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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, April 2024

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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”

April 10, 2024

Subscription Date: August 5, 2011

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

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: November 30, 2024

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

Risk Rating: BBB +.uy

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

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GENERAL OVERVIEW

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

Considering the current main elements of judgment, on this occasion, the rating committee states as follows:

- 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 the investor's economic and financial point of view, 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 2024, estimated an IRR of 5.1% for the entire period, being below than that estimated in the prospectus and slightly higher than that of the previous year (4.9%).
- 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, this project 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. This company is currently operating more than 80 thousand hectares of forests considering the 4 Trusts and has invested USD 11.5 million in PCs.
- As of December 2023, the Financial Forestry Trust “Fideicomiso Financiero BDU” owns a total of 9,535 hectares, of which 5,344

hectares are planted and 298 hectares are available for planting, obtaining an average harvest rate of 59%.

- The last land and forest valuation was conducted as of December 31, 2023. This valuation reached a total amount of USD 79.94 million, comprising USD 30.76 million for land, USD 0.78 million for future income from grazing, USD 5.43 million for future income from carbon certificates and USD 41.97 million for forest income. The Trust's book value of equity as of December 31, 2023, is almost USD 73.4 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. Even though intense droughts affected the plantations, it did not imply any equity loss. However, the water deficit resulted in reduced tree growth and extra costs incurred in the fire protection system during the summer. In order to mitigate this situation, as the affected areas recovered, a pruning of epicormic shoots was carried out, which is necessary to keep the area free of tree knots. This action implied additional management costs. In general, the affected farms have recovered as rainfall returned to normal levels. An area of 217 hectares has been harvested early due to the severity of the drought and its detrimental effects on the survival and future quality of the wood.
- In 2023, the Trust's revenues from timber sales were slightly below budget (-14%). On the contrary, sales of carbon credits were higher than projected (+66%). Consequently, gross revenues ended the year slightly over budget (+8%). Costs and investments ended in line with the budget (-3%). It is important to highlight that this year the Trust made its first sales of carbon credits.
- By the end of 2022, the global economy has been showing signs of deceleration, and it is projected to remain at current levels for the next few years. After the pandemic was overcome, the global economy has been recovering more slowly than expected, resulting in a lower dynamism in global trade of goods and services. In addition, the conflict between Russia and Ukraine continues to raise questions and have a negative impact on trade.
- In this context, the prices of pulp, the country's main forest export product, showed a downward trend during most of 2023. Beyond a slight rebound in recent months, its values are

expected to continue relatively stable at least during the first half of 2024. On the contrary, the market conditions for solid wood exports were unfavorable resulting in a significant reduction in both export volumes and income, particularly in the case of pine. Pine log exports significantly drop in volume and income in 2023, primarily due to the absence or minimal presence of China in the market. Although India remained in the market, its demand was also low. Eucalyptus solid wood exports also declined, albeit to a lesser degree, facing a slightly more demanding market than pine.

- The market for agricultural land (including forest) has shown long-term trends of rising prices as a consequence of the sustained growth in demand for food, fibers and wood. Additionally, the opportunities to expand the agricultural frontier are increasingly limited. In Uruguay's case, it is expected that increases in the price of land will be more moderate than those observed between 2004 and 2014. Following a period of adjustment and sporadic activity with limited transactions from 2015 to 2020, the price of land has increased over the past three year: 6.2% in 2021, 6.9% in 2022, and 5% in the first half of 2023. These increases have pushed average values to very close levels to the 2014 peak, which has resulted in a larger number of operations, partly due to the elevated prices of certain products, high international inflation, the weakened dollar exchange rate in Uruguay and the absence of price hikes since 2015.
- Regarding public policies, there has been no changes in forestry policy that could pose a threat to this project.

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” or “BDU”), 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). The CBU 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 submitted data as it comes from sources considered reliable.

The conceptual framework of this rating implies a forward-looking assessment, where a trust is assigned a grade that qualifies its expected performance and its ability to generate profits over time, in accordance with the forest business project its management is mandated to run. After establishing a reasonable range for the Internal Rate of Return (IRR) through multiple simulations in the initial rating, subsequent ratings are not strictly bound to obtaining those figures. In fact, this is not the case of an issue with a fixed return commitment. Therefore, the rating grade will not strictly depend on the Internal Rate of Return calculated for the project or on the investors' opportunity cost of capital. In short, the rating grade will be determined by various criteria, including the compliance with the project and the attainment of a minimum return deemed acceptable at the time of each re-rating.

CARE Risk Rating Agency is a rating agency with records and manuals approved by the Central Bank of Uruguay in April 1998. Its rates are based on 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

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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 builds a Forest Asset in Uruguay, aiming 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 land have been carried out in 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 asset of BDU amounts to 9,535¹ hectares, of which 5,344 hectares are forested and 298 hectares are available for planting, as of December 31, 2023. This represents an average utilization rate of 59%. 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 timber are conducted as forests reach their appropriate growth.
- It is estimated that approximately 71% of the planted area will be destined to produce quality timber 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, 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

¹. 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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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 timber, 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.
- This 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.
- The Trust has 100% of its hectares FCS®- certified and carries out the necessary tasks to comply with its requirements.
- 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.
- Agro Empresa Forestal (AF) is a signatory member of PRI (Principles for Responsible Investment) since 2022. In this regard, it is required to report on their responsible investment activities and to comply with minimum requirements and certain indicators to maintain its investor membership. In 2023, AF submitted its first report (on this occasion, it was voluntary, later it will be mandatory), obtaining three stars Policy, Governance and Strategy (PGS) and 4 stars Confidence building measures (CBM). The maximum is 5 stars and the most relevant module is PGS.

