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

Montevideo, October 2023

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**Update of the Rating of the Public Offering Participation Certificates of the Financial Forestry Trust “Fideicomiso Financiero Bosques del Uruguay II”
October 17, 2023**

Trustee: EF Asset Management Administradora de Fondos de Inversión
Manager and Organizer: Agroempresa Forestal S.A.
Registrar and Paying Agent: EF Asset Management Administradora de Fondos de Inversión
Registered Agent: Bolsa Electrónica de Valores del Uruguay S.A.
Securities Issued: Participation Certificates
Currency: U.S. Dollars
Issue Amount: USD 70,000,000
Initial Public Offering Date: January 19, 2015
Term: Until all the Trust’s assets are liquidated and its obligations are met - 30 years maximum
Allocations: According to retained earnings, pursuant to the established procedure
Trust Assets: Land and forests
Validity of the Rating: April 30, 2024
Rating Committee: Julio Preve, Adrián Tambler and Martín Durán Martínez.
Risk Rating: BBB +.uy¹
Manual used: Manual de Calificación de Finanzas Estructuradas Administradas por Terceros [Third Party Managed Structured Finance Rating Manual]

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

GENERAL OVERVIEW

CARE has updated the rating of the Participation Certificates in possession of the Trust "Fideicomiso Financiero Bosques del Uruguay II", maintaining the BBB+.uy investment grade rating.

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

- Its financial structure that, from a legal standpoint, provides the necessary guarantees, as set forth in the legal report in Annex I of the original rating, ratified over time.
- A project that, from an economic and financial point of view, has passed various tests, which the issuer and the rating agency have reasonably made it perform. As of March 2023, a new cash flows update is available, which yields an IRR of 7.3%, slightly lower than that estimated in 2022 (7.8%).
- The Manager's reports (Agroempresa Forestal S.A.), validated by the Surveillance Committee, are generally satisfactory for the project's progress. The Surveillance Committee reports that the minimum standards expected in terms of planted areas, monitoring planting practices and survival rates, budget execution and the Mean Annual Increment (MAI) of the forests are met to satisfaction.
- It is worth noting that the same company also manages three other projects with similar characteristics, and rated with investment grade (Bosques del Uruguay, Bosques del Uruguay III and Bosque del Uruguay IV), currently operating more than 80 thousand hectares of forests, through the issuance of USD 640 million in total. This company has invested a total of USD 11.5 million in Participation Certificates.
- The management capacity of the Project Management company, Agroempresa Forestal, complies with the standards of efficiency evaluated in the previous update reports. It has also been confirmed in different reports of the parties involved.
- Its corporate governance structure minimizes risks to investors, and until the preparation of this report, it has properly operated (Manager's reports, meetings of the Holders of Participation Certificates and Surveillance Committee's reports.)
- As of June 30, 2023, the Trust owns a total of 14,656 hectares, of which 9,122 hectares are forested and 437 hectares are

available for planting, obtaining an average harvest rate of 65%. The planted area is greater than that proposed in the Prospectus, which was 8,680. Thus, it has exceeded one of the minimum performance standards commitments provided in the Prospectus.

- The last valuation of the Trust's lands and plantations was performed in December 2022. This valuation reached a total amount of USD 112.89 million, comprising USD 44.04 million for land, USD 1.31 million for future grazing income, USD 0.48 million for carbon certificates² and USD 67.06 million for forest income. The Trust's book value of equity as of June 30, 2023, is USD 115.1 million, being above the value of the Participation Certificates' (PC) issuance, which was USD 70 million.
- By 2023, sales revenue from pulpwood for pulp mills and exports of eucalyptus sawnwood is expected to be approximately USD 9.1 million. It is also expected to plant 577 hectares.
- 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. 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.
- Revenue from wood sales was slightly over budget in the first six months of the year. Although the expected exports of eucalyptus for sawmilling did not materialize, due to a very weak external market for this product, this drop was offset by the export of chips for pulp. Investments (planting and management) were slightly under budget, mainly because droughts prevented activities from being conducted according to the schedule. Operating costs and expenses were in line with budget, even though some differences between items were recorded. As a result, according to the Manager's estimates the Trust will end the year with a positive management result³ (USD 1.5 million) at the end of the year.
- 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,

². 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 has not yet been included in the trust's financial statements.

³. Management results: sales- (operating costs + investments + expenses)

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 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 has been hired to update the rating of the Participation Certificates in possession of the Financial Trust “Fideicomiso Financiero Forestal Bosques del Uruguay II” with a nominal value of USD 70,000,000 (seventy million U.S. dollars).

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 that qualifies 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, has been admitted as reasonable for the project in the first rating, future ratings are not strictly connected to obtaining those figures. In fact, this is not the case of an issue with a fixed return commitment. Therefore, the grade will not depend strictly 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 its 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, Adrián Tamber and Julio Preve. CARE hired Mr. Leandro Rama, Attorney at Law, for the legal risk assessment at the time of 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 Financial Forestry Trust “Fideicomiso Financiero Forestal Bosques del Uruguay II” aims to provide investors with long-term returns essentially obtained from the proceeds of the sales of wood and standing timber, and the increase in the price of its land asset, as well as, although to a lesser extent, from the proceeds of the sale of carbon credits and the grazing of non-forested lands. Investment and management protocols with duly productive, environmental, and social standards are followed at all times. Regarding the total revenue from sales estimated in the prospectus, 78% will be from the sale of wood, 20.5% from the sale of the land at the end of the project, and less than 1.5% from the sale of carbon credits and grazing⁴.

