

Arabica Coffee Futures Contract – Specifications –

1. Definitions

- Contract (specifications): The terms and rules under which the transactions shall be executed and settled.
- Settlement price (PA): The closing price, for the purpose of updating the value of open positions and calculating the variation margin and the settlement value of day trades, daily calculated and/or arbitrated by BM&F, at its own discretion, for each authorized delivery month, and expressed in Dollars of the United States of America per bag.
- BM&F exchange rate benchmark: The exchange rate of Brazilian Reals per United States Dollar described in Attachment III of Circular Letter 058/2002-DG, of April 19, 2002.
- PTAX rate: The exchange rate of Brazilian Reals (R\$) per U.S. Dollar for cash delivery, traded in the foreign exchange market, pursuant to the provisions of Resolution No. 3265/2005 of the National Monetary Council (CMN), calculated and published by the Central Bank of Brazil (BACEN) through SISBACEN, transaction PTAX800, option "5," closing offered quotation, for settlement in two days, utilizing the maximum of six decimal places, also published by BACEN with the denomination "closing PTAX," pursuant to Communication 10742, of February 17, 2003, corresponding to the last day of the month preceding the delivery month.

2. Underlying commodity

Green coffee beans produced in Brazil, variety *coffea arabica*, type six or better, good cup or better, to be delivered in the city of São Paulo, State of São Paulo, Brazil.

3. Price quotation

Dollars of the United States of America per 60-net kilogram bag to two decimal places.

4. Minimum daily price fluctuation

US\$0.05 (five cents of a U.S. Dollar) per 60-net kilogram bag.

5. Maximum daily price fluctuation

As established by BM&F.

The price fluctuation limit for the first contract month shall be suspended on the last three days of trading.

The Exchange may alter the price fluctuation limit applicable to any contract month at any time, even during a trading session, by communicating the market with a 30 minute-advance notice.

6. Contract size

100 bags weighing 60-net kilograms each, or 6,000 net kilograms.

7. Delivery months

March, May, July, September and December.

8. Number of authorized delivery months

As authorized by BM&F.

9. Last trading day

The sixth business day preceding the last day of the delivery month. On that day, neither opening of new short positions nor day trading shall be allowed.

10. Business day

For the purposes of this contract, a trading day at BM&F shall be considered a business day. However, for the purposes of the payment and receipt of amounts, as referred to in items 11, 12, 15.5, and 21.1, a day that is not a banking holiday in New York, USA, and is a trading day at BM&F shall be considered a business day.

11. Day trading

Buying and selling on the same trading session the same number of contracts for the same month shall be offset provided these transactions are executed on behalf of the same customer through the same Brokerage House and registered by the same Clearing member, or performed by the same Local and registered by the same Clearing Member. These transactions shall be cash settled on the following business day, and their amounts shall be calculated in accordance with item 12(a), in observance to the provisions of item 22, where applicable.

12. Daily settlement of accounts (variation margin)

The positions outstanding at the end of each session shall be marked-to-market according to that day's settlement price, as determined by BM&F rules and regulations. The corresponding amount shall be cash

settled on the following business day, in observance of the provisions of item 22, where applicable.

The variation margin for open positions shall be calculated up to the business day preceding the day a Delivery Notice has been designated to the buyer, as described in items 15.1 and 15.2, in accordance with the following formulas:

(a) For the positions initiated on the day

$$AD=(PA_t - PO) \times 100 \times n \quad (1)$$

(b) For the previous day's outstanding positions

$$AD=(PA_t - PA_{t-1}) \times 100 \times n \quad (2)$$

Where:

AD = the amount of variation margin;

PA_t = the day's settlement price;

PO = the traded price;

n = the number of contracts;

PA_{t-1} = the previous day's settlement price.

The amount of variation margin (AD_t) calculated as shown above, if positive, shall be credited to the buyer and debited to the seller. Should the calculation above present a negative value, it shall be debited to the buyer and credited to the seller.

