

CARE

RISK RATING AGENCY

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

Montevideo, October 2023

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

October 12, 2023

Subscription Date: August 5, 2011

Term: Until all the Trust’s assets are liquidated and its obligations are met

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 after 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: April 30, 2024

Rating Committee: Julio Preve, Adrián Tambler 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]

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.

Considering the current 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 appropriate 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 2023, estimated an IRR of 4.9% for the entire period, being below than that estimated in the prospectus and slightly lower than that of the previous year (5.0%).
- 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 the risk to investors, and until the preparation of this report, it has effectively operated (Manager's reports, meetings of the Holders of the Participation Certificates (PCs) 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, which has also 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. Additionally, for the time being, no major setbacks have been encountered. The company currently manages more than 80 thousand hectares of forests considering the 4 Trusts and has invested USD 11.5 million in PCs.
- As of June 30, 2023, the Trust “Fideicomiso Financiero BDU” owns a total of 9,535 hectares, of which 5,380 hectares are

forested and 234 hectares are available for planting, obtaining an average harvest rate of 59%.

- The last valuation of the Trust's lands and plantations was performed on December 31, 2022. This valuation reached a total amount of USD 76.22 million, comprising USD 29.57 million for land, USD 0.81 million for future grazing income, USD 7.60 million for carbon certificates¹, and USD 38.24 million for forest income. The Trust's book value of equity as of June 30, 2022, is almost USD 66 million, remaining above the value of the PCs' issuance.
- The first half of the year was marked by rainfall records well below the historical average, affecting plantations as a result of the intense drought. This situation did not imply any equity loss. However, the water deficit had consequences such as reduced tree growth and extra costs incurred in the fire protection system during the summer. The most affected areas were those with the shallowest soils. Although the forests have been recovering, some very specific areas are being evaluated and monitored. The most significant impact may occur in forests cultivated for sawnwood production, as the potential decline in quality could result in their utilization for pulpwood instead. In order to mitigate this damage, pruning epicormic shoots as the affected areas recover could be a possible action to mitigate such damage. This practice is necessary to keep the area free of tree knots. Even though, this action implies additional costs in management activities.
- In the first half of the year, investments in plantations and production costs were significantly under budget, mainly because droughts prevented activities from being conducted according to schedule. These items are expected to remain under budget at the end of the year. The revenue forecast was also corrected downward due to lower expected sales of wood and carbon credits.
- After the effects of the pandemic were overcome, the consequences of the conflict between Russia and Ukraine, the cooling of the global economy, and of China in particular, as well as the zero COVID-19 measures implemented by this country, had a significant impact on 2022. These phenomena brought about changes in the world economy and trade, for example occasional increases in raw material prices, higher international inflation and freight and energy costs. All this situation led to a

¹. In this valuation, for the first time, future sales of carbon certificates are included in the valuation of assets. For the time being, only those certificates already validated are considered. This item still has not been included in the Trust's financial statements.

greater volatility in the wood market, and the increase in costs tightened the margins of the business. In the second half of 2022, measures taken by China had a significant impact on some of the products imported by that country, affecting, among others, the demand and prices of wood and pulp.

- In 2023, the price of pulp showed a very sharp reduction. However, it began to stabilize in the second half of the year due to a low growth of the world economy, including China's. This situation could have affected the level of demand. Raw wood market has also shown signs of weakness and low demand. Considering eucalyptus wood, its demand has dramatically reduced since the second half of 2022 and is expected to start recovering slowly in the second half of 2023. Regarding pine wood, the continued demand from India has helped sustain trade to a greater extent. Besides, the reduction in international freight costs has been a positive sign for trade.
- The market for agricultural land (including forest) has shown long-term trends of increasing prices as a consequence of the sustained growth in demand for food, fibers and wood. Besides, the fact that, in general, the possibilities for expanding the agricultural frontier are increasingly limited. In the case of Uruguay, it is expected that increases in the price of land will be more moderate than those between 2004 and 2014. After a period of adjustment and erratic behavior with little business between 2015 and 2020, the price of land had increased in two years: 6.2% in 2021 and 6.9% in 2022. These increases involved a growth in the number of operations partly due to the rise in the prices of some products, high international inflation, the weak dollar exchange rate in Uruguay and the absence of increases since 2015.
- Regarding public policies, threats related to a possible change in policy in the forest sector have been cleared up. In this opportunity, the forests are already planted, 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 was hired to update the rating of the Participation Certificates in possession of the Financial Forestry 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). Its 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 such purpose by the Central Bank of Uruguay (CBU). This entity is in charge of supervising and controlling the financial system, as well as risk rating agencies. The rating provided by CARE does not represent a recommendation or guarantee 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 qualifying its expected performance and its capacity to generate profits over time, in accordance with the forest business project its management is mandated to run. Once the IRR's range, derived from multiple simulations, is admitted as reasonable for the project in the first rating, future ratings are not required to obtain those figures. In fact, this is not the case of an issue with a fixed return commitment. Therefore, the grade will not depend strictly either on the extent of the Internal Rate of Return calculated for the project or on the investors' opportunity cost of capital. In short, the grade will be based, among other criteria, on the compliance with the project and achieving 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 a methodology, duly approved by such authority. In addition, the necessary professionals integrating 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.

2. General background and most relevant events in the period

A. General background

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

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

(b) to implement the Production Project, which is basically an investment project that creates a Forest Asset in Uruguay, with the objective to produce and commercialize wood in the Uruguayan and international market; and

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

- The operations for purchasing and planting the lands have been carried out 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 begun. Therefore, harvesting and replanting of harvested areas is progressively conducted.
- The land assets of BDU amount to 9,535² hectares of which 5,380 hectares are forested and 234 hectares are available for planting, as of June 30, 2023. This results in an average utilization rate of 60%. BDU comprises 14 farms located in central-eastern and southeastern Uruguay, specifically in Cerro Largo (26%), Durazno (16%), Florida (49%), Lavalleja (6%) and Treinta y Tres (3%). The planted species are mainly eucalyptus grandis (73%) and eucalyptus dunnii (26%).
- Pruning and thinning activities necessary for the management of quality wood are conducted as forests reach their 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, section 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 Committee and the notification to the Risk Rating Agency. As of the end of 2018,

². 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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obtaining short-term credits for working capital has become a regular management practice, complying with the requirement of communicating it to the Surveillance Committee and the Risk Rating Agency. To date, no difficulties have been encountered to comply with the obligations assumed.