As the most relevant precedent, the Financial Forestry Trusts “Fideicomisos Financieros Forestales Bosques del Uruguay I, III and IV” issued Participation Certificates in August 2011, December 2016, and April 2019 amounting to 50, 190 and 330 million dollars, respectively. These trusts, managed by the same entity as this one, have been satisfactorily complying with their original business plans, which are similar to the one presented in this report.

- The land asset of BDU II is comprised of 20 farms covering a total area of 14,656 hectares, of which 9,122 are planted and 473 are available for planting, as of June 30, 2023. This would result in an average utilization rate of 65%. The acquired lands are located in Lavalleja, Cerro Largo Florida, and Treinta y Tres.
- Pinus taeda plantations account for 15% of the total area of the forest asset, eucalyptus pulpwood plantations cover a total of 19%, while eucalyptus grandis plantations, whose main destination is the production of solid wood, account for 66% of the total area, as of June 2023, according to the Surveillance Committee.
- The land purchase transaction has been completed, as well as the planting of trees. The project's future operations will mainly involve forest and wire fence maintenance, weed control, pruning, thinning, harvesting, stump removal, regrowth management, monitoring, reforestation, etc.
- The Cruz Roja farm, which covers an area of 1,782 hectares, was sold to the Trust “Bosques del Uruguay III” in October 2018. 1,350 hectares of this farm were available for planting and a 51% of the area of this farm was already planted. This sale was approved by the Surveillance Committee and unanimously by

⁴. Chapter IV of the Prospectus: Objective and characteristics of the investment.

the Holders of the Participation Certificates according to the resolution of the meeting held on April 16, 2018.

- A meeting of the Holders of the Participation Certificates was held on June 13, 2019, and attended by all of them. For the first time, at such meeting, it was unanimously resolved to make an advance of Allocations for the amount of two million dollars due to the existence of Distributable Net Income.
- The Trust Agreement was amended on April 5, 2017, 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 July 2020, obtaining short-term credits for working capital has become a regular management practice, as well as 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.
- A meeting of the Holders of the Participation Certificates was held on December 28, 2020, and attended by all of them. At such meeting, it was resolved to modify certain terms and conditions of the PCs. These modifications involved changing the parametric of the adjustment of Agroempresa Forestal Fee and uploading information related to the Trusts to Bosques del Uruguay WEBSITE once a year.
- The documentation required for the validation of carbon credits under the CCB standard (Climate, Community & Biodiversity Standard) has been prepared. This standard shows how the fund interacts with the community and allows the issuance of carbon credits of higher value. Aenor finished the audit in the third quarter.
- The Trust's forests are FSC (Forest Stewardship Council) certified. To date (June 2023), the Trust has 63% of its hectares certified and is working to complete the certification.
- A new valuation of the Trust's lands and forests was presented in December 2022. It reached a total amount of USD 112.89 million, comprising USD 44.04 million for the land, USD 1.31 million for future revenue from grazing, USD 0.48 million for future revenue from carbon certificates and USD 67.06 million

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for forest revenue. This new valuation determined an increase of 14% in the total value, mainly due to the value of the forests.

b. Most relevant events in the period

- Wood sales were over the original budget for the period (+42%) in the first half of the year. Although the export of eucalyptus wood initially planned did not materialize as a result of a weak external market, this drop was offset by sales of eucalyptus wood for export of pulp chips on ships. The Manager estimates that wood sales will be in line with the budget at the end of the year, although with a different composition than projected.
- The 2023 projections of revenue from the commercialization of carbon credits in the next year were adjusted downward, given the drop in the prices of the credits. As a result, gross income would be lower than budgeted (-10%) at the year ended December 2023.

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 Domestic Market	761	0	761	0	0	0
Sawn Pine Wood Domestic Market	256	0	256	765,457	0	765,457
Eucalyptus Pulp Domestic Market	1,872,854	657,055	1,215,799	8,185,652	8,035,837	149,815
Sawn Eucalyptus Wood International Market	491,689	1,010,433	-518,744	491,689	1,209,037	-717,348
Carbon Credits	0	36,176	-36,176	343,897	1,719,485	-1,375,588
Beehives	1,390	0	-1,390	1,381	0	1,381
Grazing	2,486	84,414	-81,928	170,623	168,828	1,795
Total	2,369,436	1,788,078	581,358	9,958,699	11,133,187	-1,176,283

Source: Manager

- In fall 2023, 240 hectares of eucalyptus were planted on two farms, and in spring, 337 hectares of the same species are planned to be planted on three other farms.
- Various silviculture and management tasks (pruning and thinning) were conducted in the reported period. The total investment in management activities was 13% lower than planned during the first six months of the year due to the intense drought occurred during this period. Consequently, pruning activities were not conducted according to the schedule because of the high risk of fire. These activities will be carried out in the following quarters.

