

CARE

RISK RATING AGENCY

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

Montevideo, September 2022

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

September 28, 2022

Subscription Date: August 5, 2011

Term: Until all the assets and obligations of the Trust are liquidated

Name: Fideicomiso Financiero Forestal Bosques del Uruguay

Issue Amount: USD 50,000,000

Securities: Participation Certificates

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.

Financial Structuring: Ferrere Abogados

Manager: Agroempresa Forestal S.A.

Registered Agent: Bolsa Electrónica de Valores del Uruguay S.A.

Registrar Agent: EF Asset Management Administradora de Fondos de Inversión S.A.

Trustee: EF Asset Management Administradora de Fondos de Inversión S.A.

Validity of the Rating: November 30, 2023.

Rating Committee: Julio Preve, Adrián Tamber and Martín Durán Martínez.

Risk Rating: BBB +.uy

Manual used: Manual de Calificación de Finanzas Estructuradas Administradas por Terceros [Third Party Managed Structured Finance Rating Manual]

¹The 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”, maintaining the BBB+.uy investment grade rating.

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

- The absence of legal risk of structure, duly highlighted and validated in the course of time.
- It is a project with adequate consistency between the proposed business plan, land purchase actions, planted areas, forest management and the first harvests. From an economic and financial point of view, for the investor, this business withstands the non-business stresses to which the issuer and the rating agency have reasonably subjected the project. The last cash flows update carried out in March 2022 estimated an IRR of 5.3% for the year, which is lower than that estimated in the prospectus and slightly higher than that of the previous year (2021), it still maintains a reasonable value.
- The results of the Manager's reports, ratified by the Surveillance Committee, were generally satisfactory for the progress of the project.
- Its corporate governance structure minimizes risk to investors, and until the preparation of this report, it has adequately operated (Manager's reports, meetings of the Holders of the Participation Certificates and Surveillance Committee's reports).
- The management capacity of the Project Management company, Agroempresa Forestal, complies with the standards of efficiency evaluated in the previous update reports, and it has been confirmed in the different reports of the parties involved. It is worth noting that the Manager runs three more projects, which have very similar financial characteristics and, for the time being, no major setbacks have been encountered. The company currently manages more than 80,000 hectares of forests between the 4 trusts.

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- As of June 30, 2022, the Trust “Fideicomiso Financiero BDU” owns a total of 9,536 hectares, of which 5,364 hectares are forested and 280 hectares are available for planting, obtaining an average harvest rate of 60%.
- On December 31, 2021, the last valuation of the Trust's lands and plantations was conducted 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 66.61 million, comprising USD 28.46 million for the land, USD 0.86 million for future grazing income, USD 39.29 million forestry income.
- The Trust has begun commercializing wood for pulp mills from the thinning of forests managed for the production of quality wood and from the clear-cutting of some of those forests planted for pulp production. In the first half of the year, sales were higher than budgeted because deliveries that were scheduled for the second half of the year were made in advance. The Manager estimated that at year-end the volume and value of sales will be slightly higher than budgeted, and expected a positive management result of USD 2.2 million, excluding the results of the valuations. Given the higher harvest yields, the forecast for the 2022 year-end was updated, which predicted that a 13% more volume will be sold, generating 14% more revenue.
- 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 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 the 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 all the permits were granted. Therefore, there are no threats in terms of public policies.

I. INTRODUCTION

1. Scope and conceptual framework of the rating

CARE Risk Rating Agency has been hired to update the rating of the Participation Certificates in possession of the Financial Trust “Fideicomiso Financiero Forestal Bosques del Uruguay” (hereinafter “Bosques del Uruguay”), with a nominal value of USD 50,000,000 (fifty million U.S. dollars), whose characteristics are detailed in the websites of the Central Bank of Uruguay, www.bcu.gub.uy, the Electronic Stock Exchange, www.bevsa.com.uy, and of CARE, www.care.com.uy.

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; therefore, to make any decision, 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, Julio Preve, and Adrián Tamber. CARE hired the services of Herrera Profesionales Asociados, law firm, whose report is attached to the original rating. CARE also regularly hires forestry experts to prepare reports and performs site visits.

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2. General background and most relevant events in the period

A. General background

The main purpose of the Financial Trust "Fideicomiso Financiero Forestal Bosques del Uruguay" is:

(a) to issue Participation Certificates subscribed by the Beneficiaries according to the terms and conditions set forth in the Trust Agreement and the Issuance Document (stage completed),

(b) to implement the Production Project, which basically consists of an investment project that creates a Forestry Estate in Uruguay to produce and commercialize wood in the Uruguayan and international markets; and,

(c) to distribute the proceeds arising from the implementation of such Project among the Holders, as set forth in the Trust Agreement.