- According to the plan, in 2019, the company began to sell pulpwood from commercial thinning for quality wood and occasionally 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 Forest Producers (SPF, for its acronym in Spanish). Its objective is to monitor and identify pests and diseases in forest plantations.
- A meeting of the Holders of the Participation Certificates (PCs) was held on December 28, 2020 and attended by all of them. At such meeting, it was resolved to amend certain terms and conditions of the 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's WEBSITE once a year.
- A new valuation of the Trust's lands and forests was presented in December 2022. It reached a total amount of USD 76.22 million, comprising USD 29.57 million for land, USD 0.81 million for future revenue from grazing, USD 7.60 million for future revenue from carbon certificates and USD 38.24 million for forest revenue. This new valuation determined an increase of 14.4% in the total value compared to the previous year. Even though, as explained below, this increase mainly accounts for the inclusion of future revenue from carbon certificates, not included in the 2021 valuation, despite having been performed by the same company.
- AENOR finished the carbon credit verification process in 2022. The documentation required for the validation of carbon credits under the CCB standard (Climate, Community & Biodiversity Standard) has been prepared and the verification of carbon credits under the VCS standard (Verified Carbon Standard) to obtain the stock of carbon credits available for sale was performed.

B. Most relevant events in the period

- In the first half of the year, pulpwood from commercial thinning was sold and harvesting activities were carried out. Most of the wood to be sold this year will be for pulp production. According to forecasts, at the end of the year, revenue from wood sales will be 20% under the budget for the year.
- Once the CCB (Climate, Community & Biodiversity Standard) certification had been obtained, the sales process began. The market, has begun to show signs of recovery, however, it still remains at low levels compared to the beginning of 2022. A spot sale was closed and is expected to continue in the second half of the year. Nevertheless, expected income will be well under budget (see Table 1).

Table 1. Revenue in the first half the year and projection for 2023 (USD)

Activity	First half of the year			TOTAL 2023		
	Actual	Budget	Difference	Projected	Budget	Difference
Sawn Eucalyptus Wood	0	248,790	-248,790	248,790	248,790	0
Eucalyptus Pulp	205,965	826,044	-620,079	427,376	3,120,221	-692,845
Carbon Credits	61,184	10,000	51,184	348,346	1,393,382	-1,045,036
Grazing	2,422	66,864	-64,442	136,150	133,728	2,422
Total	269,571	1,151,698	-882,127	3,160,662	4,896,121	-1,735,459

Source: Manager

- The investment for this year was initially budgeted for planting 252 hectares of eucalyptus dunnii in 6 farms. It was planned to plant 19 hectares in fall and the rest in spring. It was necessary to reschedule plantings because a larger area of two farms will be planted next year. As a result, planting investments will be approximately 27% lower at the end of the year.
- Considering management activities (pruning and thinning), the expenses of monitoring epicormic shoots were over budget, as a larger area had to be intervened due to droughts. For the rest of the year, the budget investment in management is related to stock control activities during commercial thinning. Production costs are expected to end well under budget since some operations were not conducted according to the schedule as a result of droughts.
- Regarding operating costs, the greatest deviation is observed in the protection items. During the summer fire season, higher expenses were incurred in fire surveillance and firebreaks, given the water deficit and the increased risk of fires.

Table 2. Investments and costs in the first half of the year and projections for 2023 (USD)

Activity	First half of the year			Projected	TOTAL 2023	
	Actual	Budget	Difference		Budget	Difference
Production Costs	350,484	1,269,104	-918,620	908,389	2,224,139	-1,315,750
Investments in Planting	126,177	304,426	-178,249	409,457	558,428	-148,971
Investment in Management	39,272	41,259	-1,987	69,634	59,379	10,255
Expenses	735,490	694,327	41,1631	472,138	1,290,298	181,840
Total	1,251,423	2,309,116	-1,057,693	2,859,618	4,132,244	-1,272,626

Source: Manager

- All short-term loans taken out in 2022 were paid off during the first quarter of 2023. New loans were taken out in the second quarter of 2023. The installment due in June 2023 of the long-term loan was paid in full in December 2023. A line of credit of up to USD 2 million maturing in January 2024 is being arranged with banks to finance the operation of this Trust.
- The Manager reported that the plantations are generally in good health, however, some areas have been affected by the water deficit in the first half of the year. This water deficit had consequences such as reduced tree growth and extra costs incurred in the fire protection system during the summer. Two farms were significantly affected, especially in areas with shallower soils, for example hilly areas. In general, these areas have been recovering and the most affected ones are currently being evaluated. In order to mitigate this situation, pruning of epicormic shoots is carried out as the affected areas recover. This practice is necessary to keep the area free of tree knots, however, it implies additional costs in management activities.
- Regarding environmental protection, the Trust keeps working to comply with the requirements of the FCS® certificate. It is worth noting that this project has 100% of its hectares certified.

3. Analyzed information

In this report, the information analyzed was as follows:

- Balance sheet with audit's report of Agroempresa Forestal as of December 31, 2022
- Financial statements of the Trustee as of June 30, 2023
- Financial statements of the Trust as of June 30, 2023
- Manager's quarterly reports, the last one as of June 30, 2023
- Surveillance Committee's reports, the last one as of May 16, 2023
- Relevant information on the forest sector
- Rating reports of other similar trusts

II. THE TRUST AND THE PARTICIPATION CERTIFICATES

Participation Certificates in possession of the Financial Forestry 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 Trust’s assets are liquidated and its obligations are met

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Allocations: Whenever there is Distributable Net Income after each fiscal year-end, or after the sale of the Trust assets, or the final distribution of the Remaining Net Income.

