

# 1 EARLY DISCLOSURE

The following information is published on the AGRI3 website 30 days prior to final disbursement of the loan and guarantee.

Transaction name	Forest Code implementation and pastureland restoration for cattle
Publication date	23 <sup>rd</sup> of July, 2021
Sector	Cattle breeding and production
Country and region	Brazil, Mato Grosso and Rondônia
Deal overview	<p>This is a family-owned beef cattle operation in Brazil, breeding, rearing and fattening cattle for further sale, alongside producing its own soy and corn. The company encompasses a total of 100k ha under management in the states of Mato Grosso, Sao Paulo, Rondônia, Para and Goias.</p> <p>The company is requesting a 10-year loan facility of BRL 30mn (~ USD 6mn), to support the transition to sustainable intensification of its cattle operations in Mato Grosso. The loan will be split as follows:</p> <ul style="list-style-type: none"> <li>• USD 4.5mn for sustainable land use; of which 2,600 ha pastureland renovation through livestock-crop integration and 923 ha through soil improvements, cattle intensification and manure management</li> <li>• USD 1.2mn for forest protection; to accelerate of forest code compliance, including conservation of 892 ha of legal reserve (APP) and the recovery of 1,286 ha of forest area on its farm in Rondônia</li> <li>• USD 0.2mn to support rural livelihoods; for the construction and renovation of houses, and additional training for employees. Additionally, an external HR consultancy will be hired to design programme to boost work motivation</li> </ul>
Description of the activities	<p>i. <b>Sustainable land-use:</b></p> <ul style="list-style-type: none"> <li>• Pastureland Renovation: recover ~2,600 ha of degraded pastureland through livestock-crop integration, rotating crop production with pastureland. Additionally, soil quality of ~923 ha will be corrected through soil improvement techniques. The pastures are to be intensified with redivision for improved carrying capacity.</li> </ul>

	<ul style="list-style-type: none"> <li>• Cattle Intensification: intensify cattle on improved pastures, through the procurement of female cows (for breeding). Through an integrated livestock and crop production system, the company aims to start producing low-carbon livestock, lowering GHG emissions through improved carbon carrying capacity of the soil, and by shortening the time to market from (which reduces lifetime GHG emissions per animal)</li> <li>• Manure Management: improve manure management at feedlots to avoid contamination for animals and employees, and partially replace chemical fertilizers with treated manure</li> </ul> <p>ii. <b>Forest Protection:</b></p> <ul style="list-style-type: none"> <li>• Permanent Preserved Areas (APP) protection: preserve 892 ha of forest via physical isolation (fencing) and limit cattle movement into restricted areas. Additionally, the company intends to build artificial water fountains and streams to provide drinking water for the cattle</li> <li>• Recovery of 1,286 ha of APPs on its farm in Rondônia state. Through physical isolation and (re)planting natural vegetation, they aim to reverse moderate to severe soil erosion</li> </ul> <p>iii. <b>Rural Livelihoods:</b></p> <ul style="list-style-type: none"> <li>• Employee and animal safety: with the planned increase in number of animals, a new corral will be procured to facilitate animal management and thereby ensure the safety of employees engaged in daily health monitoring and related functions on the field</li> <li>• House renovation: construction and renovation of houses for field employees</li> <li>• Training: training and education of employees on sustainable practices and efficient farm management, such as cattle management and nutrition, management of chemicals on the field, waste recycling. Additionally, an external HR consultancy will advise on designing a programme to support work motivation and performance</li> </ul>
<p>Expected impact</p>	<p>iv. <b>Sustainable Land-use:</b></p> <ul style="list-style-type: none"> <li>• Recover ~2,600 ha of degraded pastureland through livestock-crop integration</li> <li>• Improve soil quality of ~923 ha of pastureland through soil improvement techniques. Redivision of the recovered pastures should lead to improved carrying capacity of the farm</li> <li>• Cattle Intensification: intensify cattle on improved pastures, increasing production capacity from 1.6 AU/ha to 2.8 AU/ha</li> <li>• Manure Management: improve manure management and decrease chemical fertilizers usage by 40%</li> </ul>

	<p>v. <b>Forest Protection:</b></p> <ul style="list-style-type: none"> <li>• Preserve 892 ha of native forest (APP) via physical isolation (fencing)</li> <li>• Recovery of 1,286 ha of APP on its farm in Rondônia state, through physical isolation and (re)planting natural vegetation</li> </ul> <p>vi. <b>Rural Livelihoods:</b></p> <ul style="list-style-type: none"> <li>• 30 employees trained in sustainable practices (including cattle management and nutrition, management of chemicals on field, waste recycling)</li> <li>• Development of strategy for employee motivation, which could include benefit sharing schemes</li> </ul>
<p>E&amp;S risks and mitigants</p>	<p>As per the Partner bank, the company has strong sustainability credentials with a track record of very positive reviews. In this sector there are several potential E&amp;S risks, that will need to be investigated further in due diligence. These include:</p> <ul style="list-style-type: none"> <li>• Forest Code compliance: this company aims to accelerate Forest Code compliance on this project in line with regulations. Assessment to focus on company’s compliance with forest code across its whole operations</li> <li>• GHG emissions: Internationally and sector wide there is a pressure on beef as source of GHG emissions. Project will evaluate the opportunity to implement activities to lower carbon emissions per KG beef. Assessment to focus on feasibility and potential Technical Assistance requirements</li> <li>• Cattle sourcing: Tracing cattle origin is noted as an issue in the sector. This project will aim to breed 80% on farm, so traceability risk is limited. Adequacy of traceability systems will also be checked</li> <li>• Guidelines: In this sector, not all companies have formal guidelines and certified operational standards in place. Based on relevance to the sector &amp; on-ground conditions, we will check whether practices are in line with national guidelines and if there are any gaps</li> </ul>
<p>Contact details of fund manager</p>	<p>Parties can express their views on the proposed transaction to the Fund Manager by contacting <a href="mailto:info@agri3.com">info@agri3.com</a> within 30 days of the publication date of the notice</p>