B. Most Relevant Events in the Period

- In 2023, the Trust revenues from timber sales amounted to approximately USD 3 million, 14% less than the initial business plan. Eighty-five percent of these sales were pulpwood destined for the new UPM mill, while the remaining 15% corresponded to bulk Eucalyptus exports to the Indian market (not planned).
- Once the CCB (Climate, Community & Biodiversity Standard) certification had been obtained, the sales process of carbon credits began. In 2023, the Trust made the first sales of carbon credits amounting to USD 2.3 million, 66% higher than the amount foreseen in the budget for the year.

Table 1. Revenue in the First Half the Year and 2023 Budget (USD)			
Activity	Actual	Budget	Difference
Eucalyptus wood for sawmill industry International Market	0	248,790	-100%
Eucalyptus pulp	2,571,986	3,120,221	-18%
Columns	0	172.875	-100%
Eucalyptus for saw mill industry			
Exp	459,950	0	-
Carbon credits	2,314,357	1,393,382	-66%
Grazing	134,313	133,728	0%
Total	5,480,606	5,068,996	8%

Source: Manager

- The initial investment budget for this year aimed to plant 252 hectares of Eucalyptus dunnii in 6 farms, yet 115 hectares were planted. This deviation is attributed to the need to reschedule plantings because a larger area of two of these farms will be planted next year and environmental authorizations must be obtained. As a result, planting investments were 42% below budget.
- Considering management activities (pruning and thinning), investment was in line with the budget, although expenses of monitoring epicormic shoots were over budget, as a larger area had to be intervened due to droughts. On the other hand, less was spent on sanitary thinning and stump control.
- Production costs ended 2023 within budget, although there were some variations between items, doubling the sales: higher export costs and lower pulp production costs.

Table 2. Costs and Actual Investments vs. 2023 Budget (USD)

Activity	Actual	Budget	Difference
Production Costs	2,226,406	2,224,139	0%
Investments in Planting	321,506	558,428	-42%
Investment in Management	59,917	59,379	1%
Expenses	1,418,984	1,290,298	10%
Total	4,026,813	4,132,244	-3%

Source: Manager

- The Manager reported that the plantations are generally in good health, however, some areas have been affected by the water deficit recorded in the first half of the year. This situation resulted in reduced tree growth and extra costs incurred in the fire protection system during the summer. Two farms were significantly affected, especially in those areas with shallower soils, for example hilly areas. As the affected areas recovered, a pruning of epicormic shoots was carried out, which is necessary to keep the area free of tree knots. In general, the affected farms have recovered as rainfalls returned to normal levels. An area of 217 hectares has been harvested early due to the severity of the drought and its detrimental effects on the survival and future quality of the wood.
- 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. In September, the annual audit was carried out, where several farms were visited and Forest Management was audited using the FSC National Standard for Responsible Forest Management of Uruguay (plantations) 2021. The result of the audit was successful and no observations were made.
- A new land and forest valuation was conducted as of December 31, 2023. This valuation reached a total amount of USD 79.94 million, comprising USD 30.76 million for land, USD 0.78 million for future income from grazing, USD 5.43 million for future income from carbon certificates and USD 41.97 million for forest income. This new valuation showed an increase of 3.6% in the total value of land and forests compared to the previous year. However, as provided below, the components of the valuation have different variations. The book value of these assets is clarified in Section III.
- A Meeting of Beneficiaries was held on February 28, 2024, where it was decided to amend the Trust Agreement pertaining to the adjustment of the Manager's compensation.

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, 2023
- Financial statements of the Trustee as of December 31, 2023
- Financial statements of the Trust as of December 31, 2023
- Manager's quarterly reports, the last one as of December 31, 2023
- Surveillance Committee's reports, the last one as of December 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 acquisition 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
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.

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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, considering all aspects involved, the Trust has a reasonable degree of coverage, and no substantial legal risks related to legal contingencies are posed to the 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 require 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 amendments 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 financial statements as of December 31, 2023, continues to show a robust solvency ratio.

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 discharged. As for the eventual temporary need for funds to meet short-term obligations, the firm has obtained financing from related parties. Consequently, the liquidity risk is very limited.

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

Item	12/31/2023	12/31/2022	12/31/2021
Current Assets	26,198	26,974	18,989
Non-current Assets	248,688	245,533	281,068
Total Assets	274,886	272,507	300,057
Current Liabilities	38,315	43,807	33,484
Non-current Liabilities	211,246	204,187	230,681
Total Liabilities	249,561	247,994	264,165
Equity	25,325	24,512	35,891
Total Liabilities and Equity	274,886	272,507	300,057
Current Ratio	0.68	0.62	0.57

Source: Financial Statements of EFAM

The results for the year ended 2023 show a significant recovery compared to the same period of the previous year.

