

CARE

RISK RATING AGENCY

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

Montevideo, April 2024

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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”
April 9, 2024**

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 discharged - 30 years maximum
Allocations: According to retained earnings, pursuant to the established procedure
Trust Assets: Land and forests
Validity of the Rating: November 30, 2024
Rating Committee: Julio Preve, Adrián Tamber 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 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 states as follows:

- From a legal standpoint, this project has a financial structure that provides the necessary guarantees, as set forth in the legal report in Annex I of the original rating, ratified over time.
- From an economic and financial point of view, this project has passed various test, which the issuer and the rating agency have reasonably made it undergo. As of December 2023, a new cash flows update is available, which yields an IRR of 8.2%, for the entire period. This IRR is slightly lower than that estimated in 2022 (7.3%).
- The Manager's reports (Agroempresa Forestal S.A.), validated by the Surveillance Committee, are generally satisfactory for the project's progress. The Surveillance Committee reported 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 of similar characteristics, rated by CARE with investment grade (Bosques del Uruguay, Bosques del Uruguay III and Bosque del Uruguay IV). This company is currently operating more than 80 thousand hectares of forests through the issuance of USD 640 million in total. AF S.A. has invested a total of USD 11.5 million in Participation Certificates considering the 4 Trusts.
- The management capacity of the Project Management company, Agroempresa Forestal, complies with the standards of efficiency evaluated in the previous update reports. This information has also been confirmed in different reports of the parties involved.
- The corporate governance structure of the company 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 December 2023, the Trust owns a total of 14,656 hectares, of which 9,300 hectares are planted and 246 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 hectares. Thus, it has exceeded one of the minimum performance standards commitments provided in the Prospectus.
- The last land and forest valuation was conducted in December 2023 by the same consulting firms as in the previous two years. This valuation reached a total amount of USD 125.44 million, 11.1% higher than the previous year, comprising USD 45.94 million for land, USD 1.35 million for future income from grazing, USD 1.11 million for carbon certificates and USD 77.04 million for forest income. The book value of these assets is provided in Section III. The Trust's book value of equity as of December 31, 2023 is USD 128.2 million, higher than the value of the issuance, which was USD 70 million.
- The first half of the year was marked by rainfall records well below the historical average, affecting the plantations as a result of the intense drought. However, it did not imply any equity loss. This water deficit resulted in reduced tree growth and extra expenses incurred in the fire protection system during the summer. In order to mitigate this situation, as the affected areas recovered, pruning of epicormic shoots was carried out to keep the area free of tree knots. This action implied additional management expenses. In general, the affected farms have recovered as rainfall returned to normal levels. In 2024, an area of 19.5 hectares will need to be harvested earlier.
- In 2023, gross sales reached USD 11.4 million, 24% higher than budgeted for the year. There was a higher placement of roundwood for the local pulp industry, and business was concluded for the export of chips. Exports of eucalyptus for sawmilling were lower than expected, mainly due to a very weak external market demand for this product. However, despite this lower volume of exports, revenues exceeded initial forecasts, due to increased CIF sales. Nevertheless, this was accompanied by a substantial increase in operating costs as export costs had to be covered. Finally, the commercialization of carbon credits planned in the budget was cancelled in 2023 due to the delay in the registration process, and would be carried out the following year.

- Investments (implantation and management) were slightly below budget, as a result of lower planting areas and the delay of some activities due to the drought. Operating costs, as mentioned above, were much higher than budgeted (+47%), as a result of having to cover unforeseen export costs. In turn, expenses were slightly higher than budgeted, due to higher surveillance and fire protection costs. As a result, as of December 2023, the trust closed with a slightly positive management result² (+0.7 million dollars).
- In the end of 2022, the global economy has started to show 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. 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

². Management results: sales (operating costs + investments + expenses)

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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 has been hired to update the rating of the Participation Certificates in possession of the Financial Forestry 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). 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 capacity 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 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 Tambler and Julio Preve. CARE hired Mr. Leandro Rama, Attorney at Law, to conduct the legal risk assessment of the original rating. CARE also regularly hires forest 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 derived from the sale of wood and standing timber, and the appreciation of its land asset. Additionally, albeit to a lesser extent, returns are expected from the sale of carbon credits and the grazing of non-forested land. Investment and management protocols following duly productive, environmental, and social standards are complied with at all times. Regarding the total sales revenue estimated in the prospectus, 78% will be from the sale of wood, 20.5% from the sale of land at the end of the project, and less than 1.5% from the sale of carbon credits and grazing³.