- The purchase and planting of the lands have already been completed for all the forests; therefore, the project operations essentially involve the maintenance of plantations and wire fences, weed and pest control, pruning, thinning, removal of vines, resprouts management, surveillance, etc.
- Clearcutting of some forests has also begun; therefore, harvesting and replanting of harvested areas is progressively conducted.
- The land assets of BDU amount to 9,535² hectares of which, as of June 30, 2022, 5,394 hectares are forested and 280 hectares are available for planting, which would result in an average utilization rate of 60%. It comprises 14 farms located in central-eastern and southeastern Uruguay in Cerro Largo (26%), Durazno (16%), Florida (49%), Lavalleja (6%) and Treinta y Tres (3%). The planted species are mainly Eucalyptus Grandis (65.2%), E. Dunnii (28.4%), and E. Saligna (6.2%).
- Pruning and thinning necessary for the management of timber quality is carried out as the forests reach an appropriate growth.
- It is estimated that approximately 71% of the planted area will be destined to produce quality wood and 29% to produce pulpwood.
- On April 5, 2017, clause 7 of the Agreement was amended to allow the Trust to get into debt up to a certain percentage of its assets (15%), requiring the prior approval of the Surveillance

³. Adjusted to the information provided by the Land Property Register. There is a small difference when considering the hectares measured by satellite information.

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Committee and the notification to the Risk Rating Agency. As of the end of 2018, obtaining short-term credits for working capital has become a regular management practice, always complying with the requirement of communicating it to the Surveillance Committee and the Risk Rating Agency. To date, there have been no difficulties in complying with the obligations assumed.

- As planned, in 2019 the company began to sell pulpwood from commercial thinning for quality wood, and solid wood from the second half of 2020 onwards.
- In 2019, the consulting firm Deloitte was hired to suggest changes in the corporate governance and management structure of Agroempresa Forestal in order to meet the requirements of managing the assets of 4 trusts amounting to more than USD 600 million.
- The Trust is a member of the health committee of the Society of Forestry Producers (SPF, for its acronym in Spanish), whose objective is to monitor and identify pests and diseases in forest plantations.
- The Trust has its hectares FCS®-certified (Forest Stewardship Council).
- On December 28, 2020, a meeting of the Holders of the Participation Certificates (PCs) was held and attended by all of them. At such meeting, it was resolved to amend certain terms and conditions of the PCs. 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.
- In December 2021, a new valuation of the Trust's lands and forests was presented. This valuation reached a total amount of USD 66.61 million, comprising USD 28.46 million for the land, USD 0.86 million for future grazing income and USD 39.29 million for forestry income. This new valuation determined an increase of 24% in the value of the lands and forests, but as shown below, this is largely explained by the approach considered.
- The Trust has 100% of its hectares FCS®-certified and is carrying out the necessary operations to comply with maintenance requirements.

B. Most relevant events in the period

- By spring 2022, 96 hectares will be planted. The tillage work for the preparation of these area to be planted, the control of ants and pre-planting weeds are being carried out.
- In the reported period, various silviculture and management activities (pruning and thinning) were carried out. Pruning activities were carried out in well-developed forests, taking advantage of the fact that the machines were on the farms.
- The revenues budgeted for 2022 were from sales of Eucalyptus pulpwood. In the first half of the year, sales were much higher than budgeted, because deliveries scheduled for the second half of the year were brought forward, but the company expects to end the year with higher sales than budgeted. The total revenue projection for this year was updated, it is expected to place 13% more volume, generating 14% more revenue. This increase is explained by two factors: higher volume yields in the harvests and new pulp sales that will be exported in the second half of the year.
- Higher sales, together with the increase in the price of diesel fuel, which had an impact on freight costs, led to an increase in production costs when compared to the budget.
- This combination of factors resulted in a better-than-expected management result at the end of the first half of the year. In addition, given the increase in the sales projection, the annual forecasts for the end of 2022 improved because a positive management result of USD 2.2 million is expected, before considering the result of the valuations, which will be carried out at the end of the year.
- At the beginning of this fiscal year, a line of credit was taken out with a local bank for up to USD 2 million, maturing in January 2023, for the purpose of financing this operation. At the end of the first half of the year, USD 1.3 million had been drawn from this line. In June, the first installment amounting to USD 500 thousand of the long-term loan was paid.
- The verification process of carbon credits continued during the first half of the year. Work on the documentation for the required validation under the CCB standard (Climate, Community & Biodiversity Standard) and the verification of carbon credits under the VCS standard (Verified Carbon

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Standard) has been carried out in order to obtain the stock of certificates available for sale.

- The Manager reported that the plantations were generally in good health as of June 2022. The Surveillance Committee inspected some of the Trust's farms and also reported on good growth, trees conditions, completion of tasks, etc.

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 March 2022.
- Relevant information on the forestry sector.
- Rating reports of other similar trusts.