13. Delivery points

Delivery shall be made at registered warehouses.

Whenever a delivery is made in a city other than São Paulo, freight costs shall be deducted when the cash settlement value is calculated.

14. Certificate of Classification

Classification shall be requested by the seller from BM&F, by means of the form it adopts, through a registered warehouse. This form must include the number of lots and the quantity of regular bags or big bags of each lot. BM&F shall register the requests of classification and render the corresponding service on a first in, first out basis. The Certificate of Classification shall be issued within five business days, counted as from the date of receipt by the Exchange of the corresponding samples, provided they are delivered up to ten business days prior to the last day of the period for Delivery Notice registration.

The samples must be extracted from each lot and sealed by the registered warehouse. One sample shall be delivered to the buyer for quality testing; the others shall remain with BM&F for later use in any possible arbitration of the quality of the delivered commodity. The number of samples shall be determined by the Exchange. When under classification and arbitration, the lots shall be analyzed as to cup tasting by using ten cups.

BM&F shall examine, when solicited, the regular bags or the big bags and the coffee that compose the lots stored in registered warehouses. The Certificates of Classification of the lots that do not comply with the specifications herein stated shall be canceled.

Partial or total repacking shall be allowed whenever holes in the regular bags or in the big bags cause the coffee of a lot already classified to spill out. In such an event, both BM&F and the depository customer must be informed by the warehouse, which must repack the coffee in up to ten days, at the expense and order of the customer. Should BM&F, during any subsequent inspection, verify any leaking bags or big bags of coffee belonging to a lot, which were not reported by the warehouse or by the owner of the lot, the lot shall be disqualified.

15. Settlement conditions on expiration

15.1 Period for Delivery Notice registration

The sellers who decide not to offset their positions up to the last trading day shall electronically register a Delivery Notice, via the BM&F Physical Delivery System, during the period that initiates on the second business day of the delivery month and terminates on the seventh business day preceding the last day of the delivery month, at 6:00 p.m. (Brasília time).

15.2 Procedures for Delivery Notice electronic registration and designation

Up to the Delivery Notice electronic registration date, the sellers shall mandatorily sent to BM&F, by means of the registered warehouse or the Brokerage House that represents them, the following documents:

- A "declaration verifying commodity ownership and packing list," which must state that coffee is free of any and all charges, including fiscal debts, and that the regular bags or big bags are new and in perfect order;
- A "provisional delivery order," of the goods to BM&F, which must state that storage and regular

insurance expenses have been paid covering a 15 day-period, counted as from the Delivery Notice issuance date.

By means of their Brokerage Houses, the sellers must register, via the BM&F Physical Delivery System, the Certificates of Classification they have received, which must be electronically confirmed by the registered warehouse.

The Delivery Notices shall be designated to the buyers on the business day subsequent to their electronic registration via the BM&F Physical Delivery System.

The Delivery Notices shall be announced on the floor to be chosen by the customers who hold long positions. BM&F shall offer the lots in the Delivery Notices to the buyers on a first in, first out basis—that is, the customers who have held long positions for the greatest amount of time shall have priority. Should there be no parties interested in receiving all or part of the commodity in the Delivery Notices, BM&F shall determine that the customer(s) who has(ve) held long position(s) for the greatest amount of time shall take delivery of the coffee.

15.3 Third-party assignment and invoice

The sellers who reside in Brazil shall be allowed to assign third parties to make delivery of the coffee, provided they do so before the Delivery Notice electronic registration. The sellers who do not reside in Brazil must mandatorily appoint a third party residing in Brazil to make delivery of the coffee, provided they do so before the Delivery Notice electronic registration.

The buyers shall be allowed to assign third parties to take delivery of the coffee. Should a nonresident buyer wish to take delivery of the coffee, the nonresident buyer must mandatorily appoint a legal representative to provide transportation and shipment, as well as to meet all further requirements defined by the Foreign Trade Office (SECEX) of the Development, Industry and Commerce Ministry (MDIC).