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

Item	12/31/2023	12/32/2022	31/12/2021
Operating Revenue	85,442	80,546	75,867
SG&A	(71,408)	(66,556)	(63,018)
Operating Result	14,033	13,990	12,849
Financial Results	(11,743)	(28,054)	(12,734)
Income before taxes	2,290	(14,064)	116
Corporate Income Tax (IRAE)	(1,477)	2,685	(824)
Income for the period	812	(11,379)	(709)
Revenue from Operating Activities	16.42%	17.37%	16.94%
Income for the period	0.95%	-14.13%	-0.93%

Source: Financial Statements of EFAM

Therefore, there are no associated risks with EFAM continuing its role as the Trustee.

EFAM manages an important portfolio of trusts, both in number and diversity. Hence, 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 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, this company hired the consulting firm Deloitte 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, those suggestions 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. Changes in the various professional positions comprising such structure are periodically reported.

Key persons

The basic structure consists of a Board of Directors, an Audit Committee and a Compliance Committee. The company informed CARE that no major changes have been made in the corporate structure in this period

- **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.).

Economic and Financial Situation

The company's balance sheet closes each December 31. CARE had access to the latest available balance sheet audited by Grant Thornton as of December 31, 2023.

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 role as Manager of the 4 Trusts is worth noting. At the fiscal year ended 2023, the company's assets included a total of Participation Certificates, issued by EFAM, amounting approximately to USD 13.8 million.

In view of the above, the capacity of AF to carry out this and other operations aforementioned 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 based on 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 the income statement of the Trust for the year ended 2023 is presented in the tables below.

Table 5. Statement of Financial Position of the Trust			
Thousands of USD	12/31/2023	12/31/2022	12/31/2021
Current Assets	6,374	4,148	2,059
Non-current Assets	73,012	67,969	65,760
Total Assets	79,386	72,117	67,819
Current Liabilities	3,295	3,514	2,628
Non-current Liabilities	2,731	2,234	3,598
Total Liabilities	6,026	5,748	6,226
Equity	73,360	66,369	61,593
Total Liabilities and Equity	79,386	72,117	67,819
Current Ratio	1.93	1.18	0.78

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

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The book value of equity for the year ended December 2023 is USD 73.4 million as indicated in the table above. This figure is still, in nominal values, above the initial issuance value of Participation Certificates, which was USD 50 million.

The valuation for the year ended 2023 determined that the revaluation of the biological assets amounts to USD 4.9 million and USD 1.2 million for land. The biological assets are recorded in the balance sheet for USD 42 million and, land and improvements for USD 31 million. This is discussed in a separate section.

A summary of the income statement of the Trust for December 2023 is presented below.

Table 6. Income Statement of the Trust			
Thousands of USD	12/31/2023	12/31/2022	12/31/2021
Operating revenue	5,491	11,434	3,489
Change in the fair value of biological assets	4,904	3,407	5,507
Cost of goods sold	(2,681)	(10,223)	(2,942)
Gross margin	7,714	4,618	6,055
SG&A	(1,340)	(1,202)	(1,180)
Financial results	(144)	(419)	(13)
Miscellaneous income	289	1,110	7,034
Income before Corporate Income tax (IRAE)	6,519	4,107	11,896
Income Tax	(317)	669	(957)
Income for the period	6,202	4,777	10,938
Other comprehensive income	790	-	-
Comprehensive income for the period	6,991	4,777	10,938

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

Production and commercial activity is discussed in a separate section. The above table shows that operating income is much lower than in the previous year, although it has been anticipated. A sale of carbon credits for USD 2.3 million is worth mentioning.

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 Trust 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 the existence of provisions to face them. For the same reasons as above mentioned, it is unlikely that even if conflicts arise, the Trustee and the Manager could not resolve them satisfactorily. *Very low risk.*

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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 were made in acquiring rural properties, located within the Eastern Republic of Uruguay, 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 proposed processes and execute the activities in accordance with 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 5,344 hectares have been planted.

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. An update of the financial flow was made in March 2024, including actual information as of December 2023 and projections until the termination of the Trust.

In this new estimate of financial flow, the Manager presented a series of possible scenarios, estimating different evolutions for the prices of wood and land, as well as production costs from 2024 until the termination of the Trust in 2031. According to CARE, the most reasonable scenario to make projections is based on the following assumptions:

- Product prices are adjusted for U.S. inflation (projected by BEVSA)². Actual price increases are not projected either for pulpwood or solid wood.
- The price of land has 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.

². It estimated that Historical U.S. inflation would be around 2.1 - 2.3%, assuming a return to historical levels.

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

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Based on this projection, the IRR for the entire project period of the Trust would be 5.2%, slightly lower than that estimated in the previous year (4.9%).

