

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, October 2022

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Update of the Public Offering Issue Rating

October 5, 2022

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: April 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. The last financial flow was presented in March 2022, which estimated an IRR for the baseline scenario of 8.91%.
- 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. 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 June 30, 2022, 34,318 hectares are already planted and 1,311 hectares are available for planting, obtaining an average utilization rate of 64%. This Trust also leases a total of 6,030 hectares, of which 3,572 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 wood.
- 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.
- 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 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, each year in the secondary market.
- This Trust is expected that its sales reach USD 50 million by 2022, mostly from the export of sawnwood, and to a lesser extent from pulpwood to pulp mills. At the end of the first half, wood sales revenues were reasonably in line with budget, recording higher pine sales and lower eucalyptus sales. It is worth noting that this was possible despite the reduction in the demand from China, the increase in the operating costs and the logistical difficulties that have been eroding business margins. Investments in plantations have been lower and will end the year lower than budgeted because some permits were not promptly granted; therefore, it will not be possible to follow the planting plan. Operating costs have been higher than budgeted, owing to higher rates, and because harvesting and freight costs were incurred to hold them in stock. For the year, the Manager estimated a slightly positive management result (USD +1.4 million), the results of the valuations were not considered.
- The implementation of the Olimar industrial project is ongoing. The proposal has already been approved by the Surveillance Committee and the Meeting of Beneficiaries and the investment process has started. The land was granted the Treinta y Tres City Government on bailment for 20 years. The agreements to purchase of the main equipment were signed and a loan of USD 5.2 million with a two-year grace period for the financing of the investment was taken for 10 years.
- The last valuation of the Trust's lands and plantations was performed 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. This valuation reached a total amount of USD 404.10 million, comprising USD 246.05 million for the land,

USD 3.66 million for future grazing income and USD 156.39 million for forestry income².

- 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.

². BEVSA's estimate of the fair value of the Trust's PCs was 9% below the valuation performed. This is This is attributable to the approach and the discount rate considered.

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- 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 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, Adrián Tamber and Julio Preve. CARE hired Mr. Leandro Rama, Attorney at Law, when the legal risk assessment of 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, 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 34,318 planted hectares; there are about 1,311 hectares available for planting, which would result in an average utilization of 64%. Approximately 34% of the area is planted with pine (approximately 12,500 hectares).
- The Trust also leases a total of 6,030 hectares, of which 3,572 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. In turn, 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.
- In December 2020, the annual audit of the FSC (Forest Stewardship Council) certification was carried out and the certificate was renewed without any major observations. To date, this Trust has 66% of its hectares certified.
- 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 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.
- 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 was registered under 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.
- The last valuation of the Trust's lands and plantations as of December 2021 was performed 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. This valuation reached a total amount of USD 404.10 million, comprising USD 246.05 million for the land, USD 3.66 million for future grazing income and USD 156.39 million for forestry income.

b. Most relevant events in the period

- In the second quarter of 2022, a total of 2,354 additional hectares located on the 5 farms of the Trust were included to the FSC certificate.
- An overdraft agreement amounting to USD 2.5 million to finance short-term operations was executed with a local bank. In addition, a long-term (10-year) financing of USD 5.2 million for the Olimar Project was obtained.
- On 16 June, a Meeting of Beneficiaries was held. This meeting unanimously approved the anticipated sale of a 139-hectare plot of land and, by an absolute majority, the implementation of the Olimar Project.

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- Regarding the construction of the Olimar plant, the project was submitted to the Treinta y Tres City Government. After the agreement was executed, the City Government delivered a 19-hectare plot of land, where the plant will be installed.
- In this reporting period, considering the operations for the implementation of the Olimar project, the following progress has been made:
 - The agreement to purchase the boiler was executed. The boiler is already in production.
 - The agreement and letter of credit to import the debinding machine and dryer were signed.
 - The plant layout was prepared to define the location of the different machines.
 - Price requests for soil movement were organised and the tender was launched.
 - Financing for the investment was provided.
- On 16 June 2022, the Meeting of Beneficiaries approved the anticipated sale of a 139-hectare plot of land located on Ruta 27, 3 km away from the city of Rivera. This sale, approved by the Surveillance Committee, was made because the farm is very close to that city. Therefore, it would be very difficult to reforest it due to the risk of fire in the proximity to the populated areas. Moreover, it is expected that this farm has a high real estate value.
- Given the delays to obtain the permits for planting new areas continue, it has not been possible to meet the planting forecasts.
- The Manager estimated that revenues will amount to USD 50 million by 2022. They will mainly come from the export of sawnwood and, to a lesser extent, from pulpwood sales to mills, and marginally from grazing. The revenue projection would be slightly higher than budgeted, provided that the dynamic trend of the export pine market that occurred during the first half of the year continues.
- Investments were well below projections because of the delay in reforestation, as the permits to reforest 777 hectares were not granted. This operation should take place next year. This delay in obtaining the permits is an obstacle to the normal development of the project.