As the primary 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 satisfactorily complied with their original business plans, which are similar to the one presented in this report.

- The land asset of BDU II consists of 20 farms covering a total area of 14,656 hectares, of which 9,304 are currently planted and 346 are available for planting, as of December 31, 2023. This represents an average utilization rate of 65%. The acquired land is located in the departments of Lavalleja, Cerro Largo Florida, and Treinta y Tres.
- The forest asset comprises Pinus taeda plantations accounting for 15% of the total area, Eucalyptus pulpwood plantations covering a total of 17%, while Eucalyptus grandis plantations, whose main destination is the production of solid wood, accounting for 68% of the total area, as of December 2023, according to the Surveillance Committee.
- The land purchase transaction has been completed, along with the tree planting process. Future project operations will mainly involve forest and wire fence maintenance, weed control, pruning, thinning, harvesting, stump removal, regrowth management, monitoring, reforestation, and related activities.
- This Trust sold the Cruz Roja farm, which covers an area of 1,782 hectares, to the Trust “Bosques del Uruguay III” in October 2018. Out of the farm total area, 1,350 hectares were available for planting and the 51% of the farm area was already

³. Chapter IV of the Prospectus: Objective and characteristics of the investment.

planted. This sale was approved by the Surveillance Committee and unanimously by 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. At such meeting, it was unanimously resolved for the first time to make an advance of Allocations in the amount of two million dollars considering 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 from the Surveillance Committee and the notification to the Risk Rating Agency.
- As of July 2020, contracting short-term loans for working capital has become a regular management practice, always complying with the requirement of communicating it to the Surveillance Committee and the Risk Rating Agency. To date, there have been no difficulties in meeting 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.
- Work is underway for the validation and registration of carbon credits under the CCB (Climate, Community & Biodiversity Standard). This standard shows how the fund interacts with the community thereby issuing carbon credits of higher value.
- The Trust's forests are FSC (Forest Stewardship Council) certified. To date (December 2023), the Trust has 63% of its hectares certified and is working to complete the certification.
- Agro Empresa Forestal (AF) has been a signatory member of PRI (Principles for Responsible Investment) since 2022. In this regard, this company is required to annually report on its responsible investment activities, complying 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 rating is 5 stars and the most relevant module is PGS.

b. Most Relevant Events in the Period

- The Trust's gross sales during 2023 amounted to USD 11.4 million, primarily derived from the sale of pulpwood to the pulp industry and, to a lesser extent, from the sale of eucalyptus wood for sawmill industry for export. At the end of the year, wood sales were 24% over budget. This diversion is explained by sales of eucalyptus logs for chip exports which were not expected. A bulk export of eucalyptus for sawmilling was carried out, exceeding the initially forecasted value by 32%, due to the fact that the sale was CIF while it was budgeted as FOB.
- The sale of carbon credit projected in the 2023 budget did not take place and was postponed to 2024, given the delay in the carbon credit registration process.

Table 1. Actual Income vs 2023 Budget (USD)			
Activity	Actual	Budget	Difference
Eucalyptus wood for sawmill industry Domestic Market	761	0	-
Pine wood for sawmill industry Domestic Market	256	0	-
Eucalyptus pulp Domestic Market	9,877,669	8,035,837	23%
Eucalyptus wood for sawmill industry International Market	1,599,497	1,209,037	32%
Carbon Credits	0	1,719,485	-100%
Beehives	1,390	0	-
Grazing	160,943	168,828	-5%
Total	11,640,516	11,133,187	5%

Source: Manager

- In 2023, approximately 409 hectares of eucalyptus were reforested in five farms, 16% less than the originally budgeted 489 hectares for the period. This deviation is explained because the authorization from the General Forestry Directorate (DGF, for its acronym in Spanish) is still pending for one of the farms.
- Various silviculture and forest management activities (pruning and thinning) were conducted in the reported period. The total investment in forest management activities for the year was 29% lower than planned due to the severe drought

experienced during the first half of the year. Consequently, these activities will be carried out in 2024.

- In 2023, production costs were 47% over budget, mainly due to increased export sales and the adoption of CIF sales terms, while FOB had been budgeted. Secondly, the costs of harvesting timber that remained in stock and will be traded in 2024 are considered.

