



NOTICE OF INVITATION TO TENDER Nº 001/2008

SELLER: SÃO PAULO MUNICIPAL GOVERNMENT

MARKETPLACE: BM&F BOVESPA S.A. – Bolsa de Valores, Mercadorias & Futuros (BM&FBOVESPA)

AUCTION FOR THE SALE OF CERTIFIED EMISSION REDUCTIONS (CER)

BM&F BOVESPA S.A. – **Bolsa de Valores, Mercadorias & Futuros**, enrolled under the Corporate Taxpayer Registry (CNPJ) number 09.346.601/0001-25, headquartered in the City and State of São Paulo, at Praça Antonio Prado, 48, Brazil, hereinafter referred to as **BM&FBOVESPA**, publicly announces that it shall hold a public **AUCTION** to sell the Certified Emission Reductions (**CER**) held by the Municipal Government of São Paulo, hereinafter referred to as the **MUNICIPAL GOVERNMENT**, pursuant to current Brazilian legislation and applicable international rules governing the Clean Development Mechanism (**CDM**), created in accordance with article 12 of the Kyoto Protocol.

The **AUCTION** and its respective procedures shall be governed by the provisions set forth in this **NOTICE OF INVITATION TO TENDER** and its Annexes, while observing all other applicable national and international rules and regulations.

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CHAPTER 1 – LEGAL BASIS

- 1.1 The sale of **CER** held by the **MUNICIPAL GOVERNMENT** shall occur pursuant to the provisions set forth in article 41 of São Paulo Municipal Law 14256, of December 29, 2006, which authorizes their sale.
- 1.2 In view of its particular specialization in managing unique technical services involving trading systems and developing the carbon credit market, particularly with respect to the Brazilian Market for Emission Reductions (MBRE), **BM&FBOVESPA** shall provide its services to the **MUNICIPAL GOVERNMENT**, in order to organize and hold the **AUCTION** for the sale of **CER**.
- 1.3 The Brazilian Securities and Exchange Commission (CVM)¹ a governmental body constituted pursuant to the terms of Federal Law 6385, of December 7, 1976, considering its competence to regulate the Brazilian securities, commodity and futures exchanges, has approved the **AUCTION**, pursuant to the terms of this **NOTICE OF INVITATION TO TENDER** and its Annexes, through Official CVM Letter SMI 060/2008.
- 1.4 The **NOTICE OF INVITATION TO TENDER**, its Annexes and all other documents related to the **AUCTION** shall be duly published in the **MUNICIPAL GOVERNMENT**'s Official Gazette and Website (www.capital.sp.gov.br), and on the **BM&FBOVESPA** Website (www.bmf.com.br/carbonauction) at least thirty (30) days before the **AUCTION** date.

CHAPTER 2 – OBJECT, MINIMUM PRICE, DATE AND TIME

2.1 OBJECT

- 2.1.1 The purpose of the **AUCTION** is to sell seven hundred and thirteen thousand (713.000) **CER** held by the **MUNICIPAL GOVERNMENT**, with the amount of four hundred and fifty four thousand, three hundred and forty three (454.343) **CER** stemming from the Bandeirantes Landfill Gas to Energy Project, and the amount of two hundred and fifty eight thousand, six hundred and fifty seven (258.657) **CER** stemming from the São João Landfill Gas to Energy Project, in one single lot corresponding to the total **CER** offered for sale.
- 2.1.2 **CER** are carbon credits duly issued by the **CDM** Executive Board in connection with registered **CDM** project activities that reduce greenhouse gas emissions.
- 2.1.3 The **CER** held by the **MUNICIPAL GOVERNMENT**, which are the object of the **AUCTION**, were duly issued by the **CDM** Executive Board, in connection with methane gas emission

¹ “Brazilian Securities & Exchange Commission”.

reduction activities implemented in the context of the Bandeirantes Landfill Gas to Energy Project (**PROJECT**), registered with the **CDM** Executive Board under number 0164 on February 20, 2006, and the emission reduction of methane gas activity implemented within the scope of the São João Landfill Gas to Energy Project (**PROJECT**), registered with the **CDM** Executive Board on July 2, 2006 under number 0373.

- 2.1.3.1 The **CER** which are the object of the **AUCTION** have been issued into the pending account of the **CDM** Registry, awaiting further instructions to be transferred to the **WINNING BIDDER** of the **AUCTION**.
- 2.1.4 The **PROJECTS** were duly approved by the Brazilian Government on September 12, 2005 and on April 5, 2006, through the Inter-ministerial Commission on Global Climate Change, whose original **CDM** Project Participants (**PROJECT PARTICIPANTS**) were the **MUNICIPAL GOVERNMENT** and Biogás Energia Ambiental S.A. (**BIOGÁS**), both authorized by the Brazilian Government to participate in the **PROJECTS**.
 - 2.1.4.1 The Bandeirantes Landfill Gas to Energy Project also comprises the **KFW BANKGROUP** and the **FORTIS BANK N.V/S.A.** in the capacity of **CER** buyers authorized respectively by the German and Dutch Governments, pursuant to the terms set forth under the Modalities of Communication as per Annex I to this **NOTICE OF INVITATION TO TENDER**, dated November 22, 2006 (**KFW BANKGROUP**), and November 27, 2007 (**FORTIS BANK N.V/S.A.**).
 - 2.1.4.2 The São João Landfill Gas to Energy Project also comprises the **KFW BANKGROUP** in the capacity of **CER** buyer authorized by the German Government, pursuant to the terms of Modality of Communications set forth under Annex I to this **NOTICE OF INVITATION TO TENDER**, dated May 9, 2007.
- 2.1.5 Technical information related to the **PROJECTS** is available on the following Websites: the **BM&FBOVESPA** Carbon Facility (http://www.bmf.com.br/portal/pages/MBRE2/banco_projetos.asp), the Inter-ministerial Commission on Global Climate Change's (<http://www.mct.gov.br/index.php/content/view/3881.html>) and the **CDM** Executive Board's (<http://cdm.unfccc.int/Projects/DB/DNV-CUK1134130255.56>, Bandeirantes Landfill Gas to Energy Project, and <http://cdm.unfccc.int/Projects/DB/DNV-CUK1145141778.29>, São João Landfill Gas to Energy Project).

