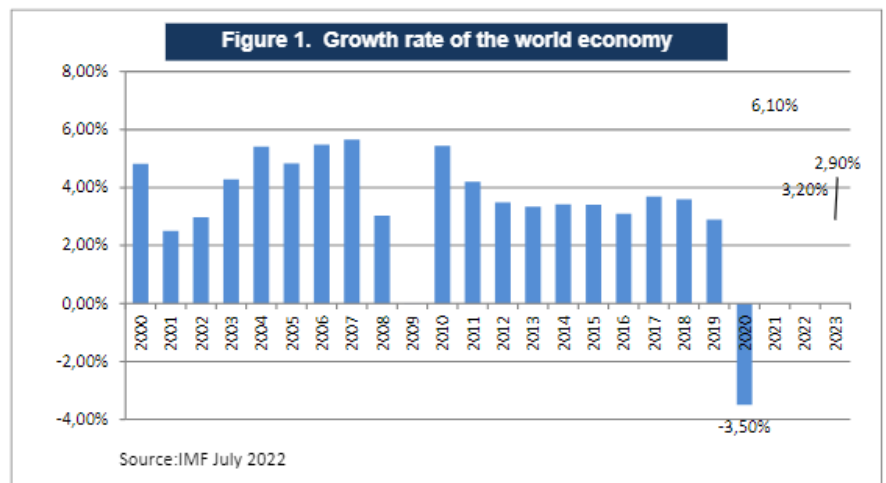
beginning in 2020, influenced by the slowdown in exports at the end of 2019, and the declaration of a pandemic at the beginning of 2020, in the second half of that year, prices and demand showed an uptrend consolidating the market recovery, which continued throughout 2021, and part of 2022. However, for the second half of 2022, markets for quality eucalyptus wood are expected to shrink slightly, given the global context of high inflation, logistics costs and that the major consuming countries (Europe, China, USA) are facing economic problems and there has been a decline in domestic consumption.

Considering pine sawnwood, demand recovered from mid-2020 onwards and this trend did not change throughout 2021 and the first half of 2022. In the second half of 2022, a similar behaviour (a slowdown in trade flows) is expected for eucalyptus, caused by lower activities in China and rising shipping costs, which greatly tighten trade margins.

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 sector, confirming that in the future there would be no major deviations in the expected trajectory.

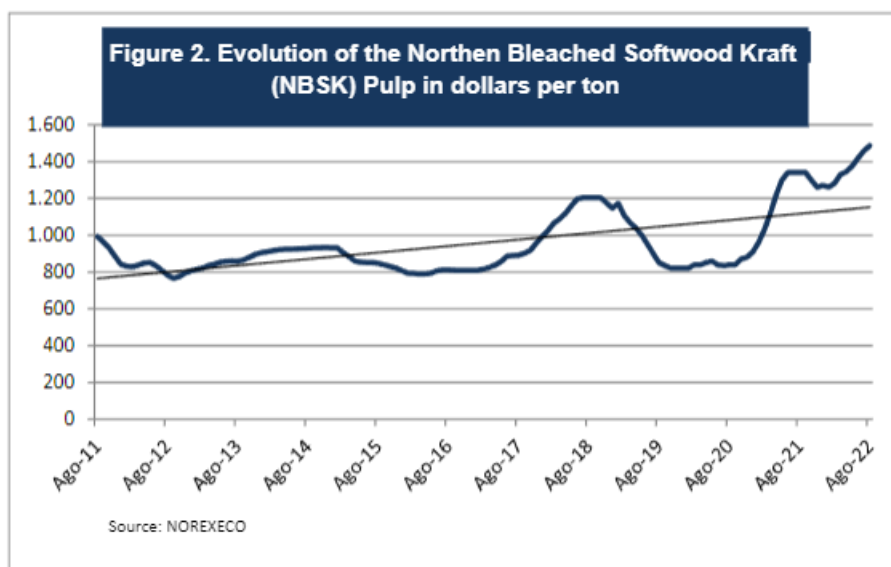
The International Monetary Fund (IMF) has adjusted its projections for the coming years in the World Economic Outlook. It has described them as highly uncertain owing to the impact of the COVID-19 pandemic, and more recently, to the effects that the war between Russia and Ukraine has had and will probably have. In the last report dated July 22, 2022, the IMF estimated that the baseline forecast is for growth to slow from 6.1% last year to 3.2% in 2022, implying a significant reduction from its previous estimate in the April 2022.