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- Production costs and operating expenses were in line with the budget, in the first half of the year. They are expected to end the year similarly.

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	2,662,825	2,596,882	65,943	5,399,117	5,280,117	119,000
Investments in Planting	431,101	524,607	-93,506	1,004,979	922,675	82,304
Investments in Management	310,816	357,200	-46,384	887,134	859,963	27,171
Expenses	1,151,178	1,173,595	-22,417	2,318,055	2,127,852	190,203
Total	4,555,920	4,652,284	-96,364	9,609,285	9,190,607	418,678

Source: Manager

- Despite the reduction in estimated sales to international markets and in revenue from carbon credits, the Manager projected that the management result for the end of 2023 would be positive, approximately USD 1.5 million.
- All short-term loans taken out in 2022 were paid off during the first quarter of 2023. New short-term loans were taken out in the second quarter of 2023 to finance the operation of this Trust.
- Survival rates for plantations 2022 were assessed in May 2023 by the forestry services company Pike y Cia, using the agreed methodology (1 plot of 300 m² every 5 hectares). The average survival rate was 89%, being the minimum required 80%. The highest percentage of survival rate in a farm was 94% and the lowest was 76%. Lower survival rates in some plots were caused by the late frosts occurred in some place in October and droughts.
- The Manager reported that plantations are generally in good health, however, some areas have been affected by the water deficit occurred in the first half of the year. This water deficit resulted in reduced tree growth and extra costs incurred in the fire protection system during the summer. Three farms were significantly affected, especially in areas with shallower soils. In general, these areas have been recovering and the most affected ones are currently being evaluated. Severe water deficit causes discoloration, defoliation, apical death and a physiological imbalance causing the appearance of epicormic shoots⁵ and in extreme cases the death of the tree. 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.

⁵. Shoots growing in the area after being cut as a consequence of water stress.

- As of December 2022, the grazing area represents 82% of the total potential area. There is an area (2,536 hectares) with young plantations where grazing is not conducted and animals are not permitted yet.

3. Analyzed information

In this report, the information analyzed was as follows:

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

II. THE TRUST AND THE PARTICIPATION CERTIFICATES

Participation Certificates in possession of the Financial Forestry Trust “Fideicomiso Financiero Forestal Bosques del Uruguay II”, created by means of the relevant Financial Trust Agreement, were offered in a public offering. This agreement, the certificates and the other agreements mentioned above were analyzed in the legal report when the original valuation was carried out.

1. General description

Name:	Fideicomiso Financiero Forestal Bosques del Uruguay II
Trustee:	EF Asset Management Administradora de Fondos de Inversión S.A.
Manager:	Agroempresa Forestal S.A.
Registrar and Paying Agent:	EF Asset Management Administradora de Fondos de Inversión S.A.
Registered Agent:	Bolsa Electrónica de Valores S.A.
Stock Exchange Listing:	Bolsa Electrónica de Valores S.A.
Organizer:	EF Asset Management Administradora de Fondos de Inversión S.A.
Securities Issued:	Participation Certificates
Trust Assets:	The Trust will invest in the development of a forest asset, including purchasing and/or leasing rural properties and planting forests.
Currency:	U.S. Dollars
Issued Amount:	USD 70,000,000
Term of the Issue:	Until all the Trust’s assets are liquidated and its obligations are met. 30 years maximum.

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Initial Public

Offering Date: January 19, 2015

Allocations: According to retained earnings, pursuant to the established procedure

Risk Rating: BBB+.uy

2. Legal analysis

The legal analysis was included 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 noticeable 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 for failing to comply with any regulation in force, and the possible enforcement of court orders as a result of claims for damages by possibly injured parties. Having verified the aforementioned report, which essentially resembles the reports of Trusts I, III and IV, and considering the passage of time without any controversies, CARE concluded that the *structural legal risk is considered to be virtually nil.*

Liquidity risk. The certificates have been designed to be liquid. Hence, liquidity can be considered as appropriate 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 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.

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

CARE reviewed the evolution of each project run by the company, which is the best source of information available to assess its capacity.

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.

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, 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), financial projections and the evolution of key variables (prices, comparable transactions, etc.)

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 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 the possibility of its replacement in the event any of the contingencies provided in the relevant agreements may occur.

The Trust

The Trust BDU II was created on August 14, 2014, pursuant to its Trust Agreement, and on December 5, 2014, the Central Bank of Uruguay authorized its registration. On January 19, 2015, Participation Certificates amounting to USD 70 million were placed in BEVSA under a deferred integration regime as provided in the Issuance Document and in the Prospectus. The Participation Certificates were fully paid after a process that began in January 2015 and ended in February 2017.