2.2 MINIMUM PRICE

- 2.2.1 The minimum bid price to purchase the **CERs** shall be calculated based on the application of a forty percent (40%)

discount on the simple arithmetic average of the December 2008 settlement prices for forward sales of European Union Allowances traded on the European Climate Exchange (**ECX**) during the last ten trading sessions preceding the last business day before the **AUCTION** date, as published on the **ECX** Website: www.europeanclimateexchange.com, or as provided by the vendors' information system.

2.2.2 The minimum price shall be disclosed by **BM&FBOVESPA** on its Website (www.bmf.com.br/carbonauction) as of 10:00 a.m., Brasília time, on the last working day preceding the **AUCTION** date.

2.3 DATE AND TIME

2.3.1 The **AUCTION** shall take place on the 25th of September of 2008, at 8:30 am, Brasilia time (11:30 UCT).

2.4 ACCESS TO THE AUCTION SYSTEM

2.4.1. Access to the **BM&FBOVESPA** Electronic Trading System (**SYSTEM**), through which the **AUCTION** shall take place, shall be provided online via the Website www.bmf.com.br/carbonauction, where **PARTICIPANTS** duly registered in advance as **BIDDERS, BROKERS, SPECIALIZED COMPANIES** and **FINANCIAL INSTITUTIONS**, as defined in sub-items II and III of item 3.2.3, shall have the opportunity to submit bids, whereas the public in general shall have the opportunity to follow the **AUCTION** in real time.

2.4.2 In the event of problems or difficulties entering bids, **PARTICIPANTS** shall be required to contact the **SUPERVISOR** by e-mail (supervisor@bmf.com.br) to request registration of bids in their names.

2.4.2.1 A request, as set forth in item 2.4.2, shall necessarily include the **PARTICIPANT's** login, password and identification code, pursuant to item 3.2.10.

CHAPTER 3 – AUCTION PARTIES AND PARTICIPANT QUALIFICATIONS

3.1 PARTIES

3.1.1 The following **PARTICIPANTS** participate in the **AUCTION**:

I – **SUPERVISOR**, namely, **BM&FBOVESPA**, SYSTEM manager, headquartered in the city of São Paulo;

- II – **SELLER**, or the **MUNICIPAL GOVERNMENT**, to be represented by the Adjunct Administration Secretary;
- III – **BIDDERS**, or the parties interested in purchasing the **CER** duly qualified in advance by the **SUPERVISOR** to participate in the **AUCTION** either directly or indirectly;
- IV – **BROKERS**, the **BM&FBOVESPA** member Commodities Brokerage Houses duly qualified in advance by **BM&FBOVESPA** to specifically participate in the **AUCTION**;
- V – **SPECIALIZED COMPANIES** and **FINANCIAL INSTITUTIONS** referred to in sub-items II and III of item 3.2.3, duly qualified in advance by the **SUPERVISOR** to participate in the **AUCTION**.

3.2. PARTICIPANT QUALIFICATIONS

- 3.2.1 Any and all legal entities established in Brazil or abroad may participate in the **AUCTION**, either directly or indirectly, as long as they meet the requirements set forth in this **NOTICE OF INVITATION TO TENDER**.
- 3.2.2 The interested parties that fulfill the requirements set forth in one of the following categories shall be entitled to qualify in order to directly participate in the **AUCTION**:
 - I – national, state and municipal governments, as well as governments of administrative regions within Parties included in Annex I of the Kyoto Protocol;
 - II – multilateral financing organizations, investment promotion agencies, and national and international development banks which may be involved in developing and financing **CDM** projects and/or **CER** trading;
 - III – investment funds active in the international carbon market duly authorized in advance to operate by the regulatory agency of their respective countries.
 - IV – holders of accounts in the **CDM** Registry, the Japanese National Registry, the New Zealand National Registry or a national registry of a European Emission Trading Scheme (EU ETS) member state.
- 3.2.3 Interested parties that do not qualify in any of the categories listed in item 3.2.2 may indirectly participate in the **AUCTION** through a **REPRESENTATIVE PARTICIPANT**, such as:

- I – **BROKER**, duly empowered in advance to trade in the **BM&FBOVESPA** Carbon Market;
- II – **SPECIALIZED COMPANY**, with expertise in originating, structuring and/or intermediating CER purchase and sale transactions, which must be a member of the International Emissions Trading Association (**IETA**) or an affiliate of a group that meets this requirement, or have access to an established exchange where carbon credits are traded, and also be duly authorized in advance to trade in the **BM&FBOVESPA** Carbon Market; or
- III – **FINANCIAL INSTITUTION**, duly authorized in advance to trade in the **BM&FBOVESPA** Carbon Market, which must also be an **IETA** member or an affiliate of a group that meets this requirement, or have access to an established exchange where carbon credits are traded.

3.2.3.1 The **PARTICIPANTS** referred to in sub-items I to III of item 3.2.3 may also take part in the **AUCTION** as **BIDDERS**, submitting bids in their own names.

3.2.4 The interested parties that wish to participate in the **AUCTION** as **BIDDERS**, either directly or as a **REPRESENTATIVE PARTICIPANT**, shall be required to submit a prior authorization request from the **SUPERVISOR** accompanied by the documents listed in item 3.2.5 by no later than sixteen (16) working days prior to the **AUCTION** date.

3.2.4.1 Authorization requests delivered and/or registered with the **SUPERVISOR** after the time period set forth in item 3.2.4 of this **NOTICE OF INVITATION TO TENDER**, even if posted before that deadline, shall not be accepted.

3.2.5 The authorization request must be sent to the **SUPERVISOR** by mail or any express courier system to Praça Antonio Prado, 48, 4º andar, São Paulo, SP, CEP 01010-901, Brazil – C/O: Central de Cadastro de Participantes, Ref.: Leilão de RCE) or through the e-mail address: supervisor@bmf.com.br, along with the articles of incorporation of the interested institution and the following documentation duly signed by its legal representative through the proper representation instrument:

- I – Registration Form, duly filled out, as per the model in Annex II;
- II – statement confirming knowledge and acceptance of, adherence to, and compliance with the requirements for participation and the trading rules set forth in this **NOTICE**

OF INVITATION TO TENDER, as per the model in Annex III;

- III – documents evidencing compliance with one of the categories set forth in item 3.2.2 or 3.2.3, as the case may be; and
- IV – for the interested parties incorporated in Brazil, the following certificates: (a) certificate attesting that there are no outstanding municipal fiscal debts, issued by the Municipal Government of the locality where the interested party is headquartered; (b) proof of registration in the National Corporate Taxpayer Registry (CNPJ) of the Ministry of Finance (MF); (c) certificate of good standing in the Government Severance Indemnity Fund for Employees (FGTS)²; (d) certificate of good standing in the National Social Security System (INSS)³; and (e) statement by the interested party, signed by its legal representative, attesting that no debt is owed to the São Paulo Municipal Government, in the event the interested party is not registered as a taxpayer in the city of São Paulo.
- V. corporate documents, a statement of similar document empowering the institution's legal representative.