II. THE TRUST AND THE PARTICIPATION CERTIFICATES

Participation Certificates in possession of the trust “Fideicomiso Financiero Forestal Bosques del Uruguay”, 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
Trustee:	EF Asset Management Administradora de Fondos de Inversión S.A.
Manager:	Agroempresa Forestal S.A.
Registrar Agent:	EF Asset Management Administradora de Fondos de Inversión S.A.
Registered Agent:	Bolsa Electrónica de Valores S.A.
Organizer:	Agroempresa Forestal S.A.
Securities Issued:	Participation Certificates
Trust Assets:	The Trust invested in the purchase of rural properties for forest exploitation.
Currency:	U.S. Dollars
Issued Amount:	USD 50,000,000
Initial Public Offering Date:	August 5, 2011.
Term of the Issue:	Until all the assets and obligations of the Trust are liquidated.
Allocations:	Whenever there is Distributable Net Income after each fiscal year-end, or because of the sale of the

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Trust assets, or the final distribution of the Remaining Net Income.

Risk Rating: BBB +.uy

2. Legal analysis

The legal analysis was added in Annex I of the original rating report. It ruled out any possible conflict arising from, for example, the legal structure, the relevant agreements, the compliance with current regulations, etc.

This report concludes: ***“In summary, and considering all aspects involved, the trust has a reasonable degree of coverage, with no substantial legal risks associated to legal contingencies in the projected issuance process.”***

Risks considered

Structural legal risk. It includes the analysis of possible defaults in the payments to beneficiaries due to defects in the legal structure. Having carried out the relevant analysis, given that there has been no change in the legal construction and considering the passage of time without any controversies, CARE again 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.

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,

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focused on the export of logs for sawmilling and wood sales in the domestic market.

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

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

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

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

These changes have been reported by the firm in the reports: *Advances in Human Capital*.

The new structure, complementary and supportive to the corporate structure has been defined. Also, changes in the various professional positions comprising such structure are periodically reported. In this regard, on this occasion, the company informed CARE that no major changes were made in the corporate structure in the period.

Key persons

The basic structure consists of a Board of Directors, an Audit Committee and a Compliance Committee.

- **Francisco Bonino, Agricultural Engineer**, continues to be the keyman as Chairman of the Board and member of the Audit Committee.
- **Dan Guapura, Industrial Mechanical Engineer**, General Manager.
- **Maria Stella, Economist, MSc.**, in charge of reporting to investors, the annual valuations (BEVSA/Independents/AF), the financial projections and the evolution of key variables (prices, comparable transactions, etc.).

One aspect to highlight is that AF works in project teams operating with members living in Uruguay, Chile and Brazil. In this regard, the incorporation of new employees had to be planned considering both the

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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 BDU was created in May 2011. In August 2011, EFAM (the Trustee) issued on its behalf book-entry Participation Certificates for a nominal value of USD 50 million. The land acquisition stage and the planting campaign were reasonably completed on schedule, and the operating company is now working on the management and maintenance tasks related to this type of exploitation according to the different species.

The Trust fiscal and accounting year ends on December 31 in accordance with article 330 of the Compilation of Securities Market Regulations of the Central Bank of Uruguay.

A summary of the interim statement of financial position and of 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	06/30/2022	12/31/2021	12/31/2020
Current Assets	4,381	2,059	1,688
Non-current Assets	63,791	65,760	53,717
Total Assets	68,173	67,819	55,405
Current Liabilities	1,856	2,628	1,019
Non-current	4,222	3,598	3,732
Total Liabilities	6,078	6,226	4,751
Equity	62,095	61,593	50,654
Total Liabilities and Equity	68,173	67,819	55,405
Current Ratio	2.36	0.78	1.66

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

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The book value of the Trust's equity as of the period, amounted to USD 62 million as shown in the table above, recording a growth compared with the book value of equity for the year ended 2021, and remaining above the value of the issuance of Participation Certificates, which was USD 50 million. In this case, there are not any valuation results because it is an interim period, so the values of the land and plantation assets are the same as those resulting from the valuations as of December 2021. However, decreases in the biological assets accounted for the sale of wood and increases due to farming costs have been recorded. In accounting terms, this is realised in the Non-Current Assets item, which amounted to USD 35.3 million for plantations and USD 28.5 million for land and improvements.

Liabilities comprise several loans taken out with local banks.

The table below summarizes the results for the period indicated.

Table 4. Income Statement of the Trust			
Thousands of USD	06/30/2022	06/30/2021	12/31/2021
Operating revenues	2,376	78	3,489
Change in the fair value of biological assets	-	-	5,507
Cost of goods sold	(2,108)	(22)	(2,942)
Gross margin	268	56	6,055
SG&A	(397)	(327)	(1,180)
Financial results	(128)	(44)	(13)
Miscellaneous income	-	-	7,034
Income for the year before Revenues Tax on Economic Activities	(257)	(315)	11,896
Income Tax	999	13	(957)
Income for the year	742	(303)	10,938
Other comprehensive income			
Comprehensive income for the year	742	(303)	10,938

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

It is worth mentioning that given the characteristics of the forestry business, it is logical to expect negative or of little value results in the first years, since the main item that the Trust sells is harvested wood. Therefore, the first logging is expected approximately 10 years after planting (2022 onwards). Indeed, it was recorded a significant sale of wood, accounting for a positive result in the first half of the year. It is important to emphasize that since mid-term valuations are not performed, the necessary increase in value of the biological assets due to their natural growth is not realized.