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

Activity	Actual	Budget	Difference
Production Costs	7,786,748	5,280,117	47%
Investments in Implanting	804,083	922,675	-13%
Investments in Management	612,835	859,963	-29%
Expenses	2,324,020	2,127,852	9%
Total	11,527,686	9,190,607	25%

Source: Manager

- The management result for 2023 was slightly positive (+USD 0.7 billion), although slightly under budget (+USD 1.2 billion).
- In May 2023, the survival rate of 2022 plantation was measured, reaching an average rate of 89%, being the minimum required 80%. The late frosts experienced in some places in October 2022 and subsequently the drought, could be the factors contributing to lower percentages of survival rates in some plots. The 2023 plantation will be measured in May 2024.
- The Manager reported that overall plantations are in good health. However, some areas have been affected by the water deficit occurred in the first half of the year. This deficit resulted in reduced tree growth and extra expenses incurred in the fire protection system during the summer. Two farms were significantly affected, especially those areas with shallower soils. As the affected areas recovered, pruning of epicormic shoots was carried out as to keep the area free of tree knots. In general, the affected farms have recovered as rainfall returned to normal levels. In 2024, an area of 20 hectares will need to be harvested earlier.
- As of December 2023, the grazing area represents 85% of the total potential area. There is an area (2,900 hectares) with young plantations where grazing is not conducted and animals are not permitted yet.
- The last land and forest valuation was presented in December 2023. This valuation reached a total amount of USD 125.44 million, comprising USD 45.94 million for land, USD 1.35 million

for future income from grazing, USD 1.11 million for future income from carbon certificates and USD 77.04 million for forest income. This updated valuation resulted in an increase of 11.1% in the total value, largely explained by the value of the forests. The book value of these assets is provided in Section III.

- In March 2024, a sale of Certificates of Participation for a nominal value of USD 23.66 million and a cash value of USD 33.48 million (price 141.52) was made on the Montevideo Stock Exchange.
- On February 28, 2024, a Meeting of the Beneficiaries was held, where it was decided to make some amendments to the Trust Agreement connected to the adjustment of the Manager's compensation.

3. Analyzed Information

In this report, the information analyzed was as follows:

- Financial statements of the Trustee as of December 31, 2023
- Financial statements of the Trust as of December 31, 2023
- Balance sheet with audit's report of Agroempresa Forestal as of December 31, 2023
- Manager's reports, the last one as of December 31, 2023
- Surveillance Committee's reports, the last one as of December 31, 2023
- Forest and land valuations as of December 2023. Woodlands Pacific
- 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 acquiring 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.

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 concluded: ***“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 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 could 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	12/31/2022	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 in 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 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 has 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 sawmill industry 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. 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 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. For the fiscal year ended 2023, the company's assets included a total of Participation Certificates issued by EFAM approximately amounting to USD 13.8 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 the income statement of the Trust for year ended December 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	4,705	2,313	5,630
Non-current Assets	128,863	117,217	104,132
Total Assets	133,568	119,530	109,762
Current Liabilities	2,536	1,101	3,872
Non-current Liabilities	2,869	2,602	2,904
Total Liabilities	5,405	3,702	6,775
Equity	128,163	115,827	102,987
Total Liabilities and Equity	133,568	119,530	109,762
Current Ratio	1.86	2.10	1.45

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

The valuation for the year ended 2023 determined that the revaluation of the biological assets amounts to USD 11.1 million and USD 1.9 million for land.

The accounting balance for the fiscal year ended 2023 amounts to USD 77 million for biological assets and USD 51.8 million for land and improvements, both recorded as non-current assets.

The book value of equity as of December 2023 amounts to USD 128 million, much higher than the issued amount of USD 70 million, as shown in the table above.

Table 6. Income Statement of the Trust

Thousands of USD	12/31/2023	12/31/2022	12/31/2021
Operating revenue	11,668	8,846	3,489
Biological assets (1)	11,126	10,992	5,507
Continuing operations	22,794	19,838	(2,942)
Cost of goods sold	(9,291)	(7,304)	6,055
Gross margin	13,503	12,534	(1,180)
SG&A	(2,710)	(1,679)	(13)
Operating result	10,793	10,855	7,034
Miscellaneous income (2)	-	11,896	-
Financial results	(188)	(345)	(957)
Income before taxes	10,606	10,511	10,938
Corporate Income Tax (IRAE)	(131)	823	-
Income for the period	10,475	11,334	10,938
Other comprehensive income (2)	1,899	1,675	-
Deferred tax	(38)	(169)	-
Comprehensive income for the period	12,336	12,840	10,938

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 (USD 11.5) and, to a lesser extent, for income from grazing and others.