3.2.5.1 In the event that any interested party has previously participated in the **MUNICIPAL GOVERNMENT**'s CER auction held by BM&F on September 26, 2007, such party is hereby exempted from submitting its articles of incorporation as well as the documents described under clause III and V of item 3.2.5, provided it states, under the terms of the model form in Annex IV that the original documents submitted on said occasion remain valid.

3.2.6 The documentation required for the authorization process must be sent to the **SUPERVISOR** in Portuguese or English as laid down in item 3.2.5. An e-mail address must also be provided for all further communication with the **SUPERVISOR**.

3.2.7 The interested parties wishing to qualify and be authorized as **BIDDERS** to participate indirectly by submitting their bids pursuant to the provisions of item 3.2.3 of this **NOTICE OF INVITATION TO TENDER** must request their authorization through a **REPRESENTATIVE PARTICIPANT** within the time period set forth in item 3.2.4.

² FGTS is a Retired Employees' Pension Fund

³ Brazilian Social Security Institute.

- 3.2.7.1 In addition to the documentation referred to in item 3.2.5, the authorization request, pursuant to item 3.2.7, should necessarily be accompanied by a private power of attorney, in the form of the model in Annex V, whereby the **REPRESENTATIVE PARTICIPANT** shall be granted specific powers to represent the **BIDDER** in the **AUCTION**.
- 3.2.8 The submitted documentation shall be jointly examined by the **SUPERVISOR** and the **MUNICIPAL GOVERNMENT**, which shall inform the interested parties of whether or not they have been authorized within eleven (11) working days before the **AUCTION** date, whereas within this same period the **SUPERVISOR** may request, via e-mail address supervisor@bmf.com.br, any supplementary clarifications which are deemed appropriate.
- 3.2.8.1 The answers to any clarification requests must be sent by the interested party within two (2) working days following their receipt to e-mail supervisor@bmf.com.br or facsimile number +55 (11) 3101-0028.
- 3.2.8.2 The interested parties that submit supplementary clarifications shall be informed of their authorization or rejection within eight (8) working days before the **AUCTION** date.
- 3.2.9 Under the terms of item 3.2.8, a decision denying authorization to an interested party may only be appealed once to the **SUPERVISOR** and the **MUNICIPAL GOVERNMENT** within five (5) working days following the date on which such decision was notified. The filing of the aforementioned appeal does not discharge the appellant from pledging the initial collateral within the terms set forth in item 4.1.1.
- 3.2.9.1. The appeal shall be decided, in conjunction, within two (2) working days before the **AUCTION** date, whereas the decision shall be informed to the interested party through the e-mail referred to in item 3.2.6.
- 3.2.10 The log-in and password to access the **SYSTEM** and the **BIDDERS'** identification code shall be sent by the **SUPERVISOR** to the **PARTICIPANTS** authorized for direct access to the **AUCTION**, or to their representatives identified in sub-item I, II, or III of item 3.2.3 by e-mail within no later than one (1) working day before the **AUCTION** date.

CHAPTER 4 - COLLATERAL

4.1 COLLATERAL TO BE PLEDGED BY BIDDERS

- 4.1.1. All **BIDDERS** shall be required to pledge initial collateral in the amount of four hundred thousand Euros (€ 400,000) within five (5) working days before the **AUCTION** date.
- 4.1.1.1 For **PARTICIPANTS** wishing to pledge collateral in Brazil, this amount shall be converted into Brazilian Reals by using the PTAX closing bid quotation for the exchange rate of Reals per Euro corresponding to the fifteenth (15th) working day preceding the **AUCTION** date.
- 4.1.2 The **REPRESENTATIVE PARTICIPANT** may take responsibility for all the obligations of the represented **BIDDERS**, pursuant to item 3.2.7, in which case the **REPRESENTATIVE PARTICIPANT** may pledge a single collateral, in the **REPRESENTATIVE PARTICIPANT**'s own name and in the amount referred to in item 4.1.1, which shall guarantee the obligations arising from the **REPRESENTATIVE PARTICIPANT**'s and the represented **BIDDERS**' participation in the **AUCTION**.
- 4.1.2.1 The responsibility taken pursuant to item 4.1.2 shall not include the obligations assumed by the **WINNING BIDDER**, whereby the **WINNING BIDDER** must pledge additional collateral in the **WINNING BIDDER**'s own name.
- 4.1.3 The **SUPERVISOR** shall undertake to obtain advanced confirmation of the collateral constituted by the **BIDDERS** or their **REPRESENTATIVE PARTICIPANTS**, and shall inform its acceptance or not via e-mail within up to one (1) working day prior to **AUCTION** date.
- 4.1.4 The following assets shall be eligible as collateral:
- I – securities issued by the National Treasury of the Federative Republic of Brazil: National Treasury Bills (LTN), Treasury Financial Bills (LFT), National Treasury Notes C Series (NTN-C) or National Treasury Notes B Series (NTN-B), which must be pledged in favor of the **SUPERVISOR** pursuant to Annex VI (please check the remaining annexes) and transferred to the custody account of the **BM&F Settlement Bank** maintained in the