The table below 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%	5.1%
2 Wood adjusts for U.S. inflation. Costs adjust for USD UY Inflation, and the price of land increases a 1.5%	5.0%
3 The prices of wood and land increase a 1.5%	4.2%
4 The price of land increases a 1.5%	4.2%
5 All other factors remain constant	4.2%
6 Same as item 2 but the price of land increases a 3%	5.2%

Source: Manager and CARE

As this table shows, there is little variation in the expected rate of return for the different scenarios.

According to CARE, the most likely scenario is number 6 as it assumes an increase in the prices of wood similar to the U.S. inflation, which implies no change in prices in real terms. World Bank projections for the 2023 assume an annual growth 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 only the prices of land would increase a 1.5%. This scenario is the most unfavorable, as indicated in the table above, in which even if the prices of wood or land do not increase in the remaining years, the IRR would still be positive (4.2%).

2. New Estimate of the Opportunity Cost of Capital

One method to assess the attractiveness of an Internal Rate of Return (IRR) is to compare it with the opportunity cost of equity. This rate serves as a benchmark for the expected profitability of a project and is the key indicator to discount the expected cash flows.

CARE estimates the opportunity cost of capital using the Capital Asset Pricing Model (CAPM)³. This model considers the risk-free rate, the market risk premium, and the risk premium assigned to the specific production system, in this case forest production. To avoid abrupt fluctuations in the rate and to have a medium-term perspective, CARE considered the average values from the last 5 years for all variables.

³. The Capital Asset Pricing Model (CAPM) helps to calculate investment risk and what return on investment an investor should expect when investing in a financial asset.

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To consider systemic risk, it is used the average "beta"⁴ of forest production companies in emerging markets, which 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. For the risk-free rate, CARE considered 2.30% for the yield of the U.S. Bonds, 124 basis points⁵ for the country risk (Uruguay Bond Index), and 4.68% for the equity market risk premium.

When applying these values, the expected rate of return on equity reaches 6.01%. This value is higher than the investor's expected IRR for the scenario CARE considers most likely (5.2%), which, according to this methodology⁶, indicates that the project would not be attractive.

In the current situation, the risk-free rate is higher than the average for the last 5 years. However, the country risk is lower than in the period under consideration. Therefore, if current values were applied, the opportunity cost of capital would be slightly lower (5.52%).

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.⁷ Currently, the 10-year Indexed Unit Yield Curve (CUI, for its acronym in Spanish) is at 3.23% and the 10-year Yield Curve in Dollars (CUD, for its acronym in Spanish) is at 4.89%. In this case, the estimated IRR in the most likely scenario does exceed the dollar value of the curve.

While these comparisons cannot be taken in a strict sense, they should be considered as a reference that, among others, help to form a judgment about the investment.

3. Forestry Production Performance Risks

It considers the risks associated with forest management and factors connected to the climate such as droughts or fires.

Forest management risk refers to forest management decisions: planting of species in appropriate farms; management of plants production and their establishment; tree enhancement 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 as important firms are getting involved in primary and industrial production, production services, logistics and foreign trade.

⁴. Provided by Damodaran

⁵. It is the 5-year average, currently the country risk is around 80 basis points.

⁶. 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.

⁷. Yield Spot Curve of Uruguayan Sovereign Securities issued in national currency indexed to inflation, as the case may be.

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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 any 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 State University (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 experienced in 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. The severe drought experienced in 2022/2023 provided real information about the effects that any drought may have on forest production.

In the case of forest fires, they are a common risk in forestry activities, and these projects have internalized it appropriately. Management measures are taken to minimize their occurrence such as firebreaks, debris removal, continuous surveillance in the summer, and contracting insurance policies. On the other hand, the extensive dispersion of farms also reduces fire risks, since if any potential fire outbreaks, it will be restricted to the farm it started.

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

4. Land and Forest Valuation

A new land and forest valuation as of December 31, 2023 was conducted by the same consulting firms as in the previous two years. Agroclaro performed 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 annually conducted. It should be clarified that these valuations were performed following different methodologies and considered both the land and forests together. The last two valuations also consider the future income from carbon credits, an item that had not been included until 2021.

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
2023	78.94
Rate 2014-2023 (compound annual growth)	10.9%

Source: CARE based on valuations

This valuation estimated a total asset value of USD 78.94 million as of December 31, 2022, showing a much higher value than the previous year's⁸. This evolution shows an uptrend in assets, which has been growing at a compound annual growth rate of 10.9%, accounted for 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 credits was estimated by discounting future income flows at a rate of 7.5%.
- c. For the valuation of carbon credits, only those already certified to date were included, thus considering it a conservative criterion.

The table below shows the 2023 valuation results divided into the different items.

Table 9. Valuations in Millions of Dollars

	2021	2022	2023	Variation
Wood production	37.29	38.24	41.97	9.8%
Grazing	0.86	0.81	0.78	-3.7%
Carbon credits	-	7.60	5.43	-28.6%
Land value	28.46	29.57	30.76	4.0%
Total	66.61	76.22	78.94	3.6%

Care based on valuations

Although last year the total assets grew by 3.6%, these items had a different behavior. The most noteworthy aspect is the reduction in the carbon credits item, which decreased by USD 2.17 million, 28.6% less

⁸. This figure is higher than that shown in the trust balance sheet because it includes items that are not recorded in the financial statements.