- The grazing area remained stable in the first half of the year, as a 74% occupancy of the total potential area was achieved. Grazing revenues are expected to be in line with budget at year-end.
- Operating costs were reasonably 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. Furthermore, Harvest 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. This state of affairs has led to a decrease in the unit contribution margins, probably due to the economic situation. Nevertheless, the Manager estimated that by the end of 2022, the Trust will achieve a positive management result (before valuations) approximately USD 1.4 million, slightly higher than budgeted for the year.
- The Surveillance Committee has warned about the rising costs, the reduction in unit margins and the delays in obtaining permits for planting or reforestation. However, the Surveillance Committee reported that, in the first half of the year, the operations were in line with the plan and budget in terms of the volumes of wood marketed and the forest areas harvested. This was achieved despite a sharp decline in external market demand, rising costs and difficulties in getting competitive sea freight.

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, 2021.
- Financial statements of the Trustee as of June 30, 2022.
- Financial statements of the Trust as of June 30, 2022.
- Manager's quarterly reports, the latest as of June 30, 2022.
- Surveillance Committee's reports, the latest as of June 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.

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 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.

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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 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

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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.

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 accounting and fiscal year ends each December 31. 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.

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

Item	06/30/2022	12/31/2021	12/31/2020
Current Assets	19,806	13,024	10,259
Non-current Assets	421,731	422,304	411,156
Total Assets	441,537	435,328	421,415
Current Liabilities	13,166	11,006	8,490
Non-current Liabilities	8,974	5,785	5,439
Total Liabilities	22,140	16,791	13,929
Equity	419,396	418,537	407,487
Total Liabilities and Equity	441,537	435,328	421,415
Current Ratio	1.50	1.18	1.21

Source: Financial Statements of the Trust

The valuation as of December 31, 2021, showed a drop in the value of the forests amounting approximately to USD 27 million. As it is widely known, no new valuations will be performed until next December; if they are done, there will be new additions/deductions in the management. The same applies to land, which maintains the value estimated in the December 2021 valuations.

The book value of equity as of June 2022 was USD 479.4 million, much higher than the amount issued USD 330 million.

Considering liabilities, as of December 2022, the balance of the Trust's bank loans was USD 12.9 million. Most of those loans 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)

Thousands of USD	30/06/2022	30/06/2021	12/31/2021
Operating revenues	27,218	19,647	43,529
Change in the value of biological assets	-	-	(27,161)
Cost of goods sold	(21,985)	(15,904)	(35,441)
Gross margin	5,233	3,743	(19,073)
SG&A	(5,943)	(3,722)	(7,876)
Financial results	(919)	(93)	(224)
Miscellaneous income	-	-	3,188
Income for the year before Revenues Tax on Economic Activities (IRAE)	(1,628)	(72)	(23,986)
IRAE	2,487	(556)	(391)
Income for the year	859	(628)	(24,377)
Revaluation of land	-	-	38,218
Associated deferred IRAE	-	-	(2,790)
Comprehensive income for the year	859	(628)	11,051

Source: Financial Statements of the Trust

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

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According to the table above, income for the year almost entirely came from wood sales, and also from marginal income from grazing and others. As mentioned above, since there were no asset valuations in this period, results were not recorded for changes in the value of assets, as is the case at year-end.

Risks considered

Management risk, considering the suitability of AFS.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

Investments were made in the purchase of a forestry project, 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 their 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 2021 and a projection for the 2022-2039 period is included. 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 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 (6.7%).

Investment income 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 8.91%, slightly lower than that estimated a year ago (10.1%). 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 the price of land increases by 1.5%	8.92%
2 Wood adjusts for U.S. inflation. Costs adjust for USD UY inflation and the price of land increases by 1.5%	8.75%
3 Same as 2 but the price of land increases by 3%	8.91%
4 The price of wood and land increase by 1.5%.	7.14%
5 The price of land increases by 1.5%	7.24%
6 All other factors unchanged	7.05%

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 (7.05%).