Special Settlement and Custody System (SELIC)⁴ under number 79700540-8; or

- II – standby letters of credit, pursuant to the models in Annex VII, and submitted as collateral to Bank of Brazil, London branch, England, United Kingdom.
- 4.1.5 The federal securities referred to in sub-item I of item 4.1.4 pledged as collateral shall be accepted according to their market prices verified on the date of their pledge and the haircut criteria established by the **SUPERVISOR** and published on its Website www.bmf.com.br/carbonauction.
- 4.1.6 The standby letters of credit referred to in sub-item II of item 4.1.4 shall necessarily be issued by one of the banks listed in Annex VIII of this **NOTICE OF INVITATION TO TENDER** and confirmed by Bank of Brazil, London branch.
- 4.1.7 Pledged collateral, net of any amounts due to the **SUPERVISOR**, shall be released following a communication to be made by the **SUPERVISOR**:
- I – on the working day subsequent to the **AUCTION** for the losing **BIDDERS** or their **REPRESENTATIVE PARTICIPANTS**; or
 - II – on the business day subsequent to payment date of the **CER**, for the **WINNING BIDDER**.
- 4.1.8 By no later than the tenth (10th) working day after the **AUCTION** date, the **WINNING BIDDER** shall be required to submit additional collateral, in the form of the eligible assets referred to in item 4.1.4, up to the total financial amount of the purchased **CER**, which shall be calculated by multiplying the winning bid price by seven hundred and thirteen thousand (713.000), which is the number of CER on offer and the subsequent application of the **AUCTION**'s trading costs, defined as twenty five hundredths of a percent (0.25%) of the total financial amount of the acquisition whereas **BM&FBOVESPA** shall report such event to **MUNICIPAL GOVERNMENT** within a period of five (5) working days.
- 4.1.9 Pledged collateral may be executed by the **BM&F Settlement Bank**:
- I – in the event that the **WINNING BIDDER** fails to deposit the total financial amount of the purchased **CER** added by the auction's trading costs, as set forth in items 5.7.1 and 5.7.2; or

⁴ "Special System for Settlement and Custody".

- II – in the event that the rules set forth in this **NOTICE OF INVITATION TO TENDER** are violated and the corresponding fines, if any, are not paid.
- 4.1.10 The **BIDDERS** may, at their own discretion, pledge cash collateral (in Reals), in the amount set forth in item 4.1.1 and in observance of the exchange rate set forth in item 4.1.1.1, in which case they shall be exempted from the obligation to pledge initial collateral in any of the forms referred to in item 4.1.4.
- 4.1.10.1 Cash collateral pledged pursuant to the provisions of item 4.1.10 shall be considered an initial payment for the **WINNING BIDDER**.
- 4.1.11 At the **WINNING BIDDER**'s own discretion, the **WINNING BIDDER** may also deposit cash (in Reals) in the account set forth in item 4.1.12, in an amount corresponding to the balance of the total amount payable for the purchased **CER**, in which event the **WINNING BIDDER** shall be freed from the obligation to submit the additional collateral referred to in item 4.1.8. The cash amount to be deposited shall be calculated by converting the value referred to in item 4.1.8 into Reals, through the multiplication of that value by the PTAX closing bid quotation for the exchange rate of Reals per Euro corresponding to the **AUCTION** date.
- 4.1.11.1 Cash deposited pursuant to the provisions of item 4.1.11, plus cash deposited pursuant to the provisions of item 4.1.10 shall be considered an advance payment.
- 4.1.11.2 In the events referred to in items 4.1.10 and 4.1.11, **BM&FBOVESPA** shall pay interest on cash deposited by applying one-hundred percent (100%) of the Interbank Deposit Overnight (DI CETIP) rate from the date of the actual deposit to the date of its transfer to the **MUNICIPAL GOVERNMENT**, including fines, or the date when pledged collateral is reimbursed to the **BIDDERS**, net of taxes charged over financial applications made to guarantee the aforementioned rate, observing the applicable taxation on paid or reimbursed amounts.
- 4.1.12 The amounts referred to in items 4.1.10 and 4.1.11 shall be deposited in the account number 379-6 held by **BM&FBOVESPA** enrolled under the Corporate Taxpayer Registry (CNPJ) number 09.346.601/0001-25 at the **BM&F Settlement Bank** (bank 096), branch 0001.

- 4.1.12.1 The losing **BIDDERS** shall have their funds returned to their corresponding payment source accounts within the time frame set forth in item 4.1.7.

CHAPTER 5 – AUCTION PROCESS

5.1 AUCTION ORGANIZATION

- 5.1.1 The **AUCTION** shall be held through the **SYSTEM**, under the command of the **SUPERVISOR**, and it may be accessed by the **PARTICIPANTS** and the public in general through the Website www.bmf.com.br/carbonauction.
- 5.1.2. **AUCTION** and **AUCTION**-related proceedings shall meet the conditions set forth in this **NOTICE OF INVITATION TO TENDER**.
- 5.1.3 The **SYSTEM**'s technical specifications are defined in the document "Functionalities of the BM&FBOVESPA Carbon Credit Trading System – User's Manual," which is included in Annex IX of this **NOTICE OF INVITATION TO TENDER**.
- 5.1.4 The **AUCTION** shall only take place if at least three (3) **BIDDERS** qualify and pledge the initial collateral within the time frame and in the form set forth in this **NOTICE OF INVITATION TO TENDER**.
- 5.1.4.1 In the event that the minimum number of **BIDDERS** referred to in item 5.1.4 is not present, the **AUCTION** shall be cancelled, and the collateral pledged shall be returned on the working day following the date scheduled as the **AUCTION** date, while no indemnity of whatever kind shall be due, by the **SUPERVISOR** or the **MUNICIPAL GOVERNMENT**, to the **BIDDERS**, to the **REPRESENTATIVE PARTICIPANTS** or to any other interested party.
- 5.1.5 The **SUPERVISOR** shall be responsible for compliance with all trading and settlement rules set forth in this **NOTICE OF INVITATION TO TENDER** as well as for the following activities:
- I - **AUCTION** organization and management;
 - II - assessment of the documentation required from the parties interested in qualifying as **PARTICIPANTS**;
 - III - **PARTICIPANT** registration;
 - IV - analysis of pledged collateral;
 - V - operation of the **SYSTEM**;
 - VI - cash settlement of performed transaction;