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	6,845	2,313	5,630
Non-current Assets	115,471	117,217	104,132
Total Assets	122,316	119,530	109,762
Current Liabilities	5,117	1,101	3,872
Non-current Liabilities	2,126	2,602	2,904
Total Liabilities	7,243	3,702	6,775
Equity	115,073	115,827	102,987
Total Liabilities and Equity	122,316	119,530	109,762
Current Ratio	1.34	2.10	1.45

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

In this case, as this is an interim period, it does not correspond to perform valuations. Therefore, for accounting purposes, the land and forest values provided in the preceding table are the same as those of December 2022, including the modifications inherent to the operations of the first half of the year. Current liabilities include a short-term bank loan amounting to USD 2.7 million to finance working capital.

The book value of equity as of June 30, 2023, is almost USD 115 million as shown in the table above, much higher than the amount issued, which was USD 70 million.

Table 6. Income Statement of the Trust

Thousands of USD	06/30/2023	06/30/2022	12/31/2022
Operating revenue	2,474	5,994	8,846
Biological assets (1)	-	-	10,992
Continuing operations	2,474	5,994	19,838
Cost of goods sold	(2,188)	(4,799)	(7,304)
Gross margin	286	1.195	12,534
SG&A	(1,506)	(971)	(1,679)
Operating result	(1,220)	224	10,855
Miscellaneous income (2)	-	-	-
Financial results	(193)	(385)	(345)
Income before taxes	(1,416)	(162)	10,511
Corporate Income Tax (IRAE)	662	1,172	823
Income for the period	(754)	1,011	11,334
Other comprehensive income (2)			1.675
Deferred tax			(169)
Comprehensive income for the period	(754)	1,011	12,840

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

(1) Change in the value of plantations

(2) Change in the value of land

Operating revenue for the period mostly accounts for wood sales and, to a lesser extent, for income from grazing and others. These sales were significantly lower than last year in the same period. However, an inventory of wood with a book value of more than USD 3.2 million was recorded.

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 Trust BDU II, CARE considered that the risk of non-compliance of the Manager and the Trustee with the project's responsibilities is *virtually nil*.

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, leaving 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

An investment in the purchase of rural properties to develop forestry activities was made, in accordance with the conditions set forth in the Agreement, and to become part of the Trust's assets. The Trustee invested in those Properties recommended by the Manager, in accordance with the Business Plan and following the procedures provided in the Agreement.

1. Evaluation of the return on investment

The Project outlined in the Prospectus estimated an Internal Rate of Return for the Investor of 8.55%. Subsequently, the Manager has updated the expected cash flows. The latest update of the financial flow is as of March 2023, including actual information as of December 2022 and projections until the termination of the Trust.

In this new estimate of the financial flow, 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 2035. According to CARE, the most likely scenario is based on the following assumptions:

- Product prices are adjusted for U.S. inflation (projected by BEVSA)⁶. Real price increases are not projected either for pulpwood or solid wood.
- The prices of land have increased by 3% per year in current dollars.
- Internal costs are adjusted for U.S. and Uruguayan inflation. Uruguay's devaluation and inflation are projected based on BEVSA's valuation criteria. It assumes that certain degree of inflation in dollars will be sustained, thus penalizing future margins⁷.

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

Investment income is projected in the new flow, which would begin in 2024 and end with the termination of the Trust in 2035. The profit distribution made in 2019 amounting to USD 2 million was also considered as income.

Based on this projection, the IRR for the entire Trust's project period considering the baseline scenario would be 7.3%, in nominal dollars, slightly lower than that estimated a year ago (7.8%).

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

⁶. Historical U.S. inflation is estimated to be around 2.1-2.3%, assuming a return to historical levels.

⁷. It assumes 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.

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 land increases a 1.5%	7.3%
2 Wood adjusts for U.S. inflation. Costs adjust for USD UY Inflation, and land increases a 1.5%.	7.1%
3 Same as 2 but the price of land increases a 3%	7.3%
4 Wood and land price increase a 1.5%.	6.4%
5 Wood price increases a 1.5%	6.3%
6 All other factors unchanged	6.0%

Source: Manager

As the table shows, there is little variation in the expected rate of return for the different scenarios, implying that the IRR is relatively robust.

CARE considers scenario 3 to be the most likely, as it assumes an increase in the prices of wood similar to US inflation, that is, no change in prices in real terms. World Bank projections for the next ten years assume an increase in the prices of wood between 1.1% and 1.5% per year, depending on its origin (see Section V). In the case of land, an increase of 3% per year seems reasonable and conservative, as it is the minimum value that the rating agency generally uses for projections.

Scenario 6 assumes that the prices of wood and land, as well as production costs would remain constant in nominal terms throughout the entire period. This is the most unfavorable scenario, in which even if the prices of wood or land do not increase in the remaining years, IRR would still be positive (6.0%).

This new IRR calculation is consistent with the severe sensitivity analysis to which CARE subjected the cash flows in the original rating. On that occasion, the cash flows were subject to adverse effects in terms of:

- the rate of forest growth
- the expected increase in the prices of land

The worst-case scenario assumed that the increase in forest growth rate would be 25% lower than expected, and that there would be no increase in the prices of land during the entire period. Apparently, to date, a reduction in the growth rate of this magnitude cannot be verified, according to the results of the permanent plots of land.

The results for a simulation of 10,000 iterations if assuming an unfavorable scenario showed that the expected nominal IRR would be 6.58%, and that there was a 95% probability that the expected nominal IRR would be higher than 5.74%.