In the last report, the IMF estimated that the *global output contracted in the second quarter of this year, owing to downturns in China and Russia, while US consumer spending undershot expectations. Several shocks have hit a world economy already weakened by the pandemic: higher-than-expected inflation worldwide—especially in the United States and major European economies—triggering tighter financial conditions; a worse-than-anticipated slowdown in China, reflecting COVID-19 outbreaks and lockdowns; and further negative spillovers from the war in Ukraine.* As a result, global growth is projected to decelerate from an estimated 6.1% in 2021 to 3.2% in 2022 and 2.9% in 2023. *Global inflation has been revised up due to food and energy prices as well as lingering supply-demand imbalances, and it is anticipated to reach 6.6% in advanced economies and 9.5% in emerging market and developing economies this year.*

After a period of relatively low international pulp prices from a historical perspective, a process of substantial growth was observed throughout 2021, showing signs of stability in the last few months. Thus, after several months of trading close to USD 800 per ton, the benchmark price of NBSK¹² pulp (the main international price for long-fiber conifer pulp) reached a new high of USD 1,340 per ton between June and August, before a slight fall of USD 1,260 in December 2021. The 2021 average was USD 1,234, showing a year-over-year appreciation of 45%.

In the first half of 2022, the market showed a new momentum, owing to a series of special conditions: supply problems in some European plants operating with Russian wood, logistical problems and strikes in some plants. This situation has pushed prices to an all-time high (1,486 USD/tt), and is expected to last for some time, although in the medium term it should fall back to around 1,200 USD/tt¹³.

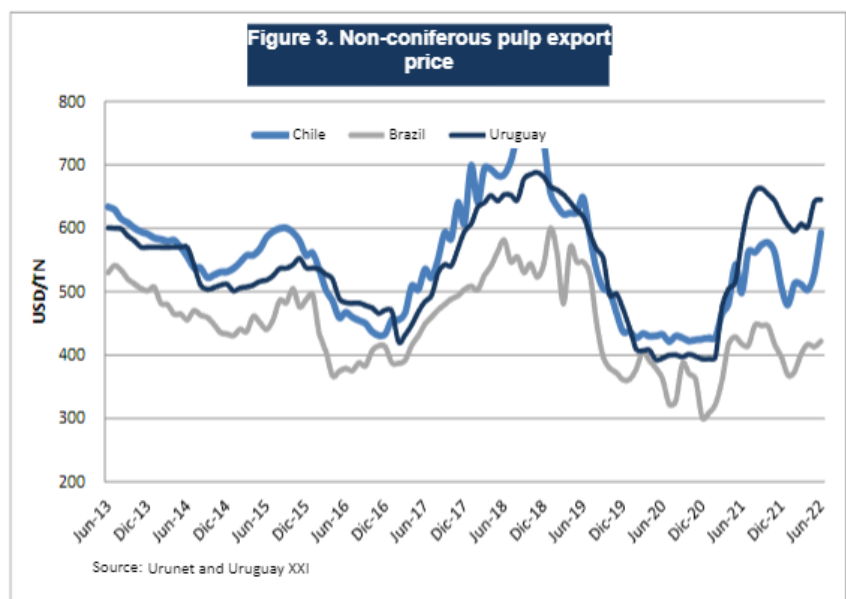


¹². Northern Bleached Softwood Kraft. Long-fiber bleached pulp.

¹³. Bloomberg Linea, July 2022

From a medium-term perspective, the NBSk pulp current price 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, justifying a price reversal in the medium term.

Regional export prices are broadly in line with international market fluctuations. They showed an upward trend during 2021, however, in the first months of the year 2022, a certain stabilization, and a new momentum in the most recent months. Therefore, the average non-coniferous pulp export price for the January-June 2022 increased 29% in Uruguay, 10% in Chile and 6% in Brazil, compared to the same period in the previous year.