Risk Rating: BBB +.uy

2. Legal analysis

The legal analysis was added to 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 once 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 appropriate given the characteristics of the Uruguayan market. However, this process is not instantaneous and 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 authorized the company to operate under the Investment Funds Law No. 16,774 dated September 27, 1996, and its subsequent provided in Law No. 17,202 dated September 24, 1999.

On July 9, 2004, the Central Bank of Uruguay (Notice No. 2004/188) authorized the firm to operate as a Financial Trust pursuant to Law No. 17,703 dated 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 pursuant to 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 interim financial statements as of June 30, 2023, continues to show a situation of robust solvency.

The liquidity ratio remains 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 current regulations, and by the trusts it manages which are, therefore, of restricted availability. This explains the financial liabilities incurred to constitute these 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.

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Table 3. Statement of Financial Position of EFAM (thousands of UYU)

Item	06/30/2023	12/31/2022	12/31/2021
Current Assets	22,460	26,974	18,989
Non-current Assets	234,787	245,533	281,068
Total Assets	257,247	272,507	300,057
Current Liabilities	39,398	43,807	33,484
Non-current Liabilities	192,631	204,187	230,681
Total Liabilities	232,029	247,994	264,165
Equity	25,218	24,512	35,891
Total Liabilities and Equity	257,247	272,507	300,057
Current Ratio	0.57	0.62	0.57

Source: Financial Statements of EFAM

The results for the six months ended 2023 show a significant recovery compared to the same period of the previous year, mainly explained by the financial results, as presented in the table below.

Table 4. Income Statement of EFAM (thousands of UYU)

Item	06/30/2023	06/30/2022	31/12/2022
Operating Revenue	41,150	39,409	80,546
SG&A	(32,680)	(30,976)	(66,556)
Operating Result	8,471	8,433	13,990
Financial Results	(6,966)	(20,984)	(28,054)
Income before taxes	1,505	(12,551)	(14,064)
Corporate Income Tax (IRAE)	(799)	(87)	2,685
Income for the period	706	(12,638)	(11,379)
Revenue from Operating Activities	20.59%	21.40%	17.37%
Income for the period	1.72%	-32.07%	-14.13%

Source: Financial Statements of EFAM

Therefore, there are no risks associated with EFAM remaining as the Trustee.

EFAM manages an important portfolio of trusts, both in number and diversity. Therefore, its suitability for this role 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 reviewed the evolution of each project run by the company, which is the best source of information available to assess its capacity.

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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.

In Uruguay, AF's the most relevant precedent is that it manages, among others, the assets of four trusts (including this one) rated by CARE. The four trusts 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 make in this regard.

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

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

The new structure, complementary and supportive to the corporate structure has been defined. Changes in the various professional positions comprising such structure are periodically reported. In this regard, the company informed CARE that no major changes have been made in the corporate structure in this 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 key figure as Chairman of the Board and member of the Audit Committee.
- **Dan Guapura, Industrial Mechanical Engineer**, General Manager.
- **Maria Stella, Economist, MSc.**, in charge of reporting to investors, the annual valuations (BEVSA/Independents/AF), the financial projections and the evolution of key variables (prices, comparable transactions, etc.).

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Economic and financial situation

The company's balance sheet closes each December 31. CARE had access to the latest available balance sheet as of December 31, 2022, audited by Price Waterhouse Coopers Ltda.

According to such financial statements, the company shows a positive and growing evolution of its assets, consistent with the evolution of the results obtained. AF's participation in the 4 trusts it manages is worth mentioning. At the fiscal year ended 2022, the company's assets included a total of Participation Certificates issued by EFAM approximately amounting to USD 11.5 million.

In view of the above, the capacity of AF to carry out this and other operations mentioned above is considered positive. It is also worth recalling that AF, as trust asset manager, is subject to strict controls, including the possibility of its 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 operations related to this type of exploitation according to the different species.

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

A summary of the statement of financial position and of the income statement of the Trust for the six months ended June 2023 is presented in the tables below.

Table 5. Statement of Financial Position of the Trust			
Thousands of USD	06/30/2023	12/31/2022	12/31/2021
Current Assets	1,453	4,148	2,059
Non-current Assets	68,258	67,969	65,760
Total Assets	69,711	72,117	67,819
Current Liabilities	1,608	3,514	2,628
Non-current Liabilities	2,141	2,234	3,598
Total Liabilities	3,749	5,748	6,226
Equity	65,963	66,369	61,593
Total Liabilities and Equity	69,711	72,117	67,819
Current Ratio	0.90	1.18	0.78

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

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The book value of equity as of June 30, 2023, is USD 66 million as shown in the table above. It remains, in nominal values, above the value of the issuance of Participation Certificates, which was USD 50 million.

In this case, as this is an interim period, it does not correspond to perform valuations of land or biological assets, which will be carried out, as usual, at the end of the year. Therefore, these items are maintained according to the valuations as of December 2022, with the movements inherent to the activity.

Liabilities include balances of bank loans amounting to USD 1.1 million.

A summary of the income statement of the Trust for the period indicated is presented below.

Table 6. Income Statement of the Trust			
Thousands of USD	06/30/2023	06/30/2022	12/31/2022
Operating revenue	346	3,083	11,434
Change in the fair value of biological assets	-	-	3,407
Cost of goods sold	(70)	(2,550)	(10,223)
Gross margin	275	534	4,618
SG&A	(741)	(649)	(1,202)
Financial results	(193)	(381)	(419)
Miscellaneous income	-	-	1,110
Income before Corporate Income tax (IRAE)	(659)	(496)	4,107
Income Tax	252	999	669
Income for the period	(407)	502	4,777
Other comprehensive income			
Comprehensive income for the period	(407)	502	4,777

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

As analyzed in another section of this report, commercial activity in the first half of the year was much lower than expected, which explains the partial deficit result.