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

Investments were made in acquiring rural properties, which became part of the Trust assets, to develop forestry activities, in accordance with the conditions set forth in the Agreement. The Trustee invested in those Properties recommended by the Manager, pursuant to 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 as of March 2024 includes 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, and production costs from 2024 until the termination of the Trust in 2035. According to CARE, the most reasonable scenario to make projections is based on the following assumptions:

- Prices of products adjust for U.S. inflation (projected by BEVSA)⁴. 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 adjust for U.S. and Uruguayan inflation. Uruguay's devaluation and inflation are projected based on BEVSA's valuation criteria.

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%, implying a conservative assumption.

Investment income is projected in the new flow, which would begin in 2025 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 period of the Trust considering the baseline scenario would be 8.2%, in nominal dollars, higher than that estimated last year (7.3%).

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

⁴. Historical U.S. inflation is estimated to be around 2.1 - 2.3%, assuming to return to historical levels.

Table 7. IRR Results for Different Scenarios	
Scenario	TIR
1 Wood adjusts for U.S. inflation, plus a 1.5% growth. Costs adjust for USD UY inflation, and the price of land increases a 1.5%	8.1%
2 Wood adjusts for U.S. inflation. Costs adjust for USD UY Inflation, and land increases a 1.5%.	8.0%
3 Same as 2 but the price of land increases a 3%	8.2%
4 The prices of wood and land increase a 1.5%.	6.7%
5 The price of wood increases a 1.5%	6.6%
6 All other factors unchanged	6.4%

Source: Manager

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

CARE considers that scenario 3 meets the criteria to make the projections as it assumes an increase in the prices of wood similar to the U.S. inflation, that is, no change in prices in real terms. World Bank projections for 2035 forecast 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 (6.4%).

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 price 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 in 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

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)⁵. 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 have a medium-term perspective, CARE considered the average values from the last 5 years for all variables.

To consider systemic risk, it is used the average "beta"⁶ 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 considers 2.30% for the yield of the U.S. Bonds, 124 basis points⁷ 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 (8.2%), indicating that the investment would have a greater return than the opportunity cost.

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 Uruguay⁸. 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.

Considering these criteria, the project's return for the investor remains above the opportunity costs under consideration.

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

⁵. The 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.

⁶. Provided by Damodaran.

⁷. It is the 5-year average, currently the country risk is around 80 basis points.

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

3. Compliance with Minimum Project Standards

The characteristics of the project make the economic results sensitive to the actions carried out by the Manager: land acquisition, 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 are met to satisfaction.

- Land acquisition: Completed. The objective was to acquire 13,200 hectares and lease 800 hectares, and 14,656 hectares have been acquired.
- 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 expected in the prospectus and above the maximum expected curve.
 - Eucalyptus grandis (quality timber): 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 20cm).

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	9,016
15% of the area is planted with pine		

Source: Surveillance Committee

(*) The prospectus projected a 3% nominal annual increase in the price 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 the price of land will be recovered over the years, as provided in the prospectus.

As the Trust has acquired farms already planted, the schedules to begin the clear-cut wood sales have been modified from the original projection, advancing the Trust's income for these items. In turn, the implanting costs have been postponed in those areas acquired already planted, since these costs will be incurred after the relevant clear-cutting activities have been carried out. Macroeconomic variables (inflation and exchange rate) have evolved differently than initially projected, resulting in a significant increase in domestic costs in dollar terms.

4. 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 land; 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 land from different hazards such as fire, health issues, animals, weeds, among others.

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.

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 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.

5. Results from Permanent-Plot Measurements

Permanent plots were installed on those forests aged between 6 and 9 years old 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 show that *Eucalyptus dunnii* growth rate is in line with the projections provided in the prospectus and within the maximum expected curve. The *Eucalyptus grandis* growth rate is also in line with the forecast in the prospectus and within the most probable and the maximum expected curve.

In the case of pines, there is an important difference between the total and the commercial volume due to market trends. Currently, there is no commercial market for logs smaller than 20 cm diameter, producing a difference in volumes. In any case, both total and commercial curves are above the maximum curve.