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:

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

β_{im} : Own systematic risk compared to market risk⁵.

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 assets⁶ 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%⁷.

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 2021 was 0.96 (1.07 for 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 (8.91%) which would indicate that profitability is only slightly below theoretical¹⁰. While these comparisons cannot be

⁵. The average betas of paper and wood products companies in emerging markets according to A. Damodaram were considered.

⁶. Equity Risk Premium of the S&P 500. In the last 5 years, the average was 4.73%.

⁷. 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.

taken in a strict sense, they should be considered as a reference that, among others, help to form a judgment about the investment.

This indicates that according to these methodologies, the discount rate of the project is appropriate and would strengthen the business return calculations for the investor.

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, this Trust acquired farms that were already forested; therefore, revenues from wood sales have been already recorded since the first years.

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 revenues for the first half of 2022 and the expected revenues for the whole year (the initial budget and the estimated revenues).

Activity	First half of 2022			Projected	TOTAL 2022	
	Actual	Budget	Difference		Budget	Difference
Eucalyptus Pulp	5,816,579	6,900,394	-1,083,815	8,339,375	8,339,375	
Pine export and domestic market	8,353,145	6,429,017	1,924,128	18,174,863	14,515,300	3,659,563
Eucalyptus export and domestic market	12,200,840	10,713,344	1,487,496	22,617,900	23,841,274	-1,223,374
Standing timber domestic sales and Firewood	563,134	579,547	-16,413	818,902	713,462	105,440
Grazing	279,493	218,891	60,602	437,783	437,783	0
Total	27,213,191	24,841,193	2,371,998	50,388,823	47,847,194	2,541,629

Source: Manager

The Manager adjusted the year-end revenue projection upward compared to the initial budget, given the dynamism of the pine export market. Exports are expected to increase provided that demand conditions remain the same as in the first half of the year.

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

Activity	First half of 2022			TOTAL 2022		
	Actual	Budget	Difference	Projected	Budget	Difference
Production Costs	23,466,061	17,609,738	5,856,323	39,221,791	36,094,990	3,126,801
Implantation Investments	796,671	1,322,391	-525,720	1,399,043	2,831,179	-1,432,136
Investments in Management	130,841	166,732	-35,891	289,244	289,244	0
Expenses	3,476,292	3,416,611	59,681	6,431,785	6,344,905	86,880
Total	27,869,865	2,515,472	5,354,393	47,341,863	45,560,318	1,781,545

Source: Manager

Implantation investments were reasonably in line with the budget in the first half of the year and such trend is expected to continue until the end of the year. As it was mentioned above, this is due to the fact that a smaller area was planted because the corresponding permits were not obtained.

Production costs were above budget because harvests and exports were also above budget. In addition, part of the harvested production will be sold in the second half of the year. These differences will narrow by the end of the year, but investment costs will still be approximately 9% higher than initially projected.

Provided cost and revenue forecasts are met, the Trust would end the year with a slightly positive management result, 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. Land and forests valuation

In this report, CARE presents the valuation of the Trust's lands and forests as of December 2021. Two valuations were presented by two different companies. Agroclaro carried out the land valuation without considering the value of the forests, and Woodlands Pacific carried out the valuation of the forests considering the land at the value estimated and provided by the former.

Table 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 these valuations were carried out under different approaches and considered both the land and forests together.

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

Source: Valuations

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Between 2020 and 2021, the value of the land and forest had an increase of 4% overall. However, the distribution of values is very different due to the approach used. In 2021, the value of land grew by 37%, while the value of forests fell by 11%. If revenue from grazing is considered when valuing forest assets, the drop is smaller, 9%.

As discussed in depth in previous ratings, CARE had some difficulty with the approach used in 2020 as it penalized the price of land by estimating a lower value than the current market value. The methodology used in 2021 provides more accurate results.

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 2021 was USD 404.10 million, comprising 246.05 MM for the forests, 3.66 MM for grazing and 154.39 MM for the land.

Cash flow 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 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 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.

A) 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 84% 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

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managed for quality timber. While the long-term objective will be on solid eucalyptus timber, the acquired property was initially approximately 38% 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.