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 Damodaran.

r_f : risk-free rate. The yield of the 10-year Treasury Bonds of the Federal Reserve of the United States of America is considered.

$E(R_m) - R_f$: Market Risk Premium. Specific risk premium for the market where the project operates (the difference between yields on equity assets and the risk-free rate.) To estimate the return on equity assets, the equity market risk premium provided by Damodaran (Equity Risk Premium of S&P 500) 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 Damodaran'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 6.63%. This value is lower than the last calculated IRR for the most likely scenario (7.3%), indicating that the investment would have a higher profitability than this opportunity cost. While these comparisons cannot be taken in a strict sense, they should be considered as a reference that, among others, help to form a judgment about the investment.

In the current situation, the values of the risk-free rate and the stock market return are higher than the average for the period under consideration. However, the country risk is lower than the average for the last few years. The opportunity cost of capital would be slightly higher (6.77%) 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.⁸ 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%.

Considering these criteria, the profitability of the project for the investor remains above the opportunity costs considered.

3. Compliance with minimum project standards

The characteristics of the project make the economic results sensitive to the actions carried out by the Manager: purchase of land, forest establishment and maintenance, conversion of species, operating costs, harvest and sale, etc. For this reason, the Trust Agreement included minimum performance standards for the Manager.

In this regard, the Surveillance Committee reported that the minimum requirements established are met to satisfaction.

- Land purchase: Completed. The objective was to purchase 13,200 hectares and lease 800 hectares, and 14,656 hectares have already been purchased.
- Plantable area: No area has been reported as "available for planting" for more than 24 consecutive months.
- Planting practices and survival rates: The percentage of planting practices and survival rates recorded in May 2023 was 89% on average.
- Mean Annual Increment (MAI) of the plantations:
 - Eucalyptus dunnii (pulp): Development aligned as foreseen in the prospectus and above the maximum expected curve.
 - Eucalyptus grandis (quality wood): Above the maximum expected curve.
 - Pinus taeda: The forests are between 13 and 14 years old. They have reached their total volume, but the minimum expected commercial volume curve has not been reached yet. This is because there is no market for smaller diameter logs (less than 20 cm).

⁸. Yield Spot Curve of Uruguayan Sovereign Securities issued in national currency indexed to inflation, as the case may be.

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

Table 8. Project compliance

Item	Prospectus	Executed
Land Price (USD/ha) as of 2022 (*)	3,965	3,000
Distance to Montevideo (km)	270	267
Forest Harvesting (%)	60%-65%	62%
Rel. E.grandis/dunnii area	2.7	4.0
Total Area	14,000	14,658
Forest Area (current)	8,680	9,073

15% of the area is forested with pine

Source: Surveillance Committee

(*) The prospectus projected a 3% nominal annual increase in the prices of land. However, this has not occurred. As presented in Section V, after a very significant adjustment in prices between 2004 and 2014, values fell and have not followed the historical trend of growth. Probably, a positive growth rate for land values will be recovered over the years, as provided in the prospectus.

As the Trust has acquired lands already forested, the schedules to begin the clear-cut wood sales has been modified from the original projection, advancing the Trust's revenue for these items. In turn, the planting costs have been postponed in those areas acquired already forested, since these costs will be incurred after the relevant clear-cutting activities have been carried out.

4. 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 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, since 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 forestry 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.

5. Results from permanent-plot measurements

Permanent plots were installed on those forests aged between 6 and 9 years and distributed among different farms. The objective of the permanent plots is to measure two tree growth parameters, height and diameter, crucial for estimating production.

According to the Surveillance Committee, the growth results from the permanent plots showed that eucalyptus dunnii and grandis growth rate is in line with the projections provided in the prospectus and within the maximum expected curve. In the case of pines, due to the market, there is an important difference between the total and the commercial volume. Currently, there is no commercial market for logs smaller than 20 cm diameter, producing a difference in volumes.

6. Land and forests 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 Trust's land and forest values, according to the data provided in the valuations performed annually. It should be clarified that these valuations were carried out following different methodologies and considered both the land and forests together. This valuation also considered the future income from carbon certificates, which has not been included in previous valuations.

Table 9. Evolution of land and forests valuation

Year	Millions of USD
2015	26.70
2016	53.10
2017	68.00
2018	66.76
2019	74.99
2020	75.36
2021	99.05
2022	112.89
Rate 2018-2022 (compound annual growth)	14.0%

Source: CARE based on valuations

Note: It is only in 2018 when the area stabilized, in 2015 and 2016 the area was smaller and in 2018 it was larger, since a farm was then sold to BDU III.

This evolution shows an uptrend in total assets, considering the forests and land.

This valuation estimated a total asset value of USD 112.89 million as of December 31, 2022, showing a much higher value than the previous year's (14%). This evolution shows an uptrend in assets, which has been growing at a compound annual growth rate of 14.0%, mainly due to the growth of forests.

This valuation was based on the following:

- a. The value of land was 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, grazing and carbon certificates was 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 is due to the appreciation of the forests while, for the time being, carbon credits have very little impact on the results.