The assigned parties shall be bound to the contract up to the delivery's final settlement. In addition, the original buyer and seller shall remain responsible for the obligations of the third parties they have assigned, up to the delivery's final settlement.

The buyers, the third parties or the legal representatives must send to BM&F, through their Brokerage Houses, their personal data for invoice purpose by no later than 4:00 p.m. (Brasilia time) of the second business day subsequent to the day a Delivery Notice has been designated.

15.4 Lot formation

- The type must be six or better. Inferior grades shall not be eligible for delivery.
- The coffee, which cannot have been salvaged from fire or contain foreign matters other than those that are typically found among the beans, must be packed in well identified new and sound first quality jute bags, type 2J or 3J, which cannot come from waste nor be resealed, must have a minimum 520-gram weight with a 3% tolerance, and must be free from hydrocarbon and treated with vegetal oil. When one-way big bags are used for coffee delivery, they must be made of woven polypropylene and have a capacity of 1,200 net kilograms. Each bag must weight between 3.30 and 3.70 kilograms and be 90 centimeters in width, 90 centimeters in length and 190 centimeters in height. The coffee must be classified by BM&F, in accordance with its rules and regulations which conform to current legislation—Law No. 9972, of May 25, 2000, Decree No. 3664, of November 17, 2000, and Normative Instruction No. 8, of June 11, 2003,— stored in registered warehouses and grouped into lots.
- Coffee which has been poorly dried, damaged by rain, moisture, mud, infestation, or having a taste uncharacteristic to arabica coffee shall not be eligible for delivery.
- Wormy or bored beans shall not exceed a maximum of 8%.
- Lots of sieve 15 or larger are eligible for delivery. Sieve 15 seepage shall be limited to a maximum of 30% and sieve 13 to a maximum of 10%. Lots containing flat berries may be composed of maximum 10% pea berries and lots containing pea berries may be composed of maximum 10% flat berries.
- Sieves shall not be considered for the lots composed of pea berries.
- To form a lot, the coffee must be informedly green or greenish from the most recent harvest, or the harvest immediately preceding harvest. Light-colored or spotted coffee shall not be eligible for delivery.
- Because of the time lag between the Certificate of Classification issuance date and the delivery date, a variation in color shall be permitted, provided the variation is uniform throughout the lot.
- Lots damaged by poor storage conditions shall not be eligible for delivery.
- A lot shall have the maximum of 100 bags, each one weighing 60-net kilograms, or 6,000 net kilograms and shall be grouped in only one registered warehouse where the commodity has been placed for storage.
- To compose the contract size, the minimum of 100 bags or 6,000 net kilograms shall be allowed to be delivered.

The customer who wishes to transfer the coffee from one registered warehouse to another shall be allowed to do so, without losing the validity of the Certificate of Classification, by paying the

corresponding costs. A transfer must be requested through a Brokerage House and be authorized by BM&F, which shall send a representative to accompany the transfer.

15.5 Delivery cash settlement

The cash settlement of a physical delivery shall be made by the buyer on the third business day subsequent to the day the Delivery Notice has been designated to the buyer, in observance of the provisions of item 22, where applicable. The funds transfer to the seller shall be made by BM&F on the fifth business day subsequent to the day the Delivery Notice has been designated to the buyer, in observance of the provisions of item 22, where applicable.

The cash settlement value per contract shall be calculated by the following formulas:

(a) Should delivery be made in regular bags

$$VL = \frac{\left\{ C \times \left[\left(1 - \frac{D1}{100} \right) \right] \right\} - D2}{60.5} \times P \quad (3)$$

(b) Should delivery be made in big bags

$$VL = \frac{\left\{ C \times \left[\left(1 - \frac{D1}{100} \right) \right] \right\} - D2}{60.175} \times P \quad (4)$$

Where:

VL = the cash settlement value per contract;

C = the settlement price of the business day preceding the day a Delivery Notice has been designated to the buyer;

D1 = the percentage discount, if any, for time lags from the Certificate of Classification issuance date to the day a Delivery Notice has been designated to the buyer;

D2 = the discount for freight costs, if any;

P = the total gross weight of the lot delivered to settle one contract, expressed in kilograms to two decimal places.