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than the previous year. The low availability of carbon credits for sale, because in 2023 they were commercialized in the market, accounts for such reduction. The value of forests increased by almost 10%, while land increased by 4%.

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 plantation stage has been completed. *Medium low risk.*

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

V. THE ENVIRONMENT

The environmental analysis assesses future factors that may have an impact on the generation of projected cash flows. These factors are external to the company and connected 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 directly influence the fulfillment of the project's objectives.

By public policies, CARE considers not only domestic policies, but also those of the countries with which the Trust commercializes. Regarding the country's sectoral policy, for the time being, no changes have been foreseen that could affect the current development and growth of this activity.

As for the international market for forest products, barriers are relatively subject to predictable elements, hence no major risks have been foreseen. Considering the possible extension of environmental barriers, the country, and especially this project, have stood out for its care and certifications.

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. The price of wood accounts for 80% of the investment returns.

In the case of this project, the price of quality timber will have the most significant impact on its final result as its production is the main objective of this Trust. The expected price for pulpwood is also important, as a certain percentage of wood is always destined for pulp, especially especially 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.

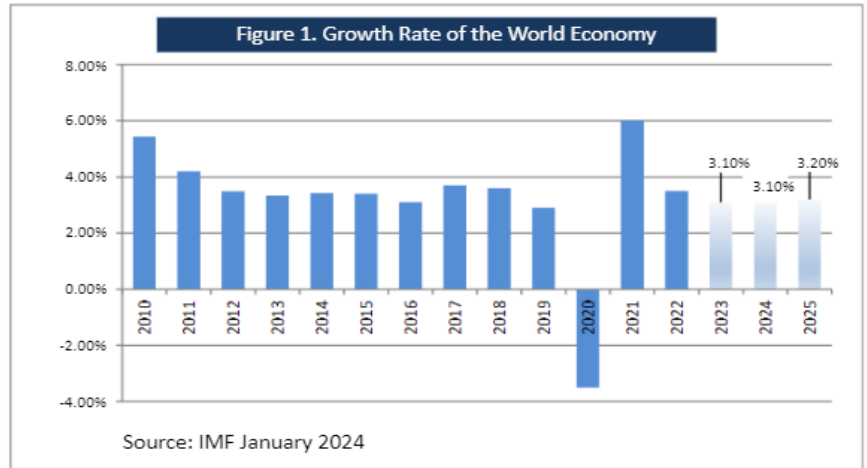
On the other hand, this increase in demand faces a supply that has been constrained by increasing protective measures for native forests, as well as by the control over the yield of forests. Policies aimed at mitigating the impacts of climate change also promote the protection of forests as they are 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 could have a negative impact on demand and, consequently, on prices, as it has occurred in the last few years. 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 world economy and, in particular the Chinese economy, as well as the zero COVID-19 measures implemented by that country had a significant impact on 2022. 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. This situation led to 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. This situation continued throughout 2023.

In the long term, there are no elements to expect 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 there would be no major deviations from the expected trajectory in the future.

According to the last International Monetary Fund (IMF) report dated January 2024, *global growth is projected to be at 3.1% in 2024 and 3.2% in 2025, growth is expected to rise (0.2%) from the previous projection of October 2023. However, forecasts for 2024-25 are still below the historical average of 3.8% (2000-19).*



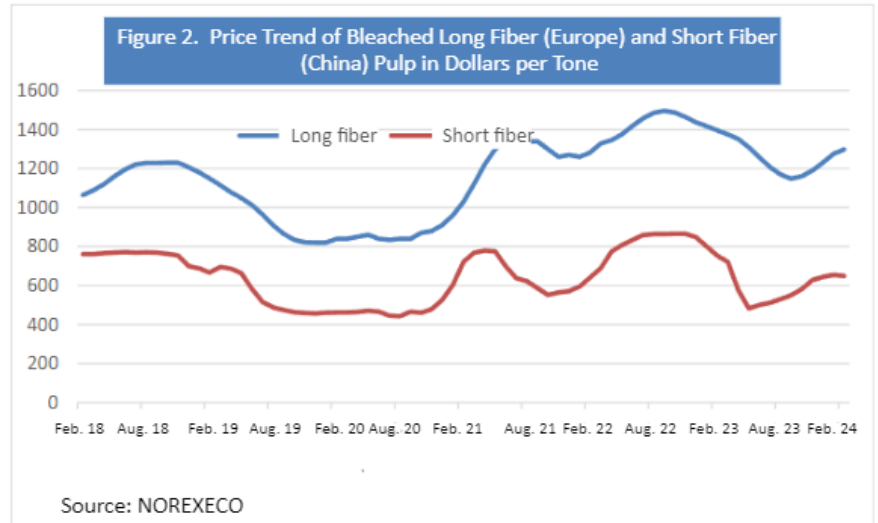
This slight increase in the outlook for economic growth is explained by the greater-than-expected resilience in the United States and several large emerging market and developing economies, as well as the fiscal support in China. However, the negative effects of high interest rates to fight inflation, the withdrawal of fiscal support amid high debt weighing on economic activity, and low underlying productivity growth remain. On a positive note, inflation is falling faster than expected in most regions, in the midst of unwinding supply-side issues and restrictive monetary policy. Global headline inflation is expected to fall to 5.8% in 2024 and to 4.4% in 2025.