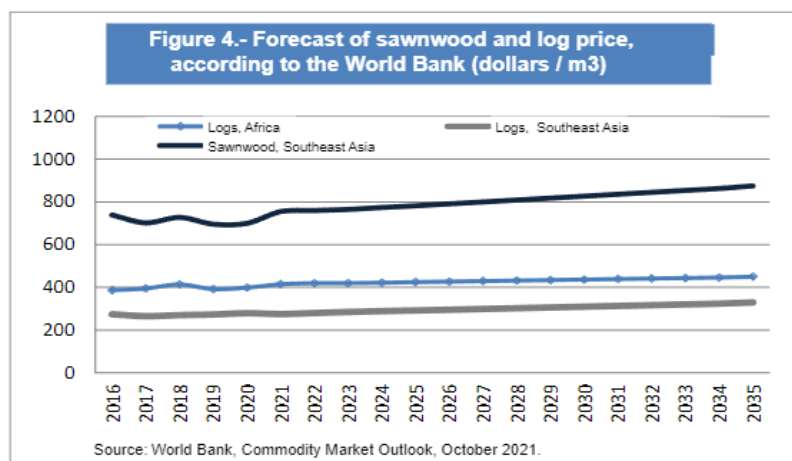


No information is available to project the outlook for the evolution of international pulp prices in the medium term. In the last 10 years, the annual increase in the international pulp price was 3.2%, which is an indicative value, although there is no certainty that in the future it will be the same as in the past.

The long-term perspective for raw wood for sawmilling or sawnwood showed a slight growth in nominal values, in the long term. The World Bank¹⁴ projections reported a 0.95% annual cumulative growth for roundwood 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

¹⁴. World Bank Commodities Price Forecast. October 2021.

slightly lower than the long-term devaluation of the dollar) was also projected.



In 2021, forestry exports performed very well, even surpassing pre-pandemic values, and achieving once again a new all-time high. Pulp was ranked as the country's second largest export commodity, only behind beef (1,576 million; 42% higher than in 2020). This increase was a consequence of higher export prices, which recovered from the low levels of 2020 prices. The average pulp price export reached USD 562 per ton in 2021, increasing a 39% compared to the 2020 average.

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

	2016	2017	2018	2019	2020	2021	First half of 2022
Pulp	1,222	1,310	1,660	1,527	1,107	1,576	776
Logs (except eucalyptus)	5	88	150	89	132	204	79
Plywood boards	58	64	76	55	67	105	59
Chips (eucalyptus and pine)	82	64	95	102	21	74	56
Coniferous and non-coniferous sawnwood	65	93	115	97	104	159	100
Paper and Cardboard	52	34	32	36	25	26	14
Eucalyptus logs	17	21	29	14	21	23	14
Total	1,500	1,673	2,158	1,921	1,477	2,167	1,098

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

Note: Exports to the Free Trade Zone are not considered, as we consider pulp exports from this destination.

The export recovery in 2021 covered all the chain products. In particular, there was a strong increase in pine exports, reaching a new revenue record. Chip exports, which had been halted for much of 2020 due to a lack of market, have also strongly recovered; however, they still remain below the 2019 record.

In the first months of 2022, wood and wood product exports remained at similar levels as the previous year, for virtually all products. In the case of wood pulp, sales revenues amounted to USD 776 million, making it the third most exported product. In this case, this increase was only due to better prices, however, the tons exported decreased compared to the

same period in 2021. In the first 5 months of 2022, the average export price stood at USD 616/t, 9.6% higher than the average for 2021.

The amounts and volumes of eucalyptus logs exported remained at similar levels to 2021. Thus, exports of this product reached USD 14 million in the first half of 2022. In the first months of this year, the volume of pine exported showed a lower record compared to 2021, considering that in 2021 the export of this product was a record high.

In the first months of this year, sawnwood exports were higher in volume and price compared to the same period of the previous year, behaving more dynamically. In turn, plywood has shown very similar levels to the previous year, both in volume and value.

In the middle of 2022, chip exports were higher than in the same period of the previous year, and it is estimated that this year it will probably end with higher values than in 2021.

3. Prices of land

According to the Directorate of Agricultural Statistics of the Ministry of Livestock, Agriculture and Fisheries (MGAP, for its acronym in Spanish) reports, for the average of transactions throughout the country, the price of land, second item in level of importance, showed a very strong dollar appreciation from 2004 until 2014, falling in 2015, and maintaining a certain stability with the variations typical of a small number of transactions in recent years.