- VII - any treatment of pledged collateral; and
 - VIII- exclusion of **PARTICIPANTS** that violate the rules set forth in this **NOTICE OF INVITATION TO TENDER**.
- 5.1.6 The **AUCTION** shall be held in a single Trading Session, as set forth in item 5.2.8.
- 5.1.7 Bids shall be offered by the **BIDDERS**, directly or through their **REPRESENTATIVE PARTICIPANTS**, by placing orders into the **SYSTEM**, in observance of the conditions set forth in this **NOTICE OF INVITATION TO TENDER**.
- 5.1.8 The specification of quantity, price and **BIDDER** identification code shall mandatorily be included in the bid for order registration purposes.
- 5.1.8.1 The specified quantity shall always be seven hundred and thirteen thousand (713.000) **CER**.
 - 5.1.8.2 The price must be set in Euros and shall be equal to or higher than the minimum price referred to in item 2.2 of this **NOTICE OF INVITATION TO TENDER**.
 - 5.1.8.3 The tick size shall be in multiples of ten Euro cents (€0.10).
- 5.1.9 Each **BIDDER** shall be entitled to one bid during the **AUCTION**, which may subsequently be modified provided such modification is intended to increase the price previously submitted by the corresponding **BIDDER**.
- 5.1.10 A submitted bid shall not be subject to cancellation except by decision of the **SUPERVISOR** against a substantiated request from the corresponding **PARTICIPANT**.
- 5.1.10.1 The cancellation request must be sent to the **SUPERVISOR** by using the **SYSTEM** messaging tool, or e-mail (supervisor@bmf.com.br), immediately after insertion of the corresponding bid into the **SYSTEM**.
 - 5.1.10.2 A possible decision by the **SUPERVISOR** to deny a cancellation request shall not be subject to appeal.
 - 5.1.10.3 Should a bid be cancelled, the **SUPERVISOR** shall notify the other **PARTICIPANTS** through the **SYSTEM**.
- 5.1.11 The **AUCTION** shall last not less than sixty (60) minutes, but it might be extended for an additional period in the event that:

- I – a price dispute takes place pursuant to the provisions of item 5.2.7 of this **NOTICE OF INVITATION TO TENDER**;
or
 - II – technical problems are experienced by the **SYSTEM**.
- 5.1.12 At the end of the **AUCTION**, the **SUPERVISOR** shall register in the **SYSTEM** an order to sell the **CER** in the name of the **MUNICIPAL GOVERNMENT**, in the same quantity and at the same price as those of the best bid registered in the **AUCTION**, solely for matching purposes.
- 5.1.12.1 The sale order registration in the name of the **MUNICIPAL GOVERNMENT** shall imply the closing of both the transaction and the **AUCTION**.
- 5.1.13 By no later than the working day subsequent to the **AUCTION** date, the **SUPERVISOR** shall disclose on its Website (www.bmf.com.br/carbonauction) the minutes of the **AUCTION** describing its events, such as submitted bids, the electronic messages sent by the **SUPERVISOR** and the **PARTICIPANTS**, and should the transaction be closed the corresponding data with the name of the **WINNING BIDDER** and the price.
- 5.1.14 The **SUPERVISOR** shall send to the **WINNING BIDDER** a statement showing transaction details by no later than the working day following the **AUCTION**.

5.2 AUCTION PROCEDURES

- 5.2.1 The **AUCTION** trading session shall be initiated by the **SUPERVISOR** at the time defined in this **NOTICE OF INVITATION TO TENDER** by means of a message to be sent to the **PARTICIPANTS** through the **SYSTEM**, in order to officially open the **AUCTION**.
- 5.2.2 After such message is sent by the **SUPERVISOR**, bids shall be entered into the **SYSTEM** by the **BIDDERS**, and they shall be classified in a decreasing priority order for trading purposes, under the exclusive criterion of the highest price.
- 5.2.3 In the event that more than one order presents equal bid prices, the chronology of the orders registered into the **SYSTEM** shall prevail for trading purposes, at all times prioritizing the oldest bid registered.
- 5.2.4 **BIDDERS** can only modify their orders by submitting new bids at a price higher than those previously presented by the corresponding **BIDDER**.

- 5.2.4.1 No modifications to reduce a price previously submitted by the **BIDDERS** shall be accepted.
- 5.2.4.2 A bid cancellation shall be subject to a prior concurrence of the **SUPERVISOR**, pursuant to the provisions of item 5.1.10 of this **NOTICE OF INVITATION TO TENDER**.
- 5.2.5 Should a **BIDDER** modify the bid price pursuant to the provisions of item 5.2.4, the order shall be reclassified by the **SYSTEM**, which shall take into account the new price and registration time of the modified bid for trading purposes.
- 5.2.6 At the end of the **AUCTION**, it shall be closed by the **SUPERVISOR** through a signaling procedure called “under the electronic gavel” to be sent through the messaging tool, whereby each “fall of the gavel” is fed into the **SYSTEM** to alert the **PARTICIPANTS**.
- 5.2.7 The **AUCTION** shall be closed after three (3) consecutive electronic gavels. The counting shall be reinitiated within two (2) minutes, before the third electronic gavel, in observance of the maximum **AUCTION** duration time frame set forth in item 5.1.11 of this **NOTICE OF INVITATION TO TENDER**, whenever any of the following events occur:
- I – a new order with the highest bid price is registered; or
 - II – the order with the highest bid price hitherto registered is cancelled.
- 5.2.8 In the event of a **SYSTEM** failure, the **AUCTION** shall be suspended and reinitiated for as long as required to ensure it lasts at least sixty (60)-minute. Should the **SYSTEM** not restart operations in at least one (1) hour after failure, the **AUCTION** shall be reinitiated on the following working day at the same hour by considering the events which occurred on the day the **SYSTEM** failed as well as all bids entered on such day.

5.3 TRADE SETTLEMENT

- 5.3.1 Trade settlement shall consist of:
- I – the physical delivery of the purchased **CER**, with their ownership transferred to the **WINNING BIDDER**; and
 - II – the cash settlement of the total financial amount of the purchased **CER**, with transfer of the amount traded in the **AUCTION** to the **MUNICIPAL GOVERNMENT**.