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Risks considered

Management risk, considering the suitability of AF S.A. and EFAM to fulfil their duties, and according to all the analyses carried out in the rating of the BDU, CARE considered that the risk of non-compliance of the Manager and the Trustee with the project's responsibilities is practically non-existent. *Virtually no 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.

IV. UNDERLYING ASSET AND FUTURE CASH FLOW

Investments in the purchase of rural properties located within the territory of the Eastern Republic of Uruguay were made to develop forestry therein.

The Trust Agreement provides the scope and guidelines within which the Trust must develop its strategy to fulfill its purpose.

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. To date, all planned activities are underway. The initial planting schedule has been completed, and the maintenance and management tasks are carried out without major setbacks. Likewise, harvesting activities have already begun, either for pulp mills from thinning or for solid wood.

The total area acquired was 9,536 hectares, of which 5,394 hectares have already been forested, representing a utilization of 60%.

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

The Prospectus estimated an internal rate of return of 8.58%. Subsequently, the Manager has updated the expected cash flows and the project has been adjusting its profitability downwards. The latest update of the financial flow was made in March 2022 and analyzed in detail in the previous update. In this opportunity, since there are no new projections or changes in the assumptions, the same results are presented.

In this new estimate of the cash flows, the Manager presented a series of possible scenarios, estimating different price trends for wood, production costs and land from 2022 until the termination of the Trust in 2031. According to CARE, the most likely scenario is based on the following assumptions:

- Product prices are adjusted for U.S. inflation (projected by BEVSA)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.

³. Historical U.S. inflation is estimated to be around 2.3%. Inflation is currently well above these values, but for the time being there has been no changes in the projections.

Additionally, projected yields remain in line with the actual behavior observed in the forests, and prices and costs are based on current levels.

According to CARE, these assumptions can be entirely shared.

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Based on this projection, the IRR for the entire project period of the Trust would be 5.03%, slightly higher than that estimated the previous year.

The following table shows the IRR results after considering the most and the least favorable 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 a 1.5%	4.9%
2 Wood adjusts for U.S. inflation. Costs adjust for USD UY Inflation and the price of land increase a 1.5%	4.8%
3 The prices of wood and land increase a 1.5%	4.4%
4 The price of land increases a 1.5%	4.3%
5 All other factors unchanged	4.1%
6 Same as 2 but the price of land increases a 3%	5.03%

Source: Manager and CARE

As this 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 6** 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 thirteen years assume an annual increase in the price of wood between 1.1% and 1.5%, depending on its origin (see Section V). In the case of land, an annual increase of 3% seems reasonable, as it is the minimum value that the rating agency generally uses for projections.

Scenario 4 assumes that the prices of wood and production costs would remain constant in nominal terms throughout the period and that only the prices of land would increase by 1.5%. This scenario is the most unfavorable, as it is shown in the table above, in which even if the prices of wood or land do not increase in the remaining years, the IRR would still be positive (4.1%).

2. New estimate of the opportunity cost of capital

In theory, the opportunity cost of capital provides the minimum expected profitability of a project and is the key indicator to discount expected cash flows. In this regard, CARE updated the estimation of the opportunity cost of capital using the Capital Asset Pricing Model (CAPM) and, according to Damodaran⁴, added a premium that considers 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 assets 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 is 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 1.94% as the yield of the U.S. Bonds, 1.42 basis points for the country risk (Uruguay Bond Index). Both values are particularly low in comparison with historical values.

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 (5.03%)⁸. 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.

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.

⁸. It is important to point that although this is a valid analysis from a financial viewpoint, institutional investors do not have this opportunity cost since they cannot invest in global markets.

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3. Economic and productive management

In 2022, pulpwood was sold to pulp mills and chips from commercial thinning of E. Grandis and clear-cutting of E. Dunnii were exported.

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

Activity	First half of 2022			TOTAL 2022		
	Actual	Budget	Difference	Estimated	Budget	Difference
Eucalyptus Pulp						
2021	1,435,262	1,119,196	316,066	1,435,262	1,119,196	316,066
Eucalyptus Pulp	1,563,486	183,441	1,380,045	8,369,841	7,484,841	885,000
Grazing	77,165	66,864	10,301	133,728	133,728	0
Total	3,075,913	1,369,501	1,706,412	9,938,831	8,737,765	1,201,066

Source: Manager

As the table shows, actual revenues in the first half of the year were double than budgeted, due to some sales were brought forward from the second half of the year. However, total sales at the end of the year are also expected to be higher than budgeted (+14%), because of higher-than-expected returns and new deals.