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 in 2018, international, regional and domestic pulp values showed a very significant drop of around 35-40%. The greatest fall of pulpwood prices 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, international prices of pulpwood fell sharply during most of the year, however, they showed a slight recovery towards the end of the year. 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 also contributed to the lower demand.

The figure below provides information on prices per ton for two types of pulp: NBSK⁹ (main international prices 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 long-fiber pulp prices, primarily due to the increased supply of the former product in the region. This occurred as a result of the start-up of a large-scale project in Chile, as well as the UPM 2 mill in Uruguay.

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 estimating that the downward trend in pulp prices has ended and it may be expected that they remain at current levels, at least, in the short term.

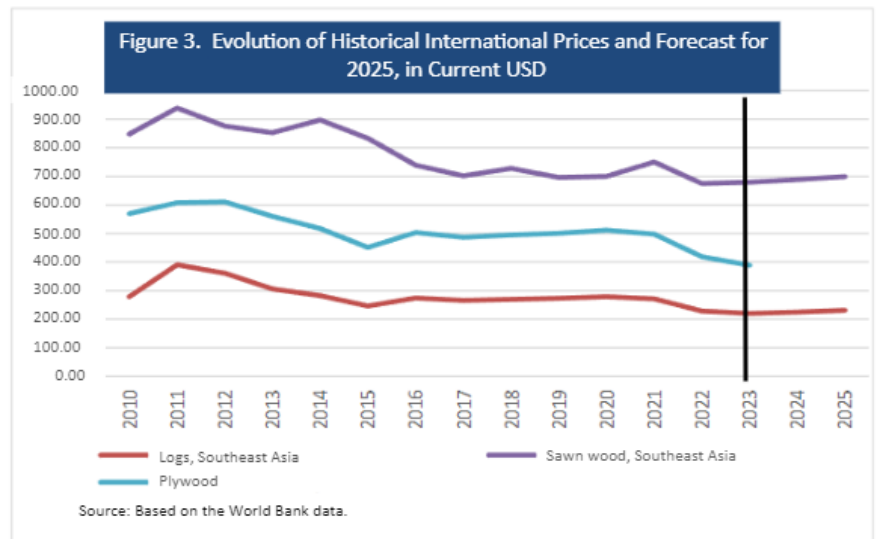
No information is currently available to estimate the outlook for the evolution of international prices for pulp in the long term. In the last 10 years, the annual growth in the international price of long fiber-pulp (NBSK) has been 3.6%. This is an indicative value since there is no certainty that it will remain the same in the future.

The demand for raw eucalyptus wood for sawmill industry has followed a similar trend to that of pulp, albeit less pronounced. Prices have maintained a slight upward trend. However, the volumes commercialized have been 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, demand dropped significantly, which strongly affected Uruguayan exports. This weakening demand, which also responds to the situation of the world economy, continued throughout 2023.

The trend in pine wood for sawmilling industry has been similar to that of eucalyptus but it showed greater variability and marked demand problems. The country's export performance in 2023 was clearly downward, consolidating two consecutive years of retraction. Both its prices and international competition have made it difficult to close deals.

China practically withdrawn from the market and India continues to be the main import market for Uruguayan pines.

According to the last World Bank price report of October 2023, the price of raw and wood will show a slight increase in the next two years, around 1 to 2% per year, but they have remained on a downward trend since 2011.



In 2021, the World Bank presented a long-term projection for raw wood for the sawmill industry and sawn wood, showing a slight growth in nominal values for 2035 in the long term¹¹. In the case of logs, a 0.95% annual cumulative growth rate is expected, and for sawn wood 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) was also projected.

Uruguay's forest product exports reached a new record in 2023 because UPM third pulp mill started operations, which resulted in an increase in the export of pulpwood. The rest of the forest products showed a significant drop, as a consequence of lower international demand and lower export prices. The rise in the value of pulp exports is attributed to increased export volumes, despite a lower export price in 2023.

The table below presents the value of forest product exports in the last few years, showing a clear growth trend.

¹¹. World Bank Commodities Price Forecast. Subsequent reports only projected prices for 2023 and 2024.

Table 10. Export of Selected Forest Products (in millions of dollars FOB)

	2017	2018	2019	2020	2021	2022	2023	Variation
Pulp	1,310	1,660	1,527	1,107	1,576	1,818	2,019	11%
Pine logs	88	150	89	132	204	127	67	48%
Plywood boards	64	76	55	67	105	102	74	-27%
Chips (eucalyptus and pine)	64	95	102	21	74	113	98	-13%
Coniferous and non-coniferous sawn wood	93	115	97	104	159	184	157	-15%
Paper and cardboard	34	32	36	25	26	25	30	-12%
Eucalyptus logs	21	29	14	21	23	34	24	-30%
Total	1,673	2,158	1,921	1,477	2,167	2,403	2,469	2%

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.