6. Land and Forest Valuation

The last 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 carried out following different methodologies and considered both the land and forests together. This valuation also took into account 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
2023	125.44
Rate 2018-2023 (compound annual growth)	13.4%

Source: CARE based on valuations

Note: It was 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 valuation estimated a total asset value of USD 125.44 million as of December 31, 2023, showing a much higher value than the previous year's (11.1%). This evolution shows an uptrend in assets, which has been growing at a compound annual growth rate of 13.4%, mainly explained by the growth of forests.

This valuation is 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. 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 and compared with the previous year's results. It shows that a large part of the increase is due to the appreciation of the forests. Meanwhile, for the time being, carbon credits have very little impact on the results, although they have significantly increased over the last year.

Table 10. Valuations in Millions of Dollars				
	2021	2022	2023	Variation
Wood production	55.43	67.06	77.04	14.9%
Grazing	1.26	1.31	1.35	3.1%
Carbon credits	-	0.48	1.10	129.2%
Land value	42.36	44.0	45.94	4,3%
Total	99.05	112.89	125.43	11.1%

Source: Care based on 2021, 2022 and 2023 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 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 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, 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.

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. The price of wood accounts for 78% 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. Likewise, the expected price for pulpwood is also fundamental, as a certain percentage of wood is always destined for pulp, especially 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.

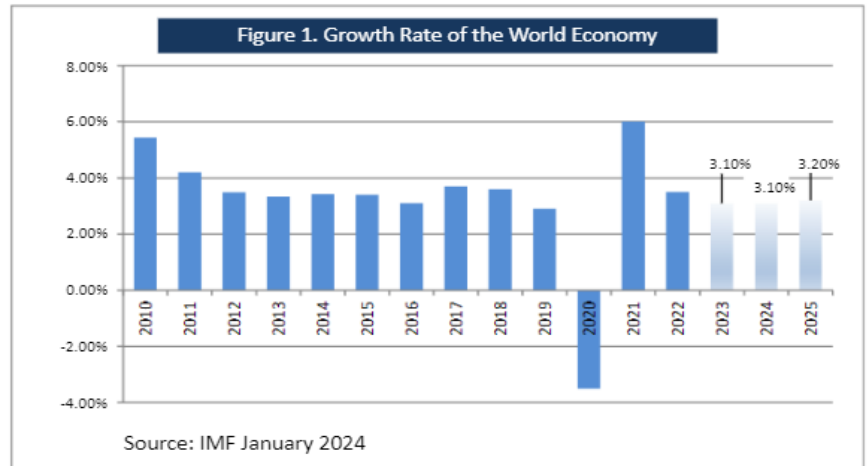
On the other hand, this increase in demand faces a supply that has been constrained by increasing protective measures for native forests, as well as by the control over the yield of forests. Meanwhile, policies aimed at mitigating the impacts of climate change also promote the protection of forests as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



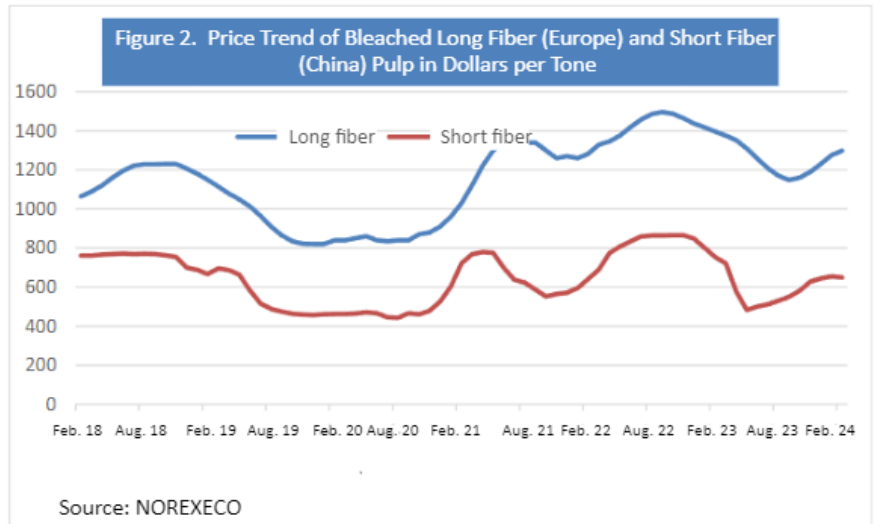
This slight increase in the outlook for economic growth is explained by the greater-than-expected resilience in the United States and several large emerging market and developing economies, as well as the fiscal support in China. However, the negative effects of high interest rates to fight inflation, 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.