The return on investment depends 80% on wood sales, which have already begun, and will increase as quality timber grows in the forests. Therefore, forest management and monitoring are key elements during these years.

The table below shows a comparison of the budgeted investments and costs for the first half of the year with the actual obtained, as well as the expected for the entire year (the initial budget and the estimated).

Activity	First half of 2022			TOTAL 2022		
	Actual	Budget	Difference	Actual	Budget	Difference
Production Costs	2,950,332	2,265,727	684,605	6,115,403	5,545,158	570,245
Implantation						
Investments	69,760	55,370	14,390	175,478	174,304	1,174
Investments in						
Management	37,494	22,131	15,363	36,229	22,131	14,098
Expenses	565,665	547,192	18,473	1,140,049	1,063,538	76,511
Total	3,623,251	2,890,420	732,831	7,467,159	6,805,131	662,028

Source: Manager

As expected, production costs were higher than budgeted in the first half of the year, mainly due to higher harvest and freight volumes and also to the increase in the price of diesel and its impact on freight rates.

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During this year, these differences will continue, and actual costs would be above the budget at the end of the year.

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 forest valuation

The last valuation of the Trust's lands and forests was presented in December 31, 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 valuation of the forests considering the value of the land estimated and provided by the former.

Table 8 shows the evolution of the values of the Trust's lands and forests, according to the data provided in the valuations conducted yearly. This series starts once the purchase period has ended in order to be able to compare the data. It should be clarified that these valuations were carried out under different approaches and considered both the land and forests together.

Year	Millions of USD
2014	31.05
2015	31.91
2016	33.30
2017	34.60
2018	48.47
2019	50.11
2020	53.71
2021	66.61
Rate 2014-2021 (compound annual growth)	11.5%

Source: CARE based on valuations

This valuation estimated a total asset value of USD 66.61 million as of December 31, 2021, which is much higher than the previous year's (24%). This evolution shows an uptrend in assets, which has been growing at a compound annual growth rate of 11.5%, 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 last 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

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and the valuation based on the current rent assuming a cap rate of 3.4%.

- b. The value of forests and grazing 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 66.61 million, comprising USD 37.29 million of forests, USD 0.86 million of grazing and USD 28.46 million of land.

5. Risks considered

Cash flows generation risk. In view of the foregoing, the aim is to show the ability to generate cash flows within the agreed term. This risk is considered low and can be timely monitored. CARE noted that this risk has been lower since the plantations have been completed. *Medium low risk.*

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 80% of the investment returns.

In the case of this project, the price of quality wood will have the most significant impact on its final result since this is the main objective of this Trust. Likewise, the expected price for pulpwood is also important, as a certain percentage of wood is always destined for pulp, and in particular, in the first years, it has been the most relevant destination.

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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 timber are expected to shrink slightly, given the global

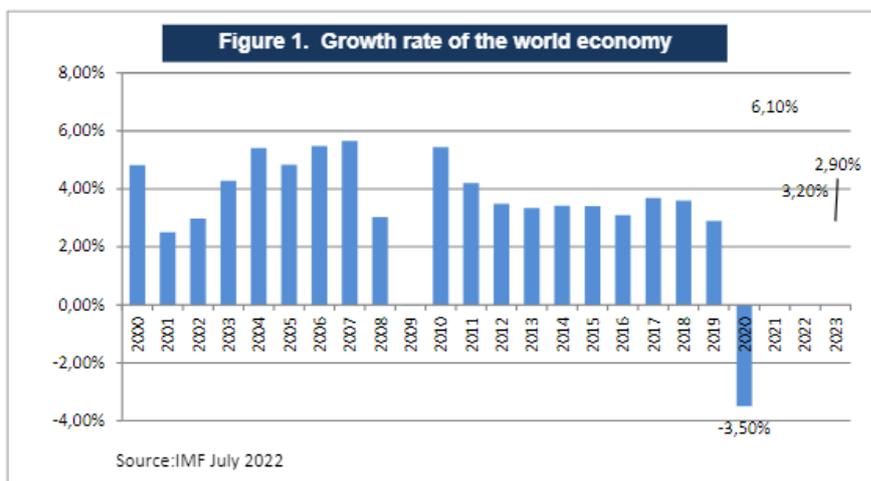
context of high inflation, logistics costs and that the major consuming countries (Europe, China, USA) are facing economic problems and there has been a decline in domestic consumption.

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.