Risks considered

Management risk, considering the suitability of AF S.A. and EFAM to fulfil their duties, and according to all the analyzes 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 RATING AGENCY

Risk due to change of trustee is duly 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 operations 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 5,380 hectares have already been forested.

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 2023, including actual information as of December 2022 and projections until the completion of the Trust. In this opportunity, since there are no new projections, the information provided in the previous rating is repeated in this report.

In this new estimate of cash flows, the Manager presented a series of possible scenarios, estimating different evolutions for the prices of wood, and land, and production costs from 2023 until the termination of the Trust in 2031. According to CARE, the most likely scenario is based on the following assumptions:

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

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

³. It estimated that Historical U.S. inflation would be around 2.1 - 2.3%, assuming a return to historical levels. It also projected that inflation in Uruguay would be 6% and devaluation would be 3.8%, worsening the exchange rate lag. This increases dollar costs in the medium and long term and negatively affects profitability.

RISK RATING AGENCY

Based on this projection, the IRR for the entire project period of the Trust would be 4.9%, slightly lower than that estimated the previous year (5.0%).

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

Table 7. 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 a 1.5%	4.9%
2 Wood adjusts for U.S. inflation. Costs adjust for USD UY	
Inflation, and the price of land increases 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	4.2%
6 Same as item 2 but the price of land increases a 3%	4.9%

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 growth 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 growth 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 shown in the table above, in which even if the prices of wood or land do not increase in the remaining years, IRR would still be positive (4.2%).

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, the estimation of the opportunity cost of capital was updated using the Capital Asset Pricing Model (CAPM) which relates the risk-free rate, the market risk premium and the risk premium assigned to the specific production system, in this case the industry of paper and forest products.

For the purpose of estimating the opportunity cost of capital, and since this project is already being executed, CARE considered the average of

the last 5 years for all variables, in order to minimize cyclical variations, both upward and downward, and to have a medium-term vision.

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

Where:

β_{im} : Own systematic risk compared to market risk, value provided by Dalmoran.

r_f : risk-free rate. The U.S. Federal Reserve 10-Year Treasury Bonds yield is considered.

$E(R_m) - R_f$: Market Risk Premium. It is the premium for the specific risk to the market with which the project is compared (the difference between yields on equity assets and the risk-free rate.) To estimate the return on equity assets, the equity market risk premium provided by Damodaran (Equity Risk Premium of S&P 500) is considered.

Er_p : Premium for specific risk to the company or project evaluated. Uruguay's country risk, measured by the República AFAP (Pension Saving Fund) Uruguay Bond Index, is considered in this case.

The value of Damodaram's "beta unlevered" parameter for the average of the last 5 years (2019-2023) is 1.04, indicating that investing in forest production entails a higher risk and variability than the average of all the activities in that market. CARE considered 2.18% for the yield of the U.S. Bonds, 132 basis points for the country risk (Uruguay Bond Index), and 4.95% for the equity market risk premium.

When applying these values, the expected rate of return on equity is 6.37%. This value would be higher than the calculated IRR for the most likely scenario (4.9%)⁴. While these comparisons cannot be taken in a strict sense, they should be considered as a reference that, among others, help to form a judgment about the investment.

In the current situation, the values of the risk-free rate and the stock market return are higher than the average for the period under consideration. However, the country risk is lower than the average for the last few years. The opportunity cost of capital would be slightly higher (6.77%) if current values were applied.

Other indicators that the expected IRR of the Trust could be compared with are the yield curves. These are possible investment options since they are estimated specifically for Uruguay.⁵ Currently, the 10-year Indexed Unit Yield Curve (CUI, for its acronym in Spanish) is at 3.37% and the 10-year Yield Curve in Dollars (CUD, for its acronym in Spanish) is at 5.02%. In this case, the IRR is just below the dollar value of the curve.

⁴. 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.

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

3. Risks associated with forestry production performance

It considers the risks related to forest management and those aspects related to the climate such as droughts or fires.

Forest management risk refers to forest management decisions: planting of species in appropriate sites; management of plants production and their establishment; tree improvement through genetic improvement programs; development and implementation of spacing and silvicultural activities; protection of the silvicultural plantations and of land from different hazards such as fire, health issues, animals, weeds, etc,

The productive management risk is minimal because it is mitigated by the Manager's performance and experience. The forest sector in Uruguay is in a maturity stage where important firms are involved in primary and industrial production, production services, logistics and foreign trade.

Considering biological risks, the species selected have showed an appropriate performance in the ecosystems planted and their pathologies are well known. However, as this is a long-term project, if the species were to present biological problems in the future, there is an important supply of qualified human resources in the country and the region in terms of basic and applied research, both in the National Institute of Agricultural Research and in the University of the State (basically the School of Agronomy and the School of Sciences).

Regarding climate risks, the most important one would be the occurrence of extreme droughts such as the one of 2022/2023, because it is very unlikely that its negative effects could be mitigated. These types of risks are difficult to prevent, as well as to estimate their future impact. After the severe drought of 2022/2023, real information about the effects that this drought may have on forest production has been collected.

In the case of forest fires, they are a common risk in forestry activities, and these projects have appropriately internalized it. Management measures are taken to minimize their occurrence such as firebreaks, debris removal, continuous surveillance in the summer, and paying for insurance. On the other hand, the high dispersion of farms also reduces fire risks, since if it were to occur, it would be restricted to that farm.

Finally, the Manager permanently monitors the plantations in order to detect any health or management problems affecting the normal development of the plantations.

4. Land and forest valuation

The last valuation of the Trust's lands and forests was presented on December 31, 2022. The information presented in the previous update is repeated in this report as no new valuations have been performed. As in the previous year, two valuations were performed by different companies, which were the same as in 2021. 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 performed following different methodologies and considered both the land and forests together. The latest valuation also considers the future income from carbon credits, an item that had not been included in previous valuations.

Table 8. Evolution of land and forest valuations	
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
2022	76.22
Rate 2014-2022 (compound annual growth)	11.9%

Source: CARE based on valuations

This valuation estimated a total asset value of USD 76.22 million as of December 31, 2022, showing a much higher value than the previous year's (14.4%). This evolution shows an uptrend in assets, which has been growing at a compound annual growth rate of 11.9%, mainly due to the growth of forests.