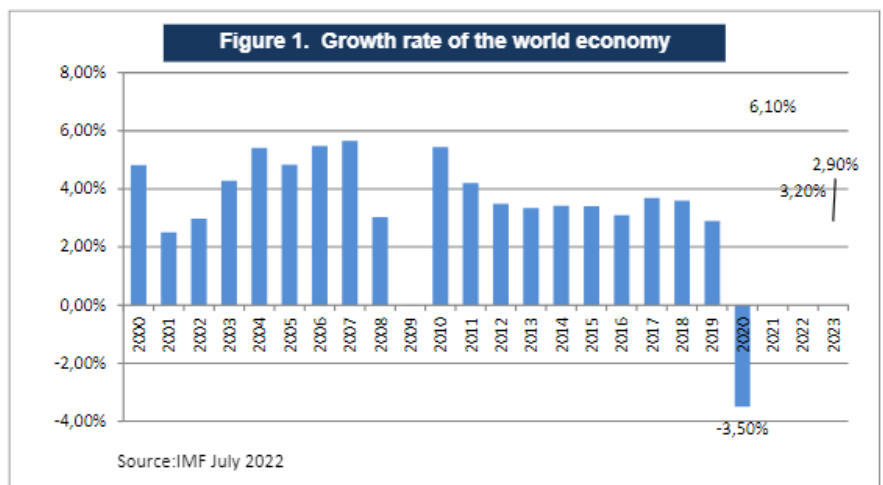
In the case of eucalyptus wood for sawmilling, prices and demand have shown a similar behaviour as pulpwood, although the recovery in demand began earlier than in the case of such product. After a very uncertain beginning in 2020, influenced by the slowdown in exports at the end of 2019, and the declaration 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.

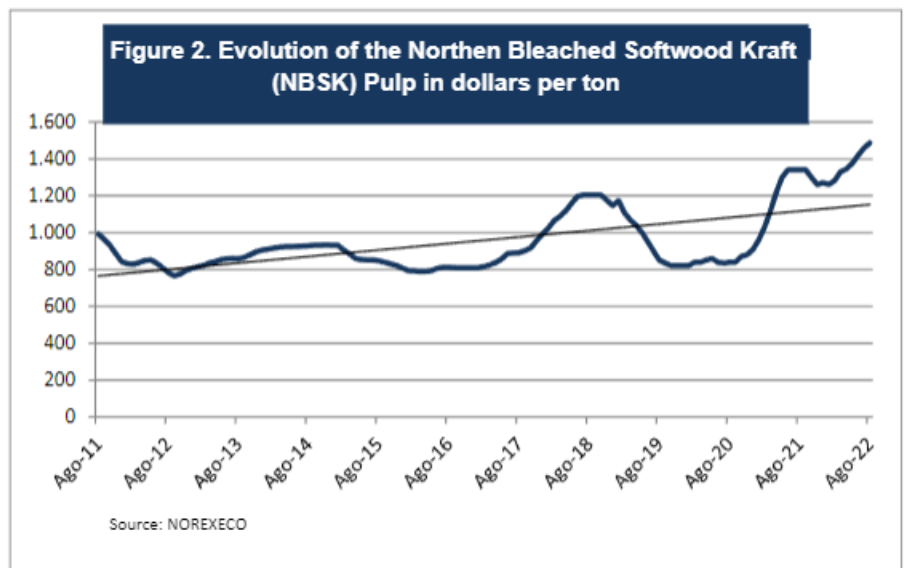
The International Monetary Fund (IMF) has adjusted its projections for the coming years in the World Economic Outlook. It has described them as highly uncertain owing to the impact of the COVID-19 pandemic, and more recently, to the effects that the war between Russia and Ukraine has had and will probably 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 NBSK⁸ 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/tt⁹.