This table shows the sharp drop in pine exports, which, as above mentioned, is explained by market difficulties.

It is worth highlighting the continued growth of sawn wood (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 continues to be 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.

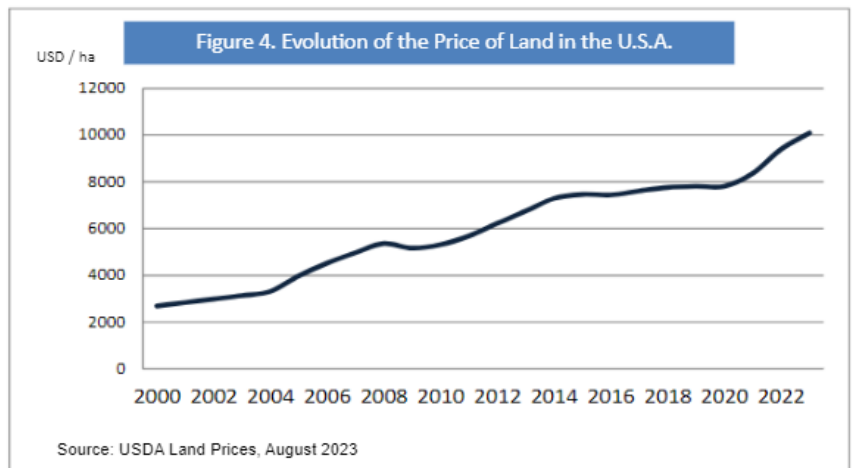
In the 21st century, the price of land in the United States has followed a continuous upward trend, with some exceptions (2009 and 2015) when minimal reductions were verified. However, these exceptions did not change such trend. The price of land in the United States fell only in the early 1980s due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

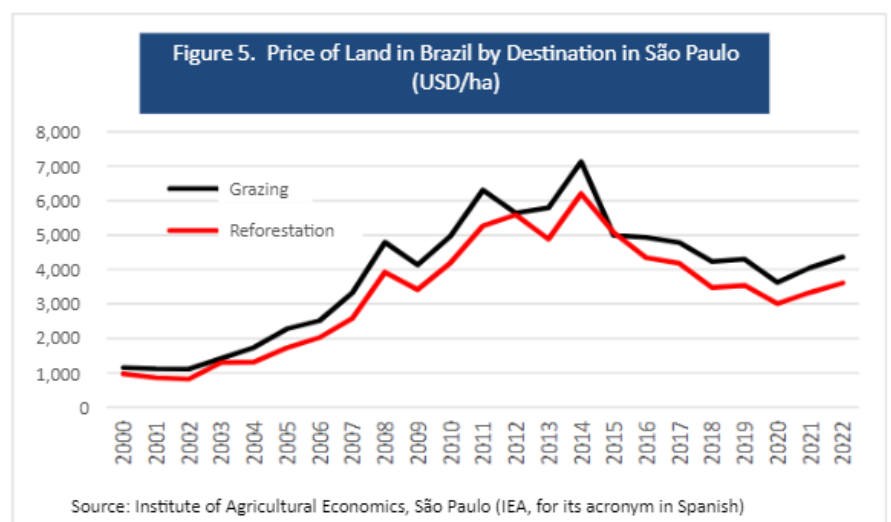
The price of land (average) has remained relatively stable between 2017 and 2020, showing minimal increases aligned with the U.S.

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inflation rate. Even though, in the last three years, it has recovered an upward trend in real terms, being in line with the high inflation. Average prices of land increased a 7.0% in 2021, a 12.4% in 2022, and a 7.4% in 2023. 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 price of land is 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. The price in dollars showed a sustained growth until 2014 followed by a gradual decline until 2020, similar to the trend observed in Uruguay. From 2020 onwards, the price of land begins to recover significantly (12 and 8% in 2021 and 2022, respectively), but it still remains well below the maximum values.



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

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macroeconomic imbalances, and the restrictions on foreign exchange, have caused distortions in values that have nothing to do with the trend that prices of land should follow. The changes in its economic will probably make it possible to continue with the series in the medium term.

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.

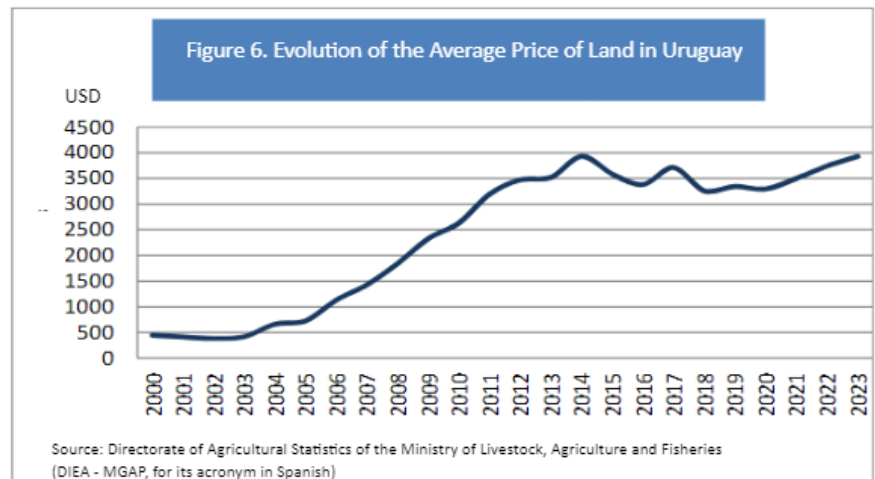
A recent publication of the Argentine Chamber of Rural Real Estate (CAIR, for its acronym in Spanish) estimated that the price of agricultural land is at an all-time low since InCAIR¹² (activity index estimated by the Chamber) has been computed. In its last report dated December 2023, the index reached 21.52/100, showing that economic uncertainty was stronger than any positive market expectations.