Table 10. Valuations in millions of dollars

	2021	2022	Variation
Wood production	55.43	67.06	21.0 %
Grazing	1.26	1.31	4.0 %
Carbon credits	-	0.48	
Land value	42.36	44.0	4.0 %
Total	99.05	112.89	14.0%

Source: Care based on 2021 and 2022 valuations

7. Risks considered

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

Risk of currency mismatch. The most relevant income and expenses are foreseen in the same currency; therefore, this risk is *virtually nil.*

V. THE ENVIRONMENT

The environmental analysis is carried out to 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 will focus 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 78% of the investment returns.

In the case of this project, the price of quality eucalyptus 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 fundamental, as a certain percentage of wood is always destined for pulp, specially, in the first years of the project.

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.

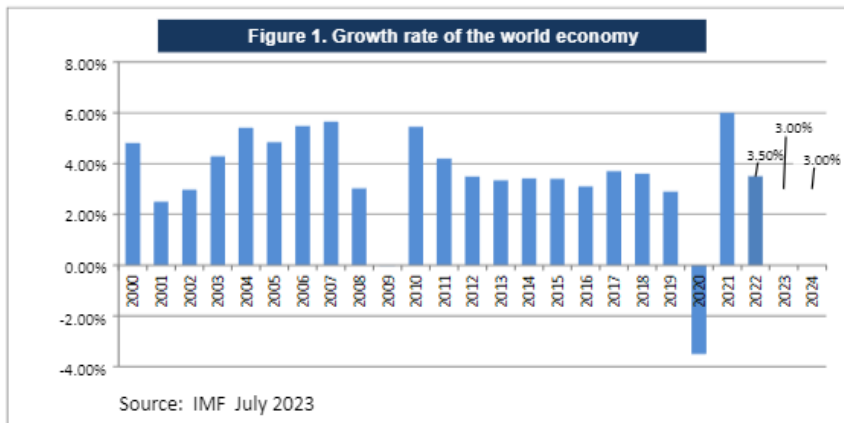
On the other hand, this increase in demand faces a supply that has been constrained by increasing protective measures for native forests, as well as by the control over the yield of forests. Meanwhile, policies aimed at mitigating the impacts of climate change also promote the protection of forests as 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 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.

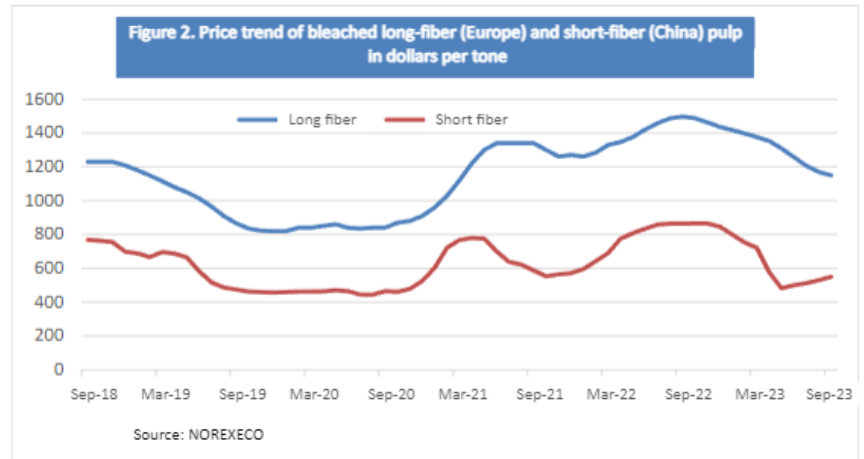
On the upside, inflation could fall faster than expected, reducing the need for a tight monetary policy, and domestic demand could again prove more resilient.

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: NBSK⁹ (main international prizes for long-fiber conifer pulp in Europe), and BHKP¹⁰ (short-fiber pulp in China). The behavior mentioned in the previous paragraph is shown in the figure below.

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

¹⁰.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.

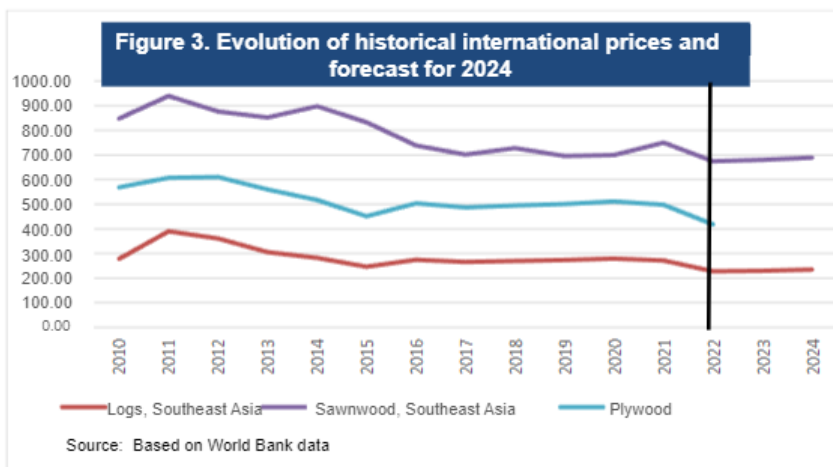
No information is currently available to estimate the outlook for the evolution of international prices for pulp in the long term. Even though, prices may probably evolve in line with the rest of the forest products (raw wood) (see figure 4). In the last 10 years, the annual growth in the international 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.