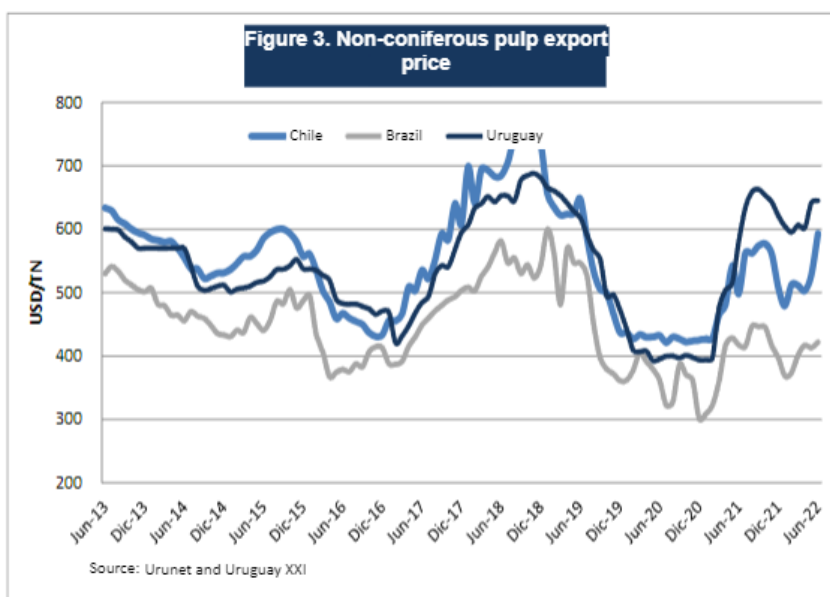


⁸.Northern Bleached Softwood Kraft. Long-fiber bleached pulp.

⁹. 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.

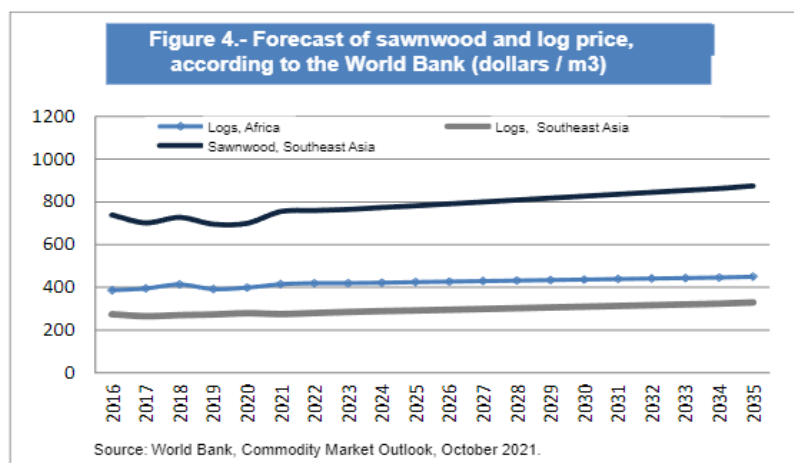


No information is available to project the outlook for the evolution of international pulp prices in the medium term. In the last 10 years, the annual increase in the international pulp price was 3.2%, which is an indicative value, although there is no certainty that in the future it will be the same 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 Bank¹⁰ 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

¹⁰. 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 9. 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 of logs to the Free Trade Zone were not included, as CARE considered 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.

B) Prices of land

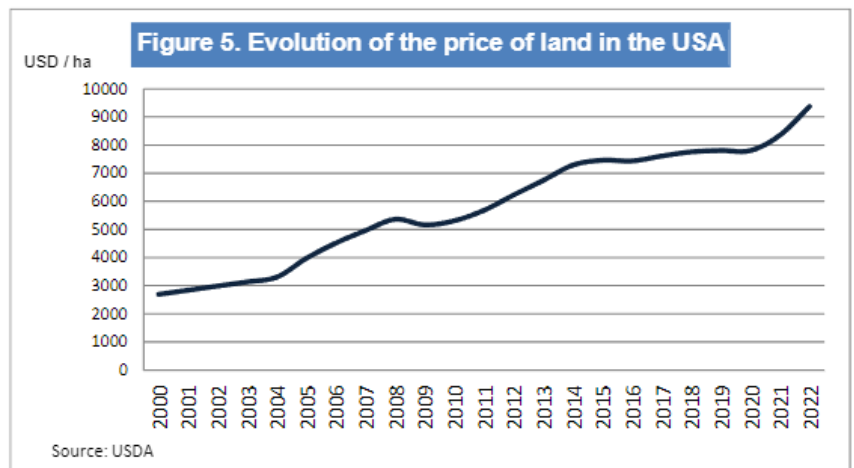
According to the Directorate of Agricultural Statistics of the Ministry of Livestock, Agriculture and Fisheries (MGAP, for its acronym in Spanish) reports, for the average of transactions throughout the country, the price of land, second item in level of importance, showed a very strong dollar appreciation 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.