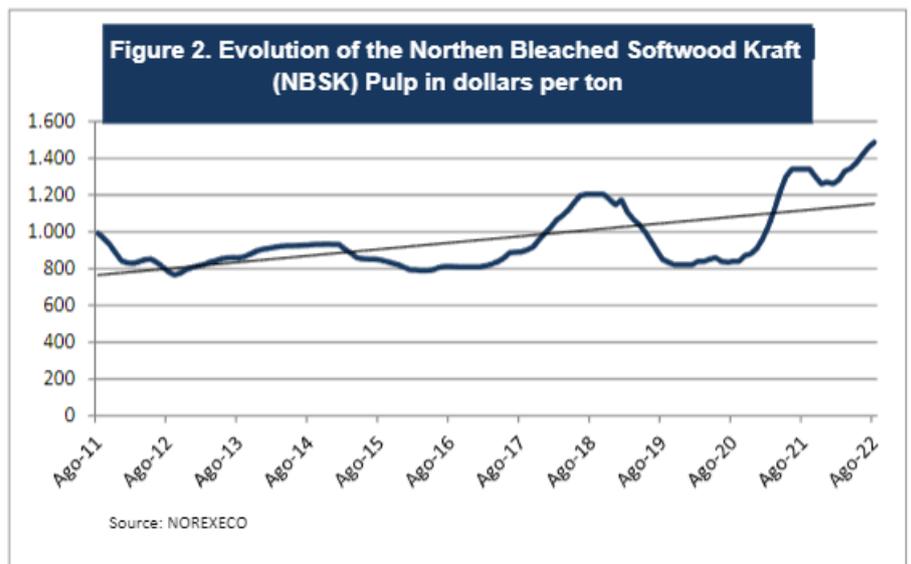
In the last report, the IMF estimated that the *global output contracted in the second quarter of this year, owing to downturns in China and Russia, while US consumer spending undershot expectations. Several shocks have hit a world economy already weakened by the pandemic: higher-than-expected inflation 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

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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 NBSK⁹ 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/tt¹⁰.



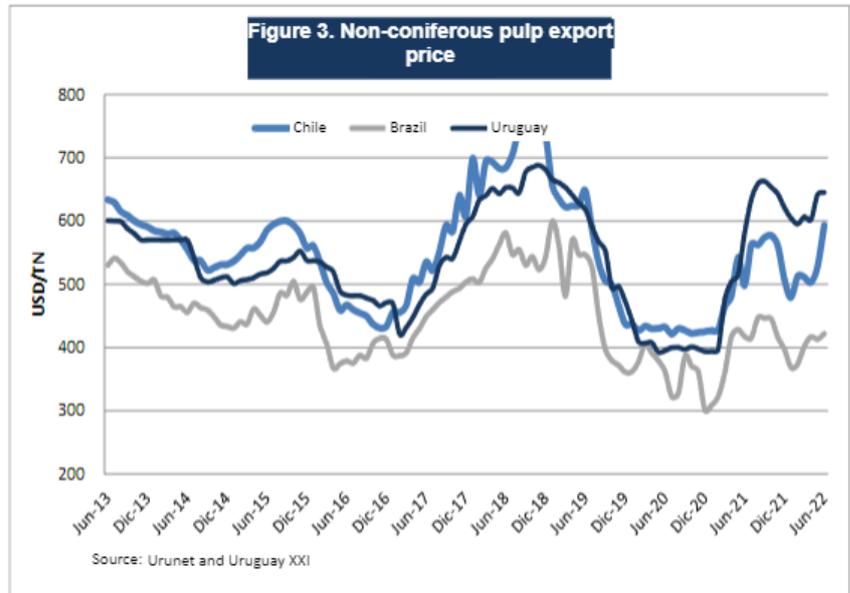
From a medium-term perspective, the NBSK pulp current price is above the levels recorded in 2018. If a longer time series data is considered and prices in dollars are deflated by the U.S. CPI (to approximate purchasing power), current values would also be above the average of the last 14 years, justifying 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-

⁹. Northern Bleached Softwood Kraft. Long-fiber bleached pulp.

¹⁰. Bloomberg Linea, July 2022

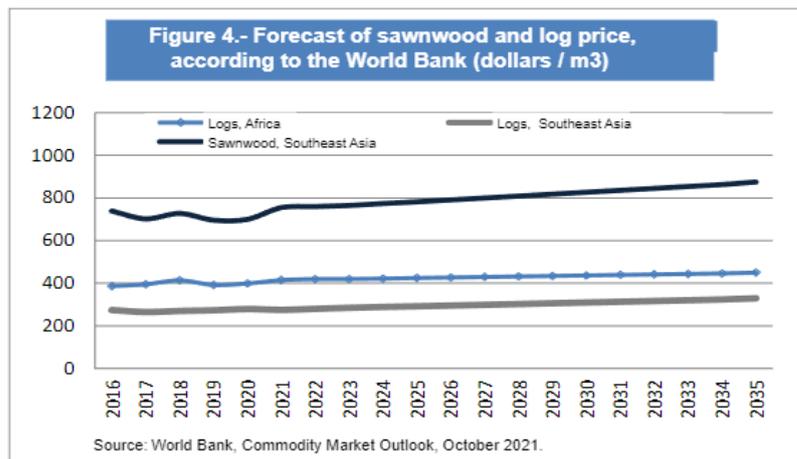
coniferous pulp export price for the January-June 2022 increased 29% in Uruguay, 10% in Chile and 6% in Brazil, compared to the same period in the previous year.