- 5.3.2 The **MUNICIPAL GOVERNMENT** shall take responsibility for the proper and orderly **CER** forwarding to the **WINNING BIDDER**. The **WINNING BIDDER** must then provide all documentation evidencing approval of the **WINNING BIDDER's** participation in the **PROJECTS** issued by the **WINNING BIDDER's** country's Designated National Authority (**DNA**), under the **CDM** rules.
- 5.3.3 Cash settlement shall be coordinated by the **SUPERVISOR** and shall only occur after **AUCTION** physical delivery is effected.
- 5.3.4 The **SUPERVISOR** may resort to the services of a financial institution, which shall be paid and contracted by the **SUPERVISOR**, at its own discretion, in order to effect the **AUCTION** cash settlement.
- 5.3.5 The transaction shall be settled, in accordance with the procedures set forth in this **NOTICE OF INVITATION TO TENDER**, by means of the transfer of the **CER** into the account within the scope of the **CDM** Registry - or on a National Registry System linked to the International Transaction Log (ITL) - as informed by the **WINNING BIDDER**, and the subsequent funds transfer from the **WINNING BIDDER** to the account of the **MUNICIPAL GOVERNMENT**, to be carried out by order of the **SUPERVISOR**.
- 5.3.6. Under no circumstances shall **BM&FBOVESPA** and its Clearinghouses take the counterparty position for the purpose of the settlement of the transaction closed at the **AUCTION**, in conformity with Law 10214, of March 27, 2001, and applicable regulation.

5.4 PHYSICAL DELIVERY

- 5.4.1 Within five (5) working days after the **AUCTION** date, the **MUNICIPAL GOVERNMENT** and **BIOGÁS** shall forward all the necessary documentation to the DNA of the country of origin of the **WINNING BIDDER** of the **AUCTION**, so that the **WINNING BIDDER** can obtain the letter(s) of approval to act as a **PROJECT PARTICIPANT**, forwarding a copy to the **SUPERVISOR**.
- 5.4.1.1 In the event that the **WINNING BIDDER** is incorporated in Brazil, the **MUNICIPAL GOVERNMENT** shall send the **DNA** the documentation needed to update the **PROJECTS**, in order to add the **WINNING BIDDER** as its new Participant.

- 5.4.1.2 The **WINNING BIDDER** hereby declares that it shall not be involved in decision making of any kind related to the issuance and distribution of the **CER**, except for those purchased in the **AUCTION**, and that it shall specifically and irrevocably authorize the **MUNICIPAL GOVERNMENT** and **BIOGÁS** to decide on any subject matter related to **CER** resulting from the **PROJECTS**.
- 5.4.1.3 The **MUNICIPAL GOVERNMENT** and **BIOGÁS** shall remain as the sole parties authorized as Focal Point to communicate with the **CDM** Executive Board and **SECRETARIAT** with respect to any amendments to the **PROJECT PARTICIPANTS** and/or any relevant subject matters concerning the **PROJECTS**, specially with respect to any and all instructions concerning **CER** issuance and distribution and/or allocation, as well as the Modalities of Communication which shall be jointly signed by the **MUNICIPAL GOVERNMENT** and **BIOGÁS** as Focal Points.
- 5.4.2 Within ninety (90) days after the **AUCTION** date, the **WINNING BIDDER** shall be required to provide the **MUNICIPAL GOVERNMENT**, at the address: Viaduto do Chá, nº 15, 12º andar, Centro, a copy of the letter(s) of approval duly issued by the DNA of the **WINNING BIDDER**'s country of origin, which shall contain the authorization for the **WINNING BIDDER** to act as a **PROJECT PARTICIPANT**, forwarding via e-mail address supervisor@bmf.com.br copies of all letters to the **SUPERVISOR**.
- 5.4.3 The **MUNICIPAL GOVERNMENT** shall forward to the **CDM** Executive Board within five (5) working days after their receipt, the amended Modalities of Communication duly filled out and initialed by the parties responsible for the **PROJECTS**, accompanied by the letter(s) of approval issued by the **WINNING BIDDER**'s country of origin requesting the inclusion of the **WINNING BIDDER** as a **PARTICIPANT** of the **PROJECTS** and giving the **SUPERVISOR** notice of such forwarding.
- 5.4.3.1 The Modalities of Communication shall be signed by the **PROJECT**'s Focal Points and make reference to the exact number of **CER** traded in the **AUCTION**. It shall be incumbent on the **MUNICIPAL GOVERNMENT** to obtain the signatures of all other **PROJECT PARTICIPANTS**.

- 5.4.3.2 The **WINNING BIDDER**, like all other **PROJECT PARTICIPANTS**, shall be required to sign the new versions of the Modalities of Communication, stating that under no circumstance will the **WINNING BIDDER** be considered a Focal Point of the **PROJECTS**.
- 5.4.4 Should the **WINNING BIDDER** not hold an account in its name in the **CDM** Registry, the **WINNING BIDDER** shall be required to issue a request for the opening of such account within five (5) working days after its inclusion by the **CDM** Executive Board as a **PROJECT PARTICIPANT**, except if the **WINNING BIDDER** holds an account on a National Registry System linked to the International Transaction Log (ITL).
- 5.4.5 Establishing an account in the **CDM** Registry or on a National Registry linked to the ITL, must be notified by the **WINNING BIDDER** to the **SUPERVISOR** within the time frame referred to in item 5.4.4 to the following e-mail address: supervisor@bmf.com.br.
- 5.4.5.1 Within five (5) working days after the communication referred to in item 5.4.5, the **MUNICIPAL GOVERNMENT** shall send to the **CDM** Executive Board the request, signed by the **PROJECTS'** Focal Points, to forward the **CER** traded in the **AUCTION** to the account indicated by the **WINNING BIDDER** and give notice to **SUPERVISOR**.
- 5.4.5.2 In the event that the **WINNING BIDDER** became a **PROJECT PARTICIPANT** prior to the **AUCTION** date, all transfer requests referred to in item 5.4.5.1 shall be forwarded within a period of five (5) working days as of the day collateral posting is completed by the **WINNING BIDDER**, pursuant to item 4.1.8.
- 5.4.5.3. In the event that the **WINNING BIDDER** became a **PARTICIPANT** in only one of the **PROJECTS** prior to the **AUCTION** date, the transfer requests referred to in item 5.4.5.1 shall be forwarded – within a period of five (5) working days subsequent to communication being made to the **MUNICIPAL GOVERNMENT** that the **WINNING BIDDER** was included by the **CDM** Executive Board as a Participant in the other (missing) **PROJECT**.
- 5.4.6 The **MUNICIPAL GOVERNMENT** shall be responsible for the proper and correct forwarding of the **CER** traded in the **AUCTION**, undertaking whatever measures are necessary vis-à-

vis all other **PROJECT PARTICIPANTS** and the **CDM** Executive Board, in order to transfer the **CER** ownership in the manner set forth in this **NOTICE OF INVITATION TO TENDER** and in applicable national and international regulations.