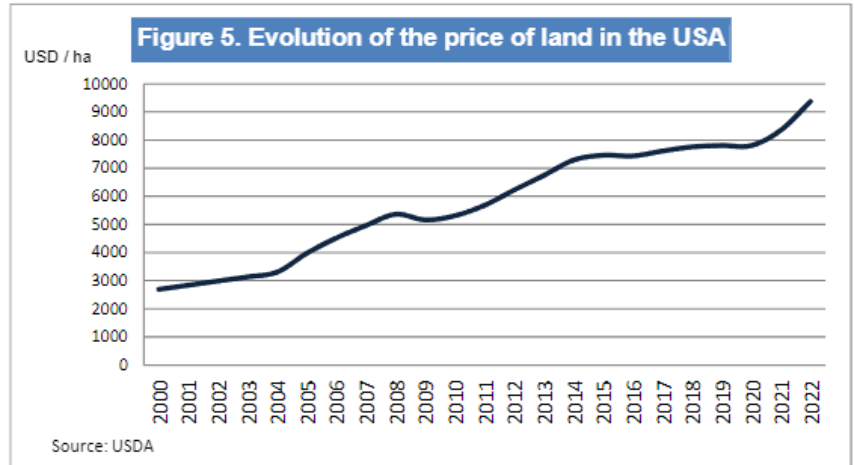
The outlook for international land demand is encouraging and, in the short and medium term, prices are expected to be at rising levels, but at more moderate rates than in the past. However, above-trend price increases may be expected in the short term as a result of high commodity prices and high international inflation, combined with the fact that there have been virtually no price increases since 2014.

In this report, CARE updated the price trends in those countries which could provide important information.

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. However, such variations did not influence the trend. 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 such drop was very moderate. Both negative price-level shocks were reversed within a few years.

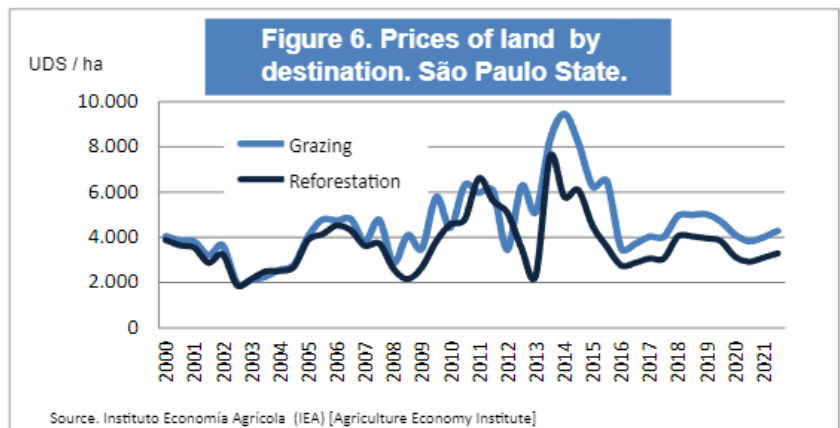
The price of land (average) has remained relatively stable between 2017 and 2020, with increases similar to the U.S. inflation rate, but apparently it has recovered an upward trend in real terms, in the last two years. In 2021, average prices of land increased by 7% and in 2022 by 12%. If

agricultural and livestock land is analyzed separately, the former had an increase of 14.3% between 2021 and 2022, 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. Therefore, price fluctuations are amplified by this effect. A sharp fall in the prices of land began in 2014, starting to reverse in 2017.

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 12%, recovering part of the reduction verified in the previous year (18% for grazing land and 21% for forestry land and natural pastures) as a result of the devaluation of the real.



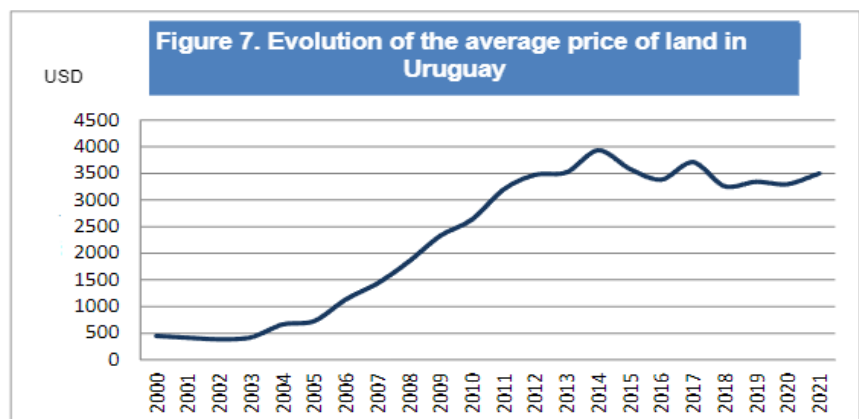
The special situation of Argentina makes it impossible to have an updated and reliable trend of the prices of land. The high volatility of its policies and export taxes to agricultural production, the macroeconomic

imbalances, and the restrictions on foreign exchange, have caused distortions in values that have nothing to do with the trend that land prices should follow. On the basis of some technical reports consulted by CARE, in Argentina, in 55 years (1956 to 2011) the price of agricultural land (of very good quality) increased at an average annual growth rate of 3.5% in real terms.