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 Bank¹¹ 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 slightly lower than the long-term devaluation of the dollar) was also projected.

¹¹. World Bank Commodities Price Forecast. October 2021.



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

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 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.

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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.

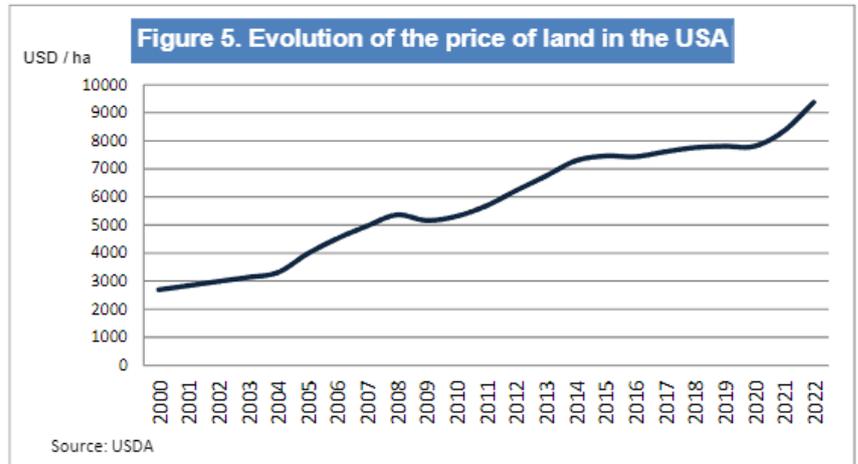
The outlook for international land demand is encouraging and, in the short and medium term, prices are expected to be at rising levels, but at more moderate rates than in the past. However, above-trend price increases may be expected in the short term as a result of high commodity prices and high international 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.

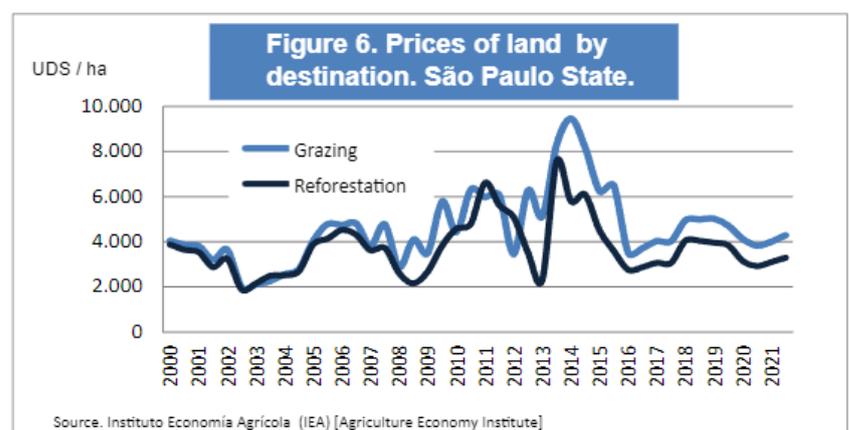
The price of land (average) has remained relatively stable between 2017 and 2020, with increases similar to the U.S. inflation rate, but apparently it has recovered an upward trend in real terms, in the last two years. In 2021, average prices of land increased by 7% and in 2022 by 12%. If agricultural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



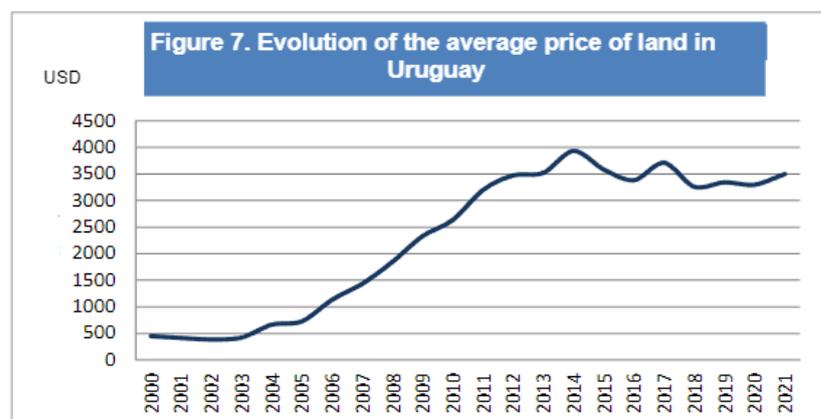
The special situation of Argentina makes it impossible to have an updated and reliable trend of the prices of land. The high volatility of its policies and export taxes to agricultural production, the macroeconomic imbalances, and the restrictions on foreign exchange, have caused distortions in values 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%.¹²

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.



¹²."Precio de la Tierra" [Price of Land] Purchases and Sales 2021, published on March 29, 2022.