The 2021 significant increase is related to a change in the methodology used and the 2022 increase occurred due to future income from the sale of carbon certificates was included.

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 commercialized, 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%.
- c. Regarding carbon credits, only those already certified to date were included, thus considering it a conservative criterion.

The table below shows the valuation results for 2022, divided into the different items, and compared with the previous year's results. It shows that a large part of this increase in value occurred because carbon credits were included.

Table 9. Valuations in millions of dollars			
	2021	2022	Variation
Wood production	37.29	38.24	2.5%
Grazing	0.86	0.81	-5.8%
Carbon credits	-	7.60	
Land value	28.46	29.57	3.9%
Total	66.61	76.22	14.4%

Source: Care based on 2021 and 2022 valuations

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 evaluate future factors that may affect the generation of the projected cash flows deriving from circumstances beyond the company's control and referring 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, for the time being, no changes are foreseen that could affect the current development and growth of this activity.

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. As for the possible extension of environmental barriers, the country, and especially this project, have stood out for its care and certifications related to it.

Given the extended time frame of the projections based on the nature of the project itself, this 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 the Trust. Likewise, the expected price for pulpwood is also important, as a certain percentage of wood is always destined for pulp, specially, in the first years of the project, which has been its most relevant destination.

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. Communication, packaging and hygiene (tissue paper) are the main uses of 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

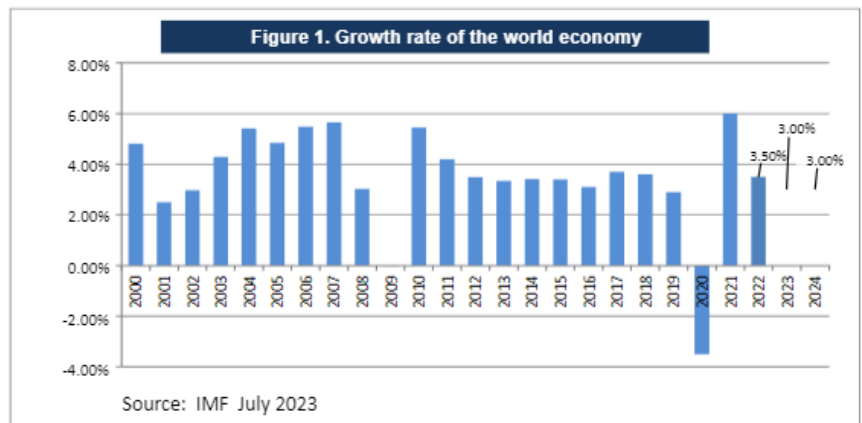
as by the control over the yield of forests. Meanwhile, policies aimed at mitigating the impacts of climate change also promote the protection of forests as they are important carbon sinks. In this regard, it is worth noting that the carbon market seems to be consolidating as the sale of carbon credits could provide new income for some forest 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 as a result of the COVID -19 pandemic. Once the impact of the pandemic has been overcome, demand and prices started to recover, however, by mid-2022 conditions changed. The consequences of the conflict between Russia and Ukraine, the cooling of the global and, in particular of China's, as well as the zero COVID-19 measures implemented by this country had a significant impact on that year. These phenomena brought about changes in the world economy and trade, such as increases in raw material prices, higher international inflation and freight and energy costs. All this situation created greater volatility in the wood market, and the increase in costs narrowed the margins of the business. In the second half of 2022, the measures taken by China, together with expectations of lower world economic growth, had a significant impact on some of the products imported by that country, resulting in lower pulp prices and greater difficulties in selling raw wood.

In the long term, there are no elements to assume changes in the trends described in the Prospectus. However, unfavorable scenarios, such as the ones mentioned above, should not be totally ruled out.

In this rating, CARE updated key information about the forest sector, confirming that, in the future, there would be no major deviations from the expected trajectory.

According to the latest International Monetary Fund (IMF) report of July 2023, *global growth is projected to fall from an estimated 3.5 percent in 2022 to 3.0 percent in both 2023 and 2024. The rise in central bank policy rates to fight inflation continues to weigh on economic activity.* This organization expects that the *global headline inflation will fall from 8.7 percent in 2022 to 6.8 percent in 2023 and 5.2 percent in 2024.*



The recent resolution to raise the U.S. debt ceiling and, earlier this year, the actions taken by authorities to contain the bank turbulence reduced the immediate risks of financial sector turmoil and the adverse risks to the outlook. However, the current scenario of high inflation, the continuation of the war, low growth in China and the current restrictive policy of central banks, maintain a downward outlook for global growth.

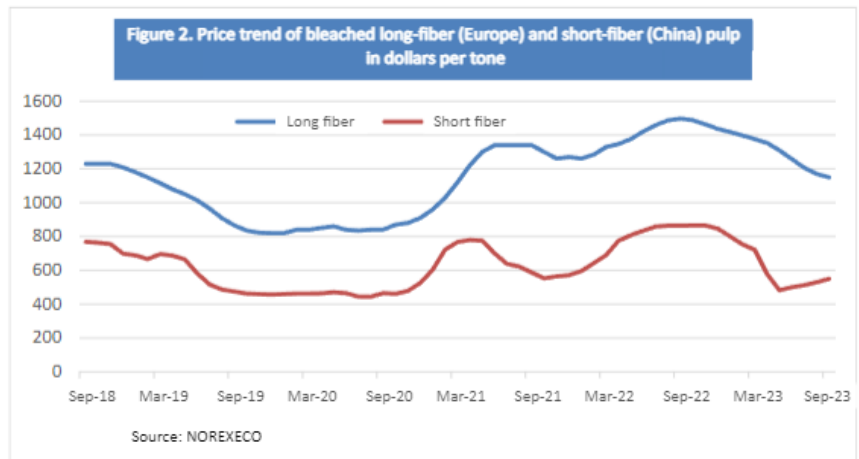
On the upside, inflation could fall faster than expected, reducing the need for a tight monetary policy, and domestic demand could again prove more resilient.