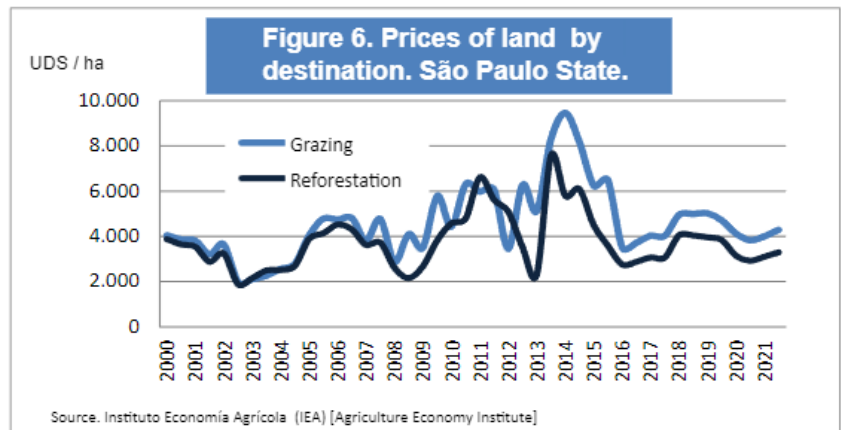
Regarding the price of land in the United State, in the 21st century the trend for increased prices has been steady, with some exceptions (2009 and 2015) when minimal reductions were verified. However, such variations did not influence the trend. The price of land in the United States fell only in the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



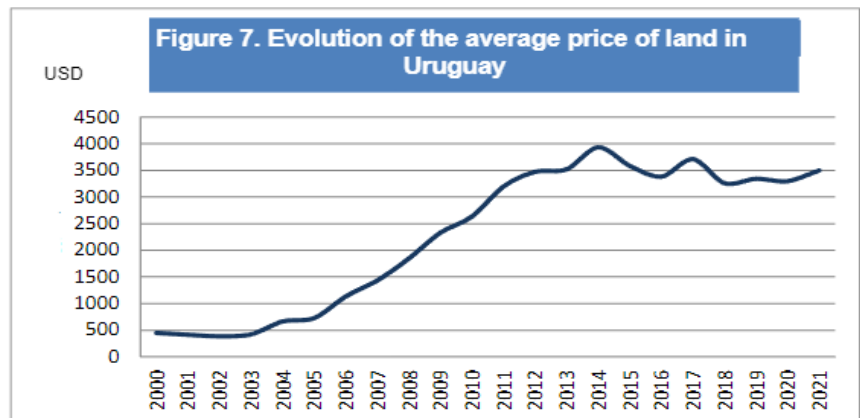
The special situation of Argentina makes it impossible to have an updated and reliable trend of the prices of land. The high volatility of its policies and export taxes to agricultural production, the macroeconomic imbalances, and the restrictions on foreign exchange, have caused distortions in values 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%.¹¹

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.

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



There are other sources of data provided by consulting firms and market managers¹², 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 relationship¹³ 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%) 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 until the end of the Trust, 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%.

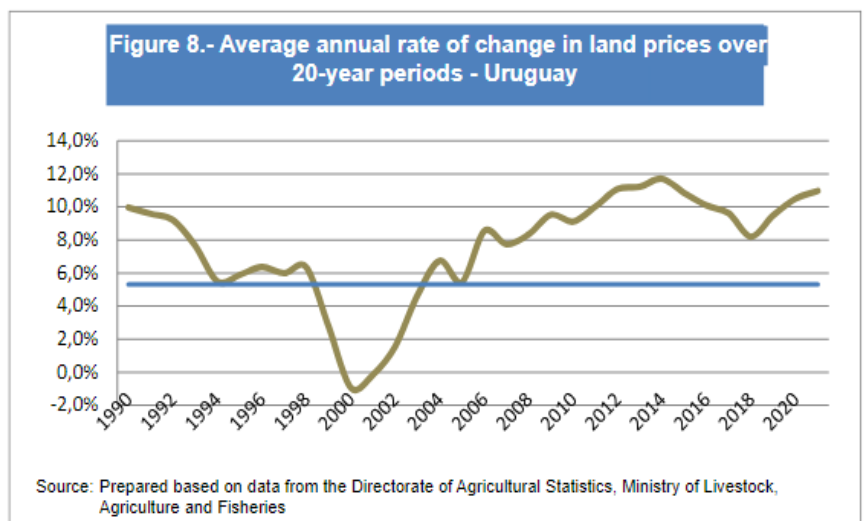
¹². SERAGRO, Agroclaro, Consur and private operators.

¹³. 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).

- 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).



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. inflation¹⁴, 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.

¹⁴. It is estimated at approximately 2%. It is currently well above these values, but it is expected to reasonably return to its historical values.

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 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+.uy¹⁵ 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

¹⁵. **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.**