Discounts for time lags in the Certificate of Classification issuance date shall be 1% every 30 days. The first discount shall be due on the 91st day, counted as from the Certificate of Classification issuance date, for samples of coffee produced on the coast. For coffee produced inland, the first 1% discount shall be due on the 151st day, counted as from the Certificate of Classification issuance date.

The value of D2, which shall be originally disclosed in Reals, shall be converted into U.S. Dollars by the BM&F exchange rate benchmark, as defined in item 1. Freight cost discounts shall be periodically published by BM&F.

When taking delivery, the buyer may request that the coffee be weighed. Should the resulting weight be different from the one informed by the warehouse, the cash settlement value shall be adjusted in the proportion of the weight difference verified. Weighing expenses shall be borne by the buyer.

Should the coffee be subject to an arbitration, BM&F shall pay the seller 80% of the cash settlement value through the seller's Brokerage House. The balance shall be paid on the business day following the day of the final acceptance of the coffee delivered by the buyer.

Should the coffee type be above six, the invoice shall be issued without a premium.

15.6 Further conditions

A physical delivery shall be effected when the seller issues an invoice to the buyer, in accordance with current legislation. Should this legislation establish the incidence of the Tax on the Circulation of Merchandises and Services (ICMS), the corresponding amount shall be added to the cash settlement value, for the purposes of invoicing. Credits from this tax shall not be transferred should both the buyer and the seller be located in the same Federal State, unless the corresponding legislation thus requires. Whenever the seller is a rural producer, as per current legislation, the Social Security Contribution shall be deducted from the cash settlement value. The payment of this contribution shall be made by the buyer, who shall then send to BM&F a copy evidencing this payment.

Should other taxes (PIS and COFINS) be due, they shall be paid by the seller. The corresponding amount shall be included in the traded price, therefore not affecting the cash settlement value.

BM&F shall issue a certificate containing type, quantity and cash settlement value of the delivered commodity (attached to a copy of the Certificate of Classification) which shall be used, when applicable, by the legal representative of the nonresident seller to obtain sale and export registrations, as required by SECEX.

16. Arbitration

- 16.1** If a delivered lot has not been formerly arbitrated, the buyer may request an arbitration within two business days, counted as from the receipt of the documents of the commodity delivered. Should the conditions of the coffee differ from those described herein, the seller shall be obliged to replace the corresponding lots by others that meet the requirements of type. If a delivered lot has not been formerly arbitrated, the buyer may request an arbitration within two business days, counted as from the receipt of the documents of the commodity delivered. Should the conditions of the coffee differ from those described herein, the seller shall be obliged to replace the corresponding lots by others that meet the requirements of type, cup, and all other qualifying specifications within two business days after being notified of the arbitration award. The arbitration award shall be final and without recourse.
- 16.2** If the lots have already been arbitrated, the buyer shall still be permitted to examine their conformity with respect to storage conditions. Should the buyer question storage-related conditions by no later than 9:00 a.m. (Brasília time) of the second business day subsequent to the day he/she/it was designated a Delivery Notice, BM&F may be requested by the buyer to verify storage conditions. Should the nonconformity of storage conditions be verified, the seller must replace the lots before 9:00 a.m. (Brasília time) of the fifth business day subsequent to the day the Delivery Notice was designated to the buyer. When requesting an arbitration, the buyer shall pay BM&F for the expenses involved, which shall include the travel and hotel expenses of its representative plus 1% of the value of the lot verified, calculated on the settlement price of the nearest futures delivery month verified on the day the classification was requested; plus 0.5% for the verification of a second lot; plus 0.3% for the verification of each subsequent lot. Should a lot nonconformity be verified, the seller must repay the buyer, through BM&F, for the expenses incurred in the verification and replace the commodity delivered. The seller and the buyer may agree upon a discount on the cash settlement value. This agreement shall be registered at BM&F.