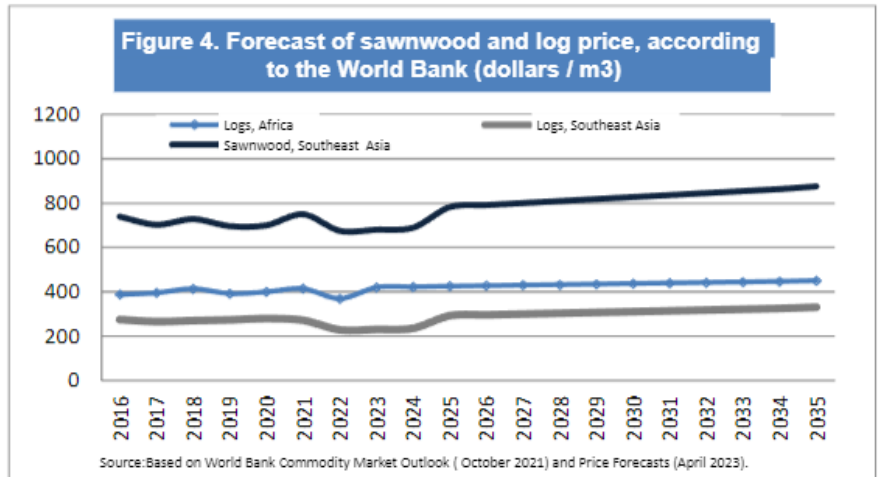
In the case of pine sawnwood, the behavior of its demand is similar to that of eucalyptus. However, in 2023 trade has not recovered. Demand for pine recovered from mid-2020, and this trend continued throughout 2021. However, in 2022 difficulties returned, basically due to the abrupt drop in purchases 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 Bank¹¹ 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.

¹¹ 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.

Table 11. Export of selected forest products (in millions of dollars FOB)

	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

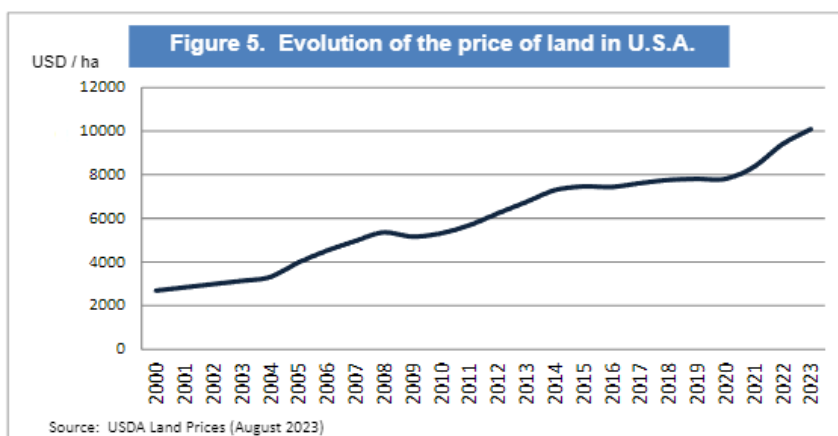
The outlook for international demand for land is encouraging. In the short and medium term, its prices are expected to increase, as a consequence of the difficulties for expanding the agricultural frontier and the need for a rational and sustainable use of soil resources. However, it does not imply that 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.

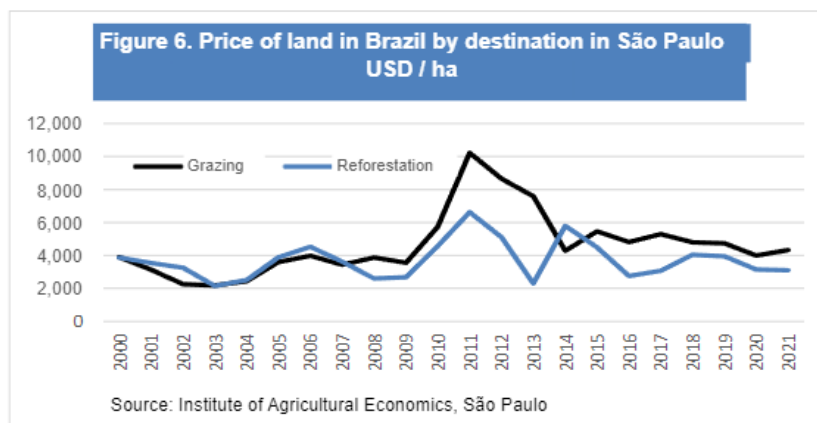
In the 21st century, the price of land in the United States has followed a continuous upward trend, with some exceptions (2009 and 2015) when minimal reductions were verified. However, these exceptions did not change such trend. The price of land in the United States fell only in the early 1980s due 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.