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 has risen some doubts as to the values obtained, but they will be confirmed in the following years. In 2021, the area commercialized rebounded (52%) compared to the previous year, although it had remained below the hectares commercialized per year between 2000 and 2014.

Based on information gathered by some market operators, a new price rebound is expected for 2022, as a result of higher demand derived from good commodity prices, especially when considering high international inflation and the current land price levels that have not shown sustained increases since 2014.



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

¹⁶. SERAGRO, Agroclaro, Consur and private operators

There are other sources of data provided by consulting firms and market managers¹⁶, which by using different valuation criteria, estimated the values of land with similar characteristics, considering the different destinations for the products. The most common approaches are:

comparison of real sales of similar lands and valuation according to expected revenues. In general, the market value is calculated combining both approaches. A study of several land valuations, which CARE had access, showed that by 2022 lands have increased their value between 3 and 4%, largely coinciding with the information published by DIEA for the average land in the country.

There is a proven relationship¹⁷ between the National Commission for Agro-Economic Soil Studies (CONEAT, for its acronym in Spanish) Index and the price of land with CONEAT index 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 farmlands with a CONEAT index below 100 are demanded for the production of other products different from meat and wool (rice, afforestation), items considered for the calculation of this index.

Land value is a relatively important component of the Trust's final revenues (20.5%) 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.

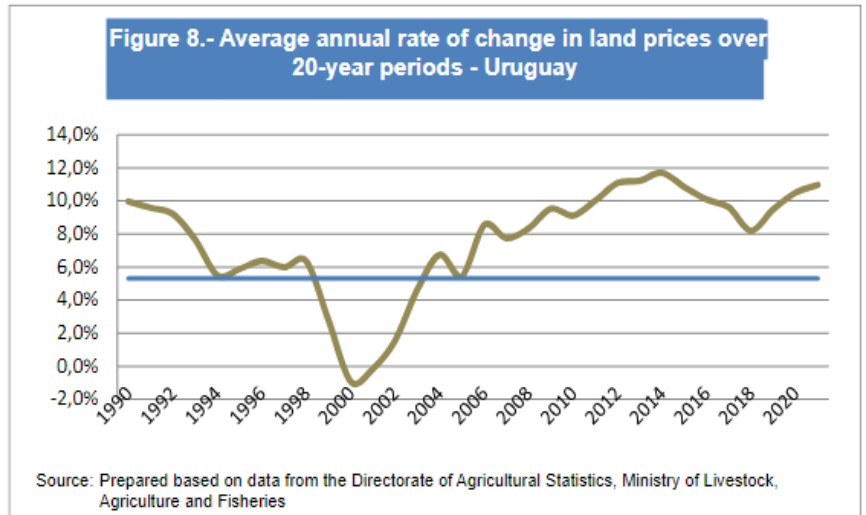
For this purpose, CARE analyzed the annual variation of the prices of land (in current U.S. dollars) for a 52-year series (1970 to 2021) for 20-year periods, which showed the following:

- On average, the annual evolution of the price 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% (approximately 11% annual growth).

¹⁷. B. Lanfranco and G. Sapriza (Serie Técnica N° 187 de INIA) [Technical Series No. 187 from National Institute of Agricultural Research], "El índice CONEAT como medida de productividad y valor de la tierra" [The CONEAT Index as a Measure of Land Productivity and Value], 2011).



CARE considers that although sustained increases in the prices of land are to be expected in the medium and long terms, they would not have a similar increase as those in the past. Most likely, increases in prices will compensate the long-term U.S. inflation¹⁸, 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.

4. Public policies, political risk

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

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

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

¹⁸. It is estimated at approximately 2%. It is currently well above these values, but it is expected to reasonably return to its historical values.

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 was formed 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+.uy¹⁹ 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

¹⁹. **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.**