5.4.6.1 The **MUNICIPAL GOVERNMENT** and **BIOGÁS**, both in the capacity of **PROJECT PARTICIPANTS** and Focal Points, hereby commit, irrevocably and irreversibly, to effect the **CER** forwarding to the **WINNING BIDDER**, pursuant to the Term of Responsibility delivered to the **SUPERVISOR**, which is an integral part of this **NOTICE OF INVITATION TO TENDER**, as per Annex X.

5.4.7 The **MUNICIPAL GOVERNMENT** and the **WINNING BIDDER** shall be responsible for undertaking all measures that are incumbent on them under the provisions of this **NOTICE OF INVITATION TO TENDER**, for physical delivery purposes.

5.4.8 After the **CER** are forwarded to the account of the **WINNING BIDDER**, the **MUNICIPAL GOVERNMENT** shall inform the **SUPERVISOR** that the physical delivery procedures have been effected.

5.5 CASH SETTLEMENT

5.5.1 The **AUCTION** cash settlement and any collateral execution shall both be performed through the **BM&F Settlement Bank**.

5.5.2 Within no later than ten (10) working days after the communication referred to in item 5.4.8, the **WINNING BIDDER** shall transfer the funds corresponding to the bid price accepted for the **CER** in the **AUCTION**, plus the **AUCTION**'s trading costs, in observance of the provisions set forth in item 5.7.

5.5.2.1 Should the payment be effected in Brazil, the corresponding Real amount must be transferred to the account held by **BM&FBOVESPA** at the **BM&F Settlement Bank** through an Available Electronic Transfer (TED), pursuant to item 4.1.12.

5.5.2.2 Should the payment be effected abroad, payment must be made using the following information: "Pay To: HSBC Bank PLC, London [SWIFT: MIDLGB22], Account Name: Banco do Brasil, London [SWIFT: BRASGB2L], IBAN: GB96 MIDL 4005 1558 7475 65, For Further Credit to: Banco BMF de Servicos de Liquidacao e Custodia [SWIFT: BBMFBRSP], IBAN: GB67 BRAS 4050 4720 3539 99."

- 5.5.3 Should payment be made by the **WINNING BIDDER** in Brazil (item 5.5.2.1), the amount to be transferred shall be calculated based on the conversion of the amount due in Euros into Reals, at the PTAX closing bid quotation for the exchange rate of Reals per Euro prevailing upon closing applicable two days preceding the payment date.
- 5.5.4 Confirmation of the funds transfer shall satisfy the **WINNING BIDDER's** obligations and shall be a precondition for releasing the initial and additional collateral pledged by the **WINNING BIDDER**.
- 5.5.4.1 The cash amount deposited by the **WINNING BIDDER** pursuant to items 4.1.10 and 4.1.11 shall be deemed an advance payment and shall exempt the **WINNING BIDDER** from making a new pledge or deposit.
- 5.5.5 Within ten (10) business days after the payment referred to in item 5.5.2.2, the **SUPERVISOR** shall settle the payment by transferring the corresponding amount in local currency to the account indicated by the **MUNICIPAL GOVERNMENT**.
- 5.5.5.1. The foreign exchange contract for entry of foreign currency paid by the **WINNING BIDDER** shall be drawn up by the **SUPERVISOR** at the market exchange rate prevailing upon closing the said foreign exchange contract.

5.6 HANDLING SETTLEMENT ERRORS

- 5.6.1 Errors in the settlement process may be characterized by the failure of one or more of the following events to occur within the time frame and conditions specified in this **NOTICE OF INVITATION TO TENDER**:
- I – confirmation of the pledge of the additional collateral referred to in item 4.1.8;
 - II – delivery of the letter(s) of approval referred to in item 5.4.2;
 - III – request for inclusion of the **WINNING BIDDER** as **PARTICIPANT** of the **PROJECTS** pursuant to in item 5.4.3;
 - IV – request to open or make available an account in the **CDM** Registry, or a National Registry linked to the ITL, pursuant to item 5.4.4;

- V – request for the **CER** forwarding referred to in item 5.4.5.1; and/or
- VI – payment referred to in item 5.5.2.
- 5.6.2 In the event that the **WINNING BIDDER** does not pledge the additional collateral referred to in item 4.1.8, the initial collateral pledged pursuant to the provisions of item 4.1.4 shall be executed, and the proceeds shall be transferred to the **MUNICIPAL GOVERNMENT** by taking into consideration the discount needed to cover the **SUPERVISOR**'s related costs.
- 5.6.3 Should the **WINNING BIDDER** not obtain the letters of approval from the **DNA** of its country of origin to be able to act as a **PROJECT PARTICIPANT** , or should the **WINNING BIDDER** not inform its account in the **CDM** Registry, or a National Registry System linked to the ITL, within the time frame referred to in this **NOTICE OF INVITATION TO TENDER**, the **WINNING BIDDER** shall be subject to a fine corresponding to twenty percent (20%) of the initial and additional pledged collateral, to be payable – within a period of up to five (5) working days - to the account informed by the **SUPERVISOR** by e-mail or any other means of communication chosen by the **SUPERVISOR**, at its own discretion.
- 5.6.4 In the event that, after the **CER** forwarding, the funds transfer referred to in item 5.5.2 is not made, the initial and additional collateral pledged by the **WINNING BIDDER** shall be executed by the **SUPERVISOR**, and the proceeds shall revert to the benefit of the **MUNICIPAL GOVERNMENT**, subject to a discount to cover the **SUPERVISOR**'s operational costs.
- 5.6.5 Should the **CDM** Executive Board, for whatever reason, refuse to accept the inclusion of the **WINNING BIDDER** as a **PARTICIPANT** of the **PROJECTS**, this refusal shall also be considered a settlement error and shall subject the **WINNING BIDDER** to a fine corresponding to ten percent (10%) of the initial and additional pledged collateral, to be payable to the account informed by the **SUPERVISOR** within five (5) working days after such information is given to the **SUPERVISOR** by e-mail or any other means of communication chosen by the **SUPERVISOR**, at its own discretion.
- 5.6.6 Should the **WINNING BIDDER** not pay the fines within the time frame referred to in this **NOTICE OF INVITATION TO TENDER**, the **SUPERVISOR** shall execute the initial and additional pledged collateral proportionately, releasing the remaining balance to the **WINNING BIDDER** after the conclusion of the execution of the amount due.