¹³. SERAGRO, Agroclaro, Consur and private operators

There are other sources of data provided by consulting firms and market managers¹³, which by using different valuation criteria, estimated the 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

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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 relationship¹⁴ 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 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.

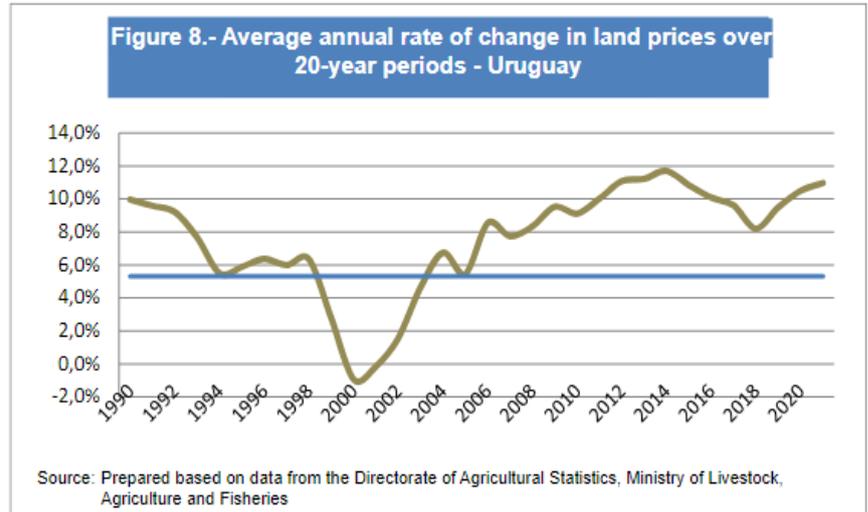
For this purpose, CARE analyzed the annual variation of the prices of land (in current U.S. dollars) for a 52-year series (1970 to 2021) for 20-year periods, which showed the following:

- 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).

¹⁴. B. Lanfranco and G. Sapriza (Serie Técnica N° 187 de INIA) [Technical Series No. 187 from National Institute of Agricultural Research], "El índice CONEAT como medida de productividad y valor de la tierra" [The CONEAT Index as a Measure of Land Productivity and Value], 2011)



CARE considers that although sustained increases in the prices of land are 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. inflation¹⁵, plus a small component of increased land productivity, therefore, this increase should be between 2 and 4% per year. This does not imply that there will be periods of higher annual growth rates, as may be the case in the next few years. Low international interest rates, the new agricultural cycle and the current prices of land could result in higher price growth rates in the short term.

5.4 Public policies, political risk

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

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

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

¹⁵. It is estimated at approximately 2%. It is currently well above these values, but it is expected to reasonably return to its historical values.

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sector. Being this Bill vetoed, at least for the time being, doubts on the forestry policy have been cleared up.

Also, in December 2021, the Executive Branch issued a decree (No. 405/021) that proposed some changes to forestry regulations, probably in response to some of the concerns related to the Bill vetoed. This decree lowered from 100 to 40 hectares the minimum limit to require prior environmental authorization from the National Directorate for Quality and Environmental Assessment (DINACEA, for its acronym in Spanish) and also required such authorization for those reforestations that originally had not submitted it because they were carried out prior to the approval of such decree. In addition, some soil categorizations and criteria for environmental impact assessments were modified.

These modifications, as well as the general regulations for the sector, will not probably have a major impact on this Trust, since new forest areas will not be incorporated, although it could affect reforestation.

Currently, no new elements could suggest that the government may take policy measures against this type of project and no further conditions are observed that would make it possible to foresee greater threats than those mentioned above.

Environmental risk: *In conclusion, the environment risk both in terms of markets and public policies is considered low.*

VI. RISK RATING

Based on the analysis of the main risks identified in each section; bearing in mind the various technical approaches (legal, qualitative, and quantitative) both those presented by the Trustee and the Manager, as well as those carried out by CARE, and with the data publicly available, CARE's rating committee concludes that the Issue is rated BBB+.uy¹⁶ on the scale provided in our Manual.

Rating Committee



Julio Pieve, Engineer



Martín Durán Martínez, CA



Adrian Tamber, Agr. Eng.

¹⁶. **BBB+.uy**. These are instruments issued by companies or corporations with a medium-low investment risk. Its capacity to pay principal and interests on the agreed terms and deadlines is adequate. Its own role, the status of the company, the quality of the project, and the characteristics of the environment, give an overall moderate satisfaction to the analyses carried out, provided, however, there may be some weakness in any of the four risk areas (role, project, company, environment). The risk of the instrument could be increased in the event of foreseeable changes in the project as presented, in the issuing company, in the economic sector in which it operates, or in the economy as a whole. The probability of foreseeable unfavourable changes in the environment is low to medium-low, and compatible with the company's capacity to manage them, although with a slightly higher risk than in the previous categories. **Minimum investment grade. The sign “+” indicates that the rating is closer to a higher category.**