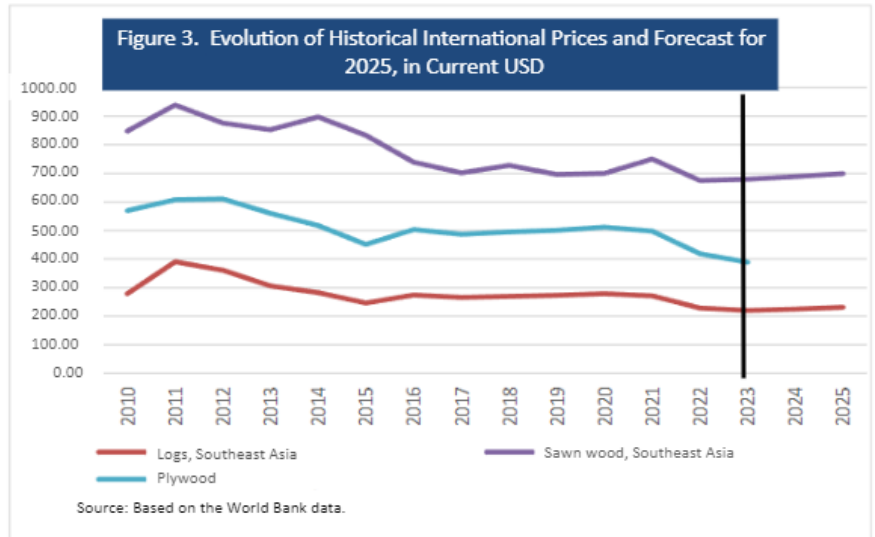
No information is currently available to estimate the outlook for the evolution of international prices for pulp in the long term. In the last 10 years, the annual growth in the international price of long-fiber pulp (NBSK) has been 3.6%. This is an indicative value since there is no certainty that it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

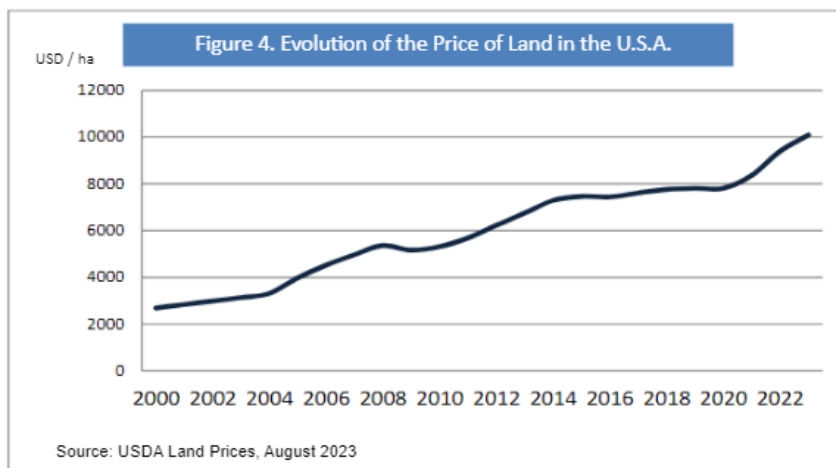
In the 21st century, the price of land in the United States has followed a continuous upward trend, with some exceptions (2009 and 2015) when minimal reductions were verified. However, these exceptions did not change such trend. The price of land in the United States fell only in the early 1980s due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