5.6.6.1 The **WINNING BIDDER** that decides to deposit cash pursuant to items 4.1.10 and 4.1.11 shall authorize the **SUPERVISOR** to use the corresponding funds to pay the fines applied to the **WINNING BIDDER**.

5.7 TRADING COSTS

5.7.1 The **WINNING BIDDER** shall bear a cost equivalent to twenty five hundredths of a percent (0.25%) of the transaction amount, to be payable within the time frame and in the manner referred to in item 5.5 of this **NOTICE OF INVITATION TO TENDER**, due to the **AUCTION**'s operational costs.

5.7.2 The amount referred to in the previous item shall be an integral part of the **AUCTION**'s cash settlement amount as described in item 5.5.2 and shall be added to the value of the transaction upon payment by the **WINNING BIDDER**.

CHAPTER 6 – LIABILITIES AND OBLIGATIONS

6.1 The **SUPERVISOR** shall not be responsible for:

- I – problems resulting from errors relating to Internet access, the Internet service provider adopted by the **BIDDER** or by the **BIDDER**'s **REPRESENTATIVE PARTICIPANTS**, telecommunications services and/or any other events that hinder Internet access to the **SUPERVISOR**'s service network **SYSTEM**;
- II – any technical incompatibilities of the equipment and/or software used by the **BIDDER** or the **BIDDER**'s **REPRESENTATIVE PARTICIPANTS** on the **SYSTEM**, as well as related to the equipment/software origin; or
- III – losses, damages or failure by the **REPRESENTATIVE PARTICIPANTS** referred to in sub-items I to III of item 3.2.3, including vis-à-vis third parties, resulting from the **AUCTION**.

6.2 The **WINNING BIDDER** shall not be charged for any additional expenses arising from the **AUCTION** physical delivery and cash settlement, except for those expressly referred to in this **NOTICE OF INVITATION TO TENDER**.

6.3 Nothing contained in this **NOTICE OF INVITATION TO TENDER** or any other prior or future understanding held between the interested parties shall be construed so as to mean that the **SUPERVISOR**, the **PARTICIPANTS** or any other party or third party are members of a same economic group or joint venture.

- 6.4 Unless otherwise provided in this **NOTICE OF INVITATION TO TENDER**, each one of the parties shall be responsible for the taxes to which they are subject by applicable tax legislation. Should one party be required to bear another party's tax obligation, the former shall be duly reimbursed for the expenses thus incurred.
- 6.5 The **SUPERVISOR** is not a **PROJECT PARTICIPANT**. The **SUPERVISOR** shall only provide the necessary **SYSTEM** for the trading of the **CER**, having no interference in the **PROJECTS** whatsoever, whether technically or legally, directly or indirectly, in such a manner that it is directly or indirectly involved with the **CER** generation activities object of the **AUCTION**.

CHAPTER 7 – SUPERVENING EVENTS AND FORCE MAJEURE

- 7.1 The procedures and acts provided under this **NOTICE OF INVITATION TO TENDER** shall be directly dependent on the success of the different phases of the **AUCTION**. In the emergence of supervening events after publication of this **NOTICE OF INVITATION TO TENDER**, such as changes in the applicable national or international legal system, or legal or administrative decisions that may adversely affect the **AUCTION**, the following may occur:
- I – postponement or cancellation of the **AUCTION**;
 - II – changes, in whole or in part, to this **NOTICE OF INVITATION TO TENDER**, which must then be republished with new time frames; or
 - III – termination of this **NOTICE OF INVITATION TO TENDER**.
- 7.1.1 The occurrence of any of the acts referred to in item 7.1 of this **INVITATION TO TENDER** shall not directly or indirectly imply, at any time and under whatever conditions, an obligation of the **MUNICIPAL GOVERNMENT** or the **SUPERVISOR** to reimburse or indemnify the **BIDDER** or third parties that may possibly have been harmed.
- 7.2 Should any information contained in this **NOTICE OF INVITATION TO TENDER** and its Annexes be modified and/or amended after publication of this **NOTICE OF INVITATION TO TENDER**, the modified and/or amended information must be made public through the same means as those through which this **NOTICE OF INVITATION TO TENDER** was first published.

CHAPTER 8 – GENERAL PROVISIONS

- 8.1 The authorization of any **PARTICIPANT** in the **AUCTION** shall imply unconditional, irrevocable and irreversible acceptance of its terms, rules and conditions, as well as of its Annexes and of all other documents that shall be disclosed and/or published as a result of this **NOTICE OF INVITATION TO TENDER**.
- 8.2 Any and all additional clarification requests related to this **NOTICE OF INVITATION TO TENDER** and its Annexes may be directly sent to the **SUPERVISOR** at its e-mail address (supervisor@bmf.com.br).
- 8.3 Any and all additional clarifications that may be published by the **SUPERVISOR** on the Website www.bmf.com.br/leilaocarbono by the business day prior to the **AUCTION**'s date shall be considered as supplementary information to the **AUCTION**, and they shall not imply any change in the **AUCTION** date or in the time frames referred to in this **NOTICE OF INVITATION TO TENDER**.
- 8.4 The **CER** acquisition and the exercise of the rights and obligations resulting thereof shall at all times be subject to applicable legislation and to the regulations of competent national and international governmental agencies.
- 8.5 Reference in this **NOTICE OF INVITATION TO TENDER** to "working day" shall mean a day that shall not be a national holiday in Brazil, a holiday in the City of São Paulo, a Saturday, or a Sunday.

CHAPTER 9 – JURISDICTION

- 9.1 Any and all disputes arising from this **NOTICE OF INVITATION TO TENDER** and the **AUCTION** shall be settled by mutual understanding negotiated amicably and in good faith between the interested parties.
- 9.2 This **NOTICE OF INVITATION TO TENDER** and the **AUCTION** shall be governed by Brazilian Law. In the event that it is not possible to settle any **PARTICIPANT** disputes amicably, the Court of the Capital City of the State of São Paulo shall be the only one competent to examine and try any matters arising from or related to this **NOTICE OF INVITATION TO TENDER** or this **AUCTION**.