Regarding pulpwood, its reduction in consumption caused by the pandemic initially led to an abrupt fall in demand and prices. Thus, after a marked upward peak in prices during 2018, international, regional and domestic pulp values showed a very significant drop of around 35-40%. The greatest fall was verified in 2019 and then attenuated or remained at these depressed levels for practically all 2020. This drop was temporary, and in 2021 prices recovered rapidly, until the end of 2022. In 2023, at least until the middle of this year, international pulp prices showed sharp declines in their values. This last drop is mainly related to a decrease in the demand for paper, specially for packaging materials, as a consequence of the expected reduction in economic growth in the international economy. The long Covid quarantine in China, the overstock in that country and a drop in demand from the European Union are also contributing to the lower demand.

The figure below provides information on prices per ton for two types of pulp: NBSK⁶ (main international prizes for long-fiber conifer pulp in Europe), and BHKP⁷ (short-fiber pulp in China). The behavior mentioned in the previous paragraph is shown in the figure below.

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

⁷.Blanched Hardwood Kraft Pulp. Bleached short-fiber cellulose pulp.



The fall in the prices of short fiber pulp was stronger than in the prices of long-fiber pulp, primarily due to the increased supply of the former product in the region, as a result of the start-up of a large-scale project in Chile and also of the UPM 2 mill.

In the last few months, the fall in the price of long fiber has gone down considerably, while the price of short fiber has started to recover. It is important to point out that as prices fall, international freight rates also drop significantly, partially offsetting the economic effects.

CARE had access to some projections which estimate that the downward trend in pulp prices has ended and a slight recovery could be expected in the short term, at least in the case of short fiber (between 7 and 10%), since it is low in historical terms.

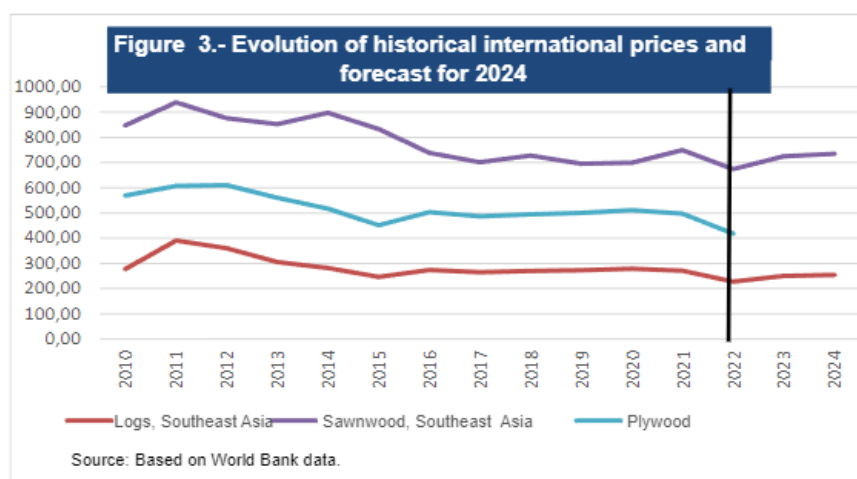
No information is currently available to estimate the outlook for the evolution of international prices for pulp in the long term. Even though, prices may probably evolve in line with the rest of the forest products (raw wood) (see figure 4). In the last 10 years, the annual growth in the international price of pulp has been 3.9%, which is an indicative value, since there is no certainty that in the future it will remain the same as in the past.

Regarding raw eucalyptus wood for sawmilling, demand has shown a behavior similar to that of pulp, although less marked. Prices have maintained a slight upward trend, being the volumes commercialized the most affected. After a very uncertain beginning of 2020, marked by the slowdown in exports at the end of 2019 and the declaration of a pandemic at the beginning of 2020, the second half of the year showed great momentum, consolidating the market recovery. This trend continued throughout 2021 and until mid-2022. In the second half of 2022, China practically exited the market, causing a significant drop in demand, which strongly affected Uruguayan exports. A recovery in trade

is expected for 2023, which has already begun in the second quarter of this year.

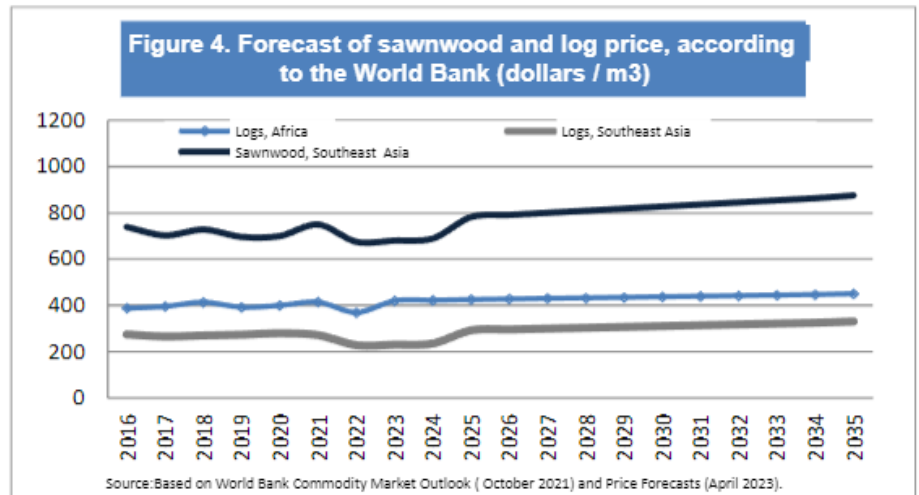
In the case of pine sawnwood, the behavior of its demand is similar to that of eucalyptus. However, in 2023 trade has not recovered. Demand for pine recovered from mid-2020, and this trend continued throughout 2021. However, in 2022 difficulties returned, basically due to the abrupt drop in purchases from China and the increase in maritime transportation costs. Imports from India remain at a good pace, consolidating its position as the main market for Uruguayan exports.