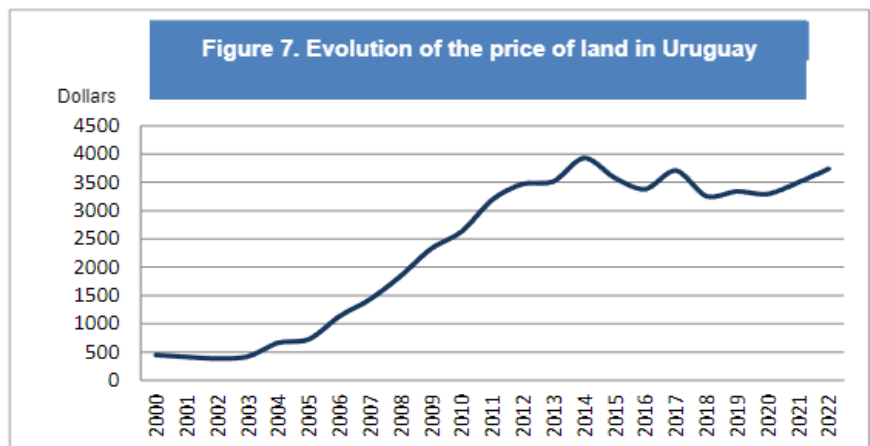
By 2021, last year reported by the Institute of Agricultural Economics of São Paulo, the prices of land in U.S. dollars have shown an increase of approximately 8%, recovering part of the reduction verified in the previous year (16% for grazing land) as a result of the devaluation of the Brazilian real.

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 managers¹² using different valuation criteria estimated land valuations 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.

¹².SERAGRO, Agroclaro, Consur and private operators.

¹³. 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)

There is a proven relationship¹³ between the National Commission for Agro-Economic Soil Studies (CONEAT, for its acronym in Spanish) Index and the price of land with CONEAT index above 100. However, when the index is below 100, prices also fall but not exactly in the same proportion as when they are above 100. This is basically explained by the fact that many of the farmlands with a CONEAT index below 100 are demanded for the production of other products different from meat and wool (rice, afforestation), items considered for the calculation of this index.

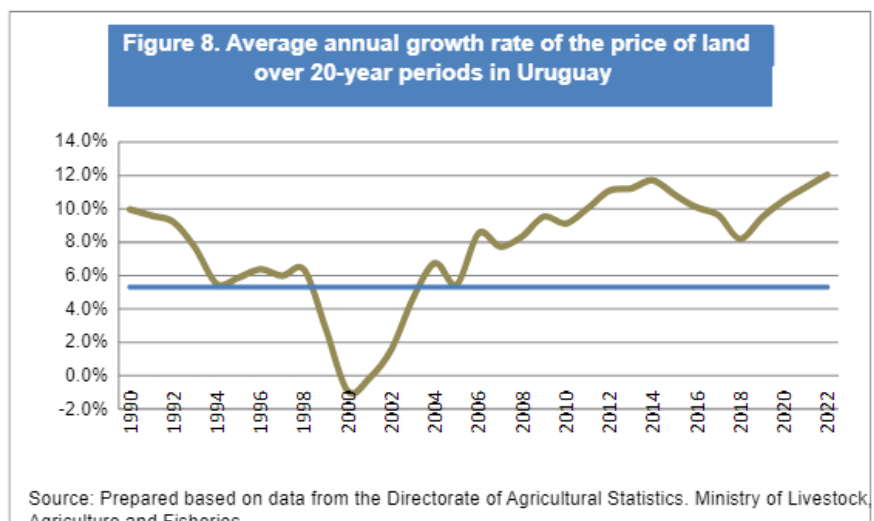
Land valuation is a relatively important component of the Trust's final income (20.5%). Therefore, its evolution will have a significant impact on the final return on the investment. The last update of the financial model, in the most likely scenario, assumed a cumulative annual valuation of 3% from 2022 to 2035. 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. inflation¹⁴, plus a small component of increased land productivity. Therefore, this increase should be between 2 and 4% per year. This does not imply that there will be periods of higher annual growth rates, as may be the case in the next few years. High international inflation, the new agricultural cycle current and the 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 specially 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.

¹⁴. 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.

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 with the data publicly available, CARE's rating committee concludes that the Issue is rated BBB+.uy¹⁵ on the scale provided in our Manual.

Rating Committee



Julio Pieve, Engineer



Martín Durán Martínez, CA



Adrian Tambler, Agr. Eng.

¹⁵. **BBB+.uy**. These are instruments issued by companies or corporations with a medium-low investment risk. Its capacity to pay principal and interests on the agreed terms and deadlines is adequate. Its own role, the status of the company, the quality of the project, and the characteristics of the environment, give an overall moderate satisfaction to the analyses carried out, provided, however, there may be some weakness in any of the four risk areas (role, project, company, environment). The risk of the instrument could be increased in the event of foreseeable changes in the project as presented, in the issuing company, in the economic sector in which it operates, or in the economy as a whole. The probability of foreseeable unfavourable changes in the environment is low to medium-low, and compatible with the company's capacity to manage them, although with a slightly higher risk than in the previous categories. **Minimum investment grade. The sign "+" indicates that the rating is closer to a higher category.**