17. Ex-pit transactions

Ex-pit transactions shall be allowed, up to the last business day preceding the Delivery Notice registration period, provided the conditions established by BM&F are met. These transactions shall be published by BM&F, but shall not be subject to market interference.

18. Hedgers

Coffee growers, cooperatives, agricultural input companies, roasters, millers, processors, merchants, importers and exporters.

19. Margin requirements

Collateral shall be required from all customers holding open positions. Margin values shall be updated daily by the Exchange, in accordance with the margin calculation criteria for futures contracts. Margins shall be due on the first business day following the trading day. For nonresidents, should the first business day following the trading day be a banking holiday in New York, collateral shall be due on the first day following the trading day when there is no banking holiday in that city. When the conversion of cash collateral is necessary, it shall be made in observance to the provisions of [item 22](#), where applicable.

20. Assets eligible to meet margin requirements

For residents, cash, gold and, upon former approval by the Exchange, federal government bonds, private securities, letters of credit, shares of stocks and equity fund units. For nonresidents, United States Dollars and upon former approval by the Exchange, U.S. T-Bonds, T-Notes and T-Bills.

21. Trading costs

- **Transaction fees**
Consist of the Exchange, Registration and Permanence Fees, which are calculated as per BM&F methodology.
- **Delivery Fee**
0.45% to be applied to the delivery cash settlement value.
- **Classification Fee**
A Real value established by BM&F and due by the seller.
- **Arbitration Fee**
A Real value established by BM&F and due by the buyer.

Common Members and institutional investors shall pay no more than 75% of the trading costs.

21.1 Due dates

- (a) The Exchange and Registration Fees shall be due on the first business day following the trading day, in observance of the provisions of [item 22](#), where applicable.

- (b) The Permanence Fee shall be due on the day defined by BM&F.
- (c) The Delivery Fee shall be due on the third business day subsequent to the day a Delivery Notice has been designated to the buyer, in observance of the provisions of item 22, where applicable.
- (d) The Classification and Arbitration Fees shall be due when the corresponding services are requested.

22. Additional provisions for cash settlement and cash collateral conversion

The following shall apply to the payment and receipt of amounts resulting from day trades, variation margin requirements, physical deliveries and trading costs not expressed in Reals, as well as to the conversion of cash collateral:

22.1 Nonresidents

The amounts shall be payable and receivable in United States Dollars in New York, USA, through the settlement banks appointed by BM&F.

The conversion of collateral pledged in United States Dollars and/or in U.S. Treasury securities shall be made by the BM&F exchange rate benchmark, as defined in item 1, verified on the trading day.

22.2 Residents

The amounts shall be in Reals, in accordance with the regular procedures of the other BM&F contracts not authorized to be traded by foreign investors.

When the conversion of amounts paid and received is necessary, the BM&F exchange rate benchmark, as defined in item 1 and verified on a specific date according to the nature of each payment, shall be used as follows:

- (a) Amounts resulting from day trades: the BM&F exchange rate benchmark verified on the trading day;
- (b) Amounts resulting from variation margin requirements: the BM&F exchange rate benchmark verified on the day when the variation margin payment is due;
- (c) Amounts resulting from physical deliveries: the BM&F exchange rate benchmark verified on the business day preceding the cash settlement date.

When the conversion of trading costs not expressed in Reals (Exchange, Registration and Delivery Fees) is necessary, the PTAX rate, as defined in item 1, shall be used.

23. Further provisions

This contract shall be subject, where applicable, to the legislation in force and to BM&F rules, regulations and procedures, as defined in its Bylaws, Operating Rules and Circular Letters, as well as to the specific rules set forth by the Brazilian governmental authorities that may affect the terms stated herein.