According to the latest World Bank price report of April 2023, the price of raw wood and sawnwood will show a slight increase in the next two years, around 1 to 2% per year.



The long-term outlook for raw wood for sawmilling or sawnwood shows a slight growth in nominal values, in the long term. The World Bank⁸ projections report a slight growth in nominal values for 2035. In the case of logs, a 0.95% annual cumulative growth rate is expected, and for sawnwood a 1.5%. These price increases would not cover the devaluation of the dollar, on the contrary, they might experience a slight fall in real terms. These projections are consistent with those for food commodities, for which a slight reduction in values in real terms (positive nominal increases but somewhat lower than the long-term devaluation of the dollar) is also projected.

⁸. World Bank Commodities Price Forecast. This forecast was presented in previous reports only prices for 2023 and 2024 are projected.



Uruguay's forest product exports are expected to be once again at an all-time high in 2023, mainly due to the start-up of UPM's new pulp mill. The table below shows the value of forest product exports in the last few years and the first half of 2023. In this table, a clear growth trend can be observed.

	2017	2018	2019	2020	2021	2022	First half of 2023
Pulp	1,310	1,660	1,527	1,107	1,576	1,818	1,016
Pine logs	88	150	89	132	204	127	45
Plywood boards	64	76	55	67	105	102	41
Chips (eucalyptus and pine)	64	95	102	21	74	113	58
Coniferous and non-coniferous sawnwood	93	115	97	104	159	184	87
Paper and cardboard	34	32	36	25	26	25	13
Eucalyptus logs	21	29	14	21	23	34	12
Total	1,673	2,158	1,921	1,477	2,167	2,403	1,272

Source: CARE, based on Customs and Uruguay XXI data

Note: Exports of logs to the Free Trade Zone were not included, as pulp exports from this destination were considered.

It is worth highlighting the continued growth of sawnwood (coniferous and non-coniferous) exports, becoming the second largest forest export product after pulp.

B) Prices of land

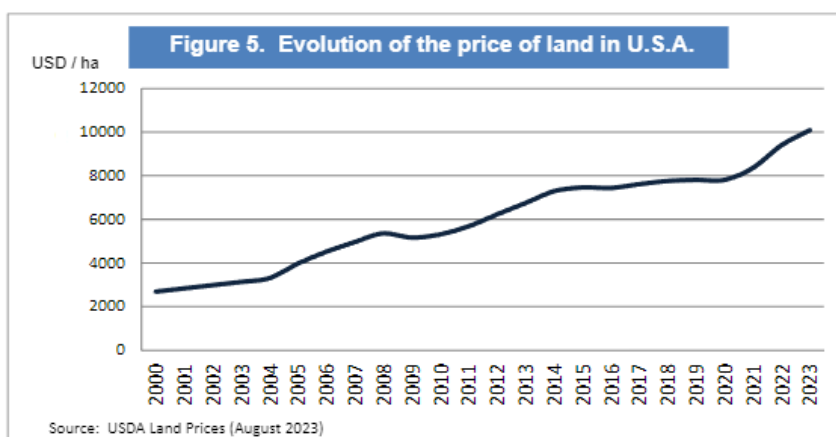
The outlook for international demand for land is encouraging. In the short and medium term, its prices are expected to increase, as a consequence of the difficulties for expanding the agricultural frontier and the need for a rational and sustainable use of soil resources. However, it does not imply that there may be short-term variations deviating from this growing trend because the evolution of several variables may affect nominal prices of land, such as interest rates, currency devaluation, international inflation or the price of commodities.

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

In the 21st century, the price of land in the United States has followed a continuous upward trend, with some exceptions (2009 and 2015) when minimal reductions were verified. However, these exceptions did not change such 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, it fell very moderately. Both negative price-level shocks were reversed within a few years.

From 2000-2023, the cumulative annual growth rate of the price of land in the U.S. in current dollars was 5.9% per year. This value is higher than the inflation of the U.S. currency (2.49%), resulting in a real increase of 3.3%.

The price of land (average) has remained relatively stable between 2017 and 2020, showing minimal increases similar to the U.S. inflation rate. Even though, apparently, in the last two years, it has recovered an upward trend in real terms, being in line with inflation. In 2021, average prices of land increased a 7.0%, in 2022 a 12.4% and in 2023 a 7.4%. If agricultural and livestock land is analyzed separately, the former increased a 23.5% between 2021 and 2023, while the latter a 18.2%. Such trend could be mainly explained by price increases in agricultural commodities.



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 the official currency (Brazilian real). Therefore, price fluctuations are amplified by this effect. In 2011, the price of land grew significantly but this trend changed in the following years. From 2014 onwards, the price

of land recovered a more stable behavior showing small annual variations.



By 2021, last year reported by the Institute of Agricultural Economics of São Paulo, the prices of land in U.S. dollars have shown an increase of approximately 8%, recovering part of the reduction verified in the previous year (16% for grazing land) as a result of the devaluation of the Brazilian real.

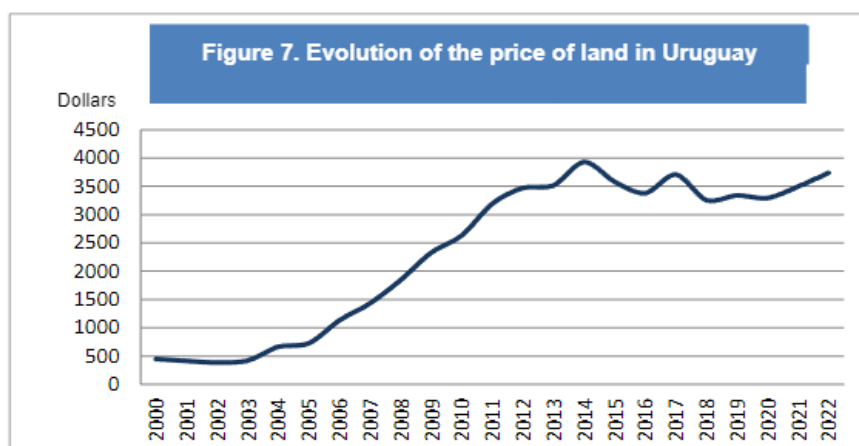
The special situation of Argentina makes it impossible to show an updated and reliable trend of the prices of land. The high volatility of its policies and export taxes to agricultural production, its macroeconomic imbalances, and the restrictions on foreign exchange, have caused distortions in values that have nothing to do with the trend that the prices of land should follow. On the basis of some technical reports consulted by CARE, in Argentina, in 55 years (1956 to 2011), the price of agricultural land (very good quality) increased at an average annual cumulative rate of 3.5% in real terms.