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 (DIEA-MGAP, for its acronym in Spanish) showed a very strong appreciation of the value of land 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 the quality and location of traded land 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. In 2022, the average price grew again, in this case by 6.9%, showing a significant increase in the areas traded annually. This would indicate a higher level of activity in a growing market. The last report, "The Price of Land", of the Directorate of Agricultural Statistics (DIEA, for its acronym in Spanish) published on November 22, 2023, showed a new increase, in this case of 5%, in values in the first half of 2023 compared to the previous year.

These recent increases in the price of land may be a consequence of the rebound in international prices, the strengthening of the Uruguayan peso against the dollar, currency in which land transactions are carried out, as well as the high international inflation. Average farmland values for the first half of 2023 would already be at the same level as in the 2014 record.

¹² .The "Rural Real Estate Market Activity Index" (InCAIR) is a monthly index that reflects the "activity" of the rural real estate market. The maximum baseline is 100 points, corresponding to the peak of maximum historical activity. It does not show prices/values, only market activity. Its measurement began in November 2013.



Other sources of data provided by consulting firms and market managers¹³ estimated the land values with similar characteristics, considering the different destinations for the products, using different valuation criteria. The most common methodologies are: comparing real sales of land with similar characteristics and performing valuations according to expected income. 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 relationship¹⁴ between the National Commission for Agro-Economic Soil Studies (CONEAT, for its acronym in Spanish) Index and the price of land with CONEAT index above 100. However, when the index is below 100, prices also fall but not exactly in the same proportion as when they are above 100. This is basically explained by the fact that many of the farmland 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 assumed a cumulative annual valuation of 3% from 2023 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 50-year series (1970 to 2023) for 20-year periods, which showed the following:

- On average, the annual evolution of the price of land for 20-year-moving periods was 7.9%.

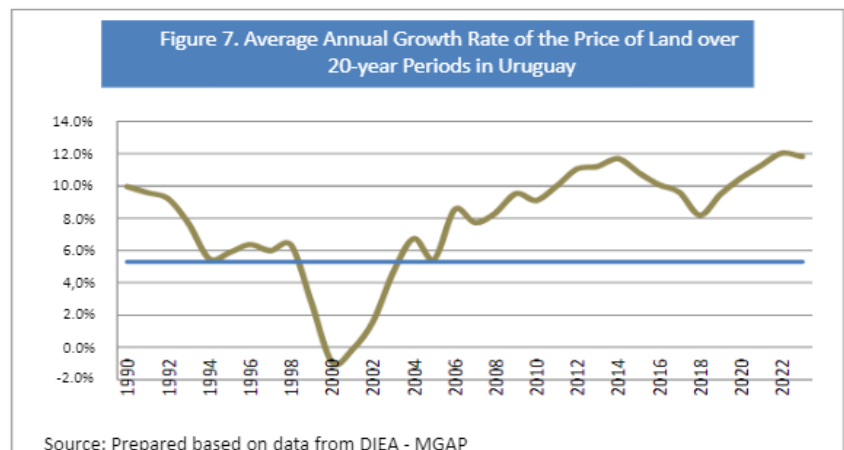
¹³.SERAGRO, Agroclaro, Consur and private operators

¹⁴. 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)

- The annual growth rate was only less than 3% for land 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, it 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. Rising prices will probably offset the long-term inflation in the U.S.A.¹⁵, alongside 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,

¹⁵. Inflation in the U.S. is still slightly above its historical level, however, it is expected to return to its historical level shortly.

RISK RATING AGENCY

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, already passed 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 forest land, as well as to set a limit of 10% on the total forested area of the country's agricultural land. Although this Bill would not have affected this project, its approval may have an impact on the forest sector in the future. 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 Decree No. 405/021, which provides some changes in forest regulations, probably in response to 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 reforestation projects that originally had not submitted it because they were carried out prior to the approval of such decree. In addition, some soil categorizations and criteria for environmental impact assessments were modified.

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

Currently, no new elements 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 taking into account the data publicly available, CARE's rating committee concludes that the Issue is rated BBB+.uy¹⁶ on the scale provided in our Manual.

Rating Committee



Julio Pieve, Engineer



Martín Durán Martínez, CA



Adrian Tamber, Agr. Eng.

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