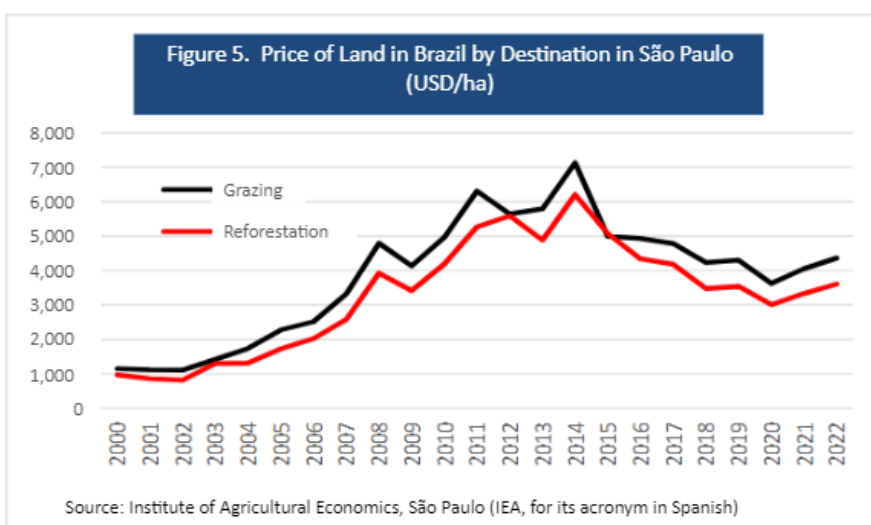
The price of land (average) has remained relatively stable between 2017 and 2020, showing minimal increases aligned with the U.S.

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

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 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 policy 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.

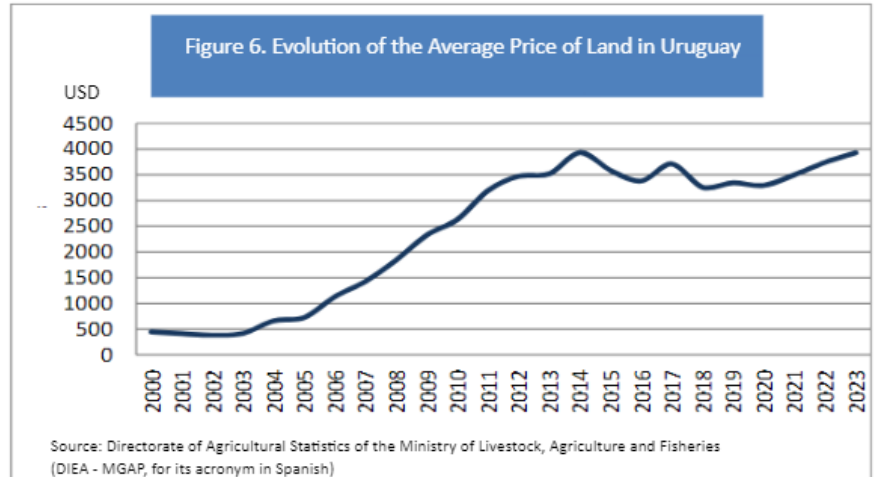
A recent publication of the Argentine Chamber of Rural Real Estate (CAIR, for its acronym in Spanish) estimated that the price of agricultural land is at an all-time low since InCAIR¹² (activity index estimated by the Chamber) has been computed. In its last report dated December 2023, the index reached 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 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 latest 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%.

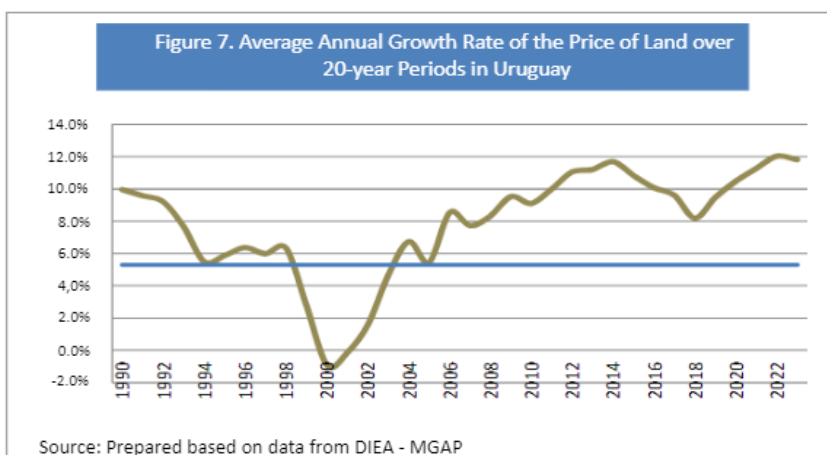
¹³.SERAGRO, Agroclaro, Consur and private operators

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.

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 planted 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 adopted by CARE, and with the data publicly available, CARE's rating committee concludes that the Issue is rated BBB+.uy¹⁶ on the scale provided in our Manual. It is an investment grade rating.

Rating Committee



Julio Pieve, Engineer



Martín Durán Martínez, CA



Adrian Tampler, 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 unfavorable 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.**