A recent publication of the Argentine Chamber of Rural Real Estate (CAIR, for its acronym in Spanish) shows that rural real estate activity decreased a 31% year-on-year between 2020 and 2021, reaching the lowest historical minimum since InCAIR (activity index estimated by the Chamber) was computed at the beginning of 2022. In its latest report dated July 2023, it states that during the first half of 2023 the level of activity has significantly recovered due to the improvement of international prices, the impacts of droughts were overcome and to the possible change of government.

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 of the value of lands from 2004 to 2014. From 2015 onwards, there has been a certain downward adjustment, although showing an erratic behavior,

probably as a consequence of the low number of transactions since both quality and location of traded lands have had a great influence on the average values.

In 2021, the price of land seems to return to its historical growth rates, increasing a 6.2% over the previous year. The latest report, "The price of land", of the Directorate of Agricultural Statistics (DIEA, for its acronym in Spanish) published on May 10, 2023, showed a new increase in values compared to the previous year's, in this case, it was of 6.9%. It is important to point out that, in the last three years, the volume of land traded annually has significantly increased, which would indicate a higher level of activity in a growing market. These recent increases in the price of land may be a consequence of the rebound in international prices, as well as the strengthening of the Uruguayan peso against the dollar, currency in which land transactions are carried out. In turn, high international inflation and the current levels of the prices of fields, which have not shown sustained increases since 2014, have also contributed to the increase in prices.



Other sources of data provided by consulting firms and market managers⁹ using different valuation criteria estimated the land values with similar characteristics, considering the different destinations for the products. The most commonly used methodologies are: comparing real sales of lands with similar characteristics and performing valuations according to expected revenue. In general, the market value is calculated combining both methodologies. CARE had access to a study of several land valuations, which showed that the results are in line with the information provided by DIEA.

There is a proven relationship¹⁰ 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

⁹.SERAGRO, Agroclaro, Consur and private operators

¹⁰. B. Lanfranco and G. Sapriza (Serie Técnica No. 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)

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.

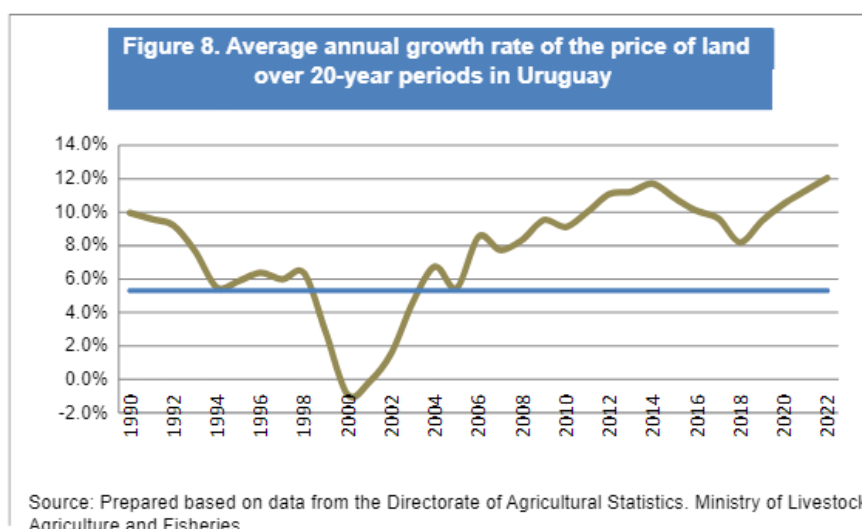
Land valuation is a relatively important component of the Trust's final income (20%) therefore its evolution will have a significant impact on the final return on the investment. The last update of the financial model, in the most likely scenario, assumed a cumulative annual valuation of 3% from 2022 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 53-year series (1970 to 2022) for 20-year periods, which showed the following:

- On average, the annual evolution of the price of land for 20-year-moving periods was 7.8%.
- 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 rest 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, the increase in the price of land would not be below the value considered in any period.

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 12% annual growth).



CARE considers that although sustained increases in the prices of land are expected in the medium and long terms, their increase would not be similar as in the past. Increases in prices will probably compensate the long-term U.S. inflation¹¹, 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. High international inflation and agricultural prices, as well as 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.

The forest sector is strongly regulated by the Forestry Law No. 16,466, the Land Use and Sustainable Development Law No. 18,306 and by 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 dated December 2021.

In December 2021, after the Senate approved the Bill to regulate the forest sector, 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 forest plantations to priority forestry lands, as well as to set a limit of 10% on the total forested area 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 forest 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 the Decree No. 405/021, which provides some changes in forestry regulations, probably in response to some of the concerns related to the Bill vetoed. This decree lowers 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). Furthermore, this decree also states that authorization is required 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.

¹¹. It is estimated at approximately 2.5%. It is currently well above these values, however, it is expected to reasonably return to its historical values.

RISK RATING AGENCY

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

Currently, no new elements could suggest that the government may implement policy measures against this type of project and no further conditions are observed that would 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, and considering the various technical approaches (legal, qualitative, and quantitative) presented by the Trustee and the Manager, as well as those carried out by CARE, and considering the data publicly available, CARE's rating committee concludes that the Issue is rated BBB+.uy on the scale provided in our Manual¹².

Rating Committee



Julio Pieve, Engineer



Martín Durán Martínez, CA



Adrian Tambler, Agr. Eng.

¹². **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.**