



GOVERNMENT OF THE STATE OF MINAS GERAIS

Minas Gerais State Lottery

Management of Institutional and Marketing Projects

Appendix 1 - Business Modeling - LEMG/GPIM

Belo Horizonte, December 29, 2023.

ANNEX I - BASIC PROJECT / APPENDIX 1:

BUSINESS MODELING

LEMG INTERNATIONAL PUBLIC COMPETITION No. 002/2023

OBJECT

Hiring, exclusively within the territorial limits of the state of Minas Gerais, of an experienced and capitalized Company, to carry out the operational activities inherent to the exploration and operation of Lottery games in the On Line/Real Time System, including the capture of bets in person (Land Based) and digital/virtual (Cyber Space), observing the lottery modalities of prediction games provided for in federal and state legislation, through the granting of strategic planning services, creation of lottery games, implementation and operation of lottery products, marketing, creation and operation of a network of points of sale, marketing of games, development and implementation of websites, virtual gaming platforms, carrying out draws and paying prizes, under a public service concession contract, in accordance with Law 8,666 /1993 and Federal Law nº 8,987/95.

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This document aims to add strategic information for the bidding process for hiring a company to carry out operational activities inherent to the exploration and operation of Lottery games in an On Line/Real Time System, including games in person (Land Based) and digital/virtual (Cyber Space) for the Minas Gerais State Lottery – LEMG and state, observed the lottery modalities of prediction games provided for in federal legislation establishing requirements and rules to guide the preparation of proposals from bidders interested in participating in the aforementioned contest. Thus, in extension to Annex I - Basic Project, it offers additional guidance that will provide potential interested parties with more information to participate in the LEMG of the bidding process. The goal is to succeed in establishing a future dealership in the ideal condition, that is, a business organization that stands out for its technical experience and financial capacity to successfully operate the business in a digital/virtual environment, with quality assurance in all aspects fields of lottery activity. In institutional terms, the public-private partnership sought must have high investment standards, with commitment and efficiency, aiming to achieve performance that exceeds expected market results.

DIAGNOSIS OF THE CURRENT SITUATION**2.1. Experience and Knowledge**

2.1.1. First of all, it is worth highlighting that Loteria Mineira has long and uninterrupted experience in the direct and indirect exploitation of the Lottery Business in Retail, with experience in different commercial regimes, namely:

- a) Own Operation;
- b) Accreditation under Agent Authorization;
- c) Public Permission to Private Partners, and
- d) Public Concession to Private Partners.

2.1.1.1. Through more than a century of evolution in the organization of this market operation, the Autarchy had the opportunity to accumulate sufficient knowledge not only about constructive affirmative points, but, above all, about negative developments, in the form of critical business mishaps, related to each one of the above-mentioned commercial regimes. Today, counting on a very small multidisciplinary team of dedicated employees, permanently zealous of this heritage of knowledge, LEMG remains firm, in consensus, materializing the daily management of the business, without ever neglecting the construction of its continuous development. Thus, by celebrating the past, the harvest of the future is sown in the present, building it with successive new achievements. These are achievements complex, very laborious, but essential, which will further reinforce the image of the Institution, formed by historical relevance, marketing preference and official credibility in the payment of prizes to bettors from Minas Gerais.

2.2. Value Chain in the State Economy

2.2.1. Due to the commercial exploitation of digital/virtual games undertaken by the State Lottery since 1994, always under the concession of Lotteries in an On Line/Real Time System, in person (Land Based) through terminals installed at resellers and, after the COVID-19 pandemic, also remotely (Cyber Space) via the Internet, today we have the Concession Contract still in effect. force with the Intralot do Brasil Consortium. This operation is founded on a **VERY WELL ESTABLISHED VALUE CHAIN IN THE MARKET** in which the generation of employment and income for many thrives mining citizens. It is estimated that thousands of jobs will be involved in the execution of all phases of these lottery products/services. That's it, without any doubt, the formula for success.

STRATEGIC CONCEPT: FUTURE EXPANSION OF THE I-LOTTERY VALUE CHAIN IN MINAS GERAIS.



The Structuring of the Basic Project and Business Modeling will necessarily be permeated by Operational Dynamics Solutions with Adherence to the Vectors explained below:

Formulation to Achieve Success and Continuity!

- The Value Chain concept is defined as the set of activities developed throughout four distinct stages that need to be well managed and integrated throughout the Life Cycle of a Product or Service;
- These are the processes of Design/Innovation, Production, Distribution and Marketing of the Product or Service, so that it reaches the Customer in the best possible way. Each of these four steps has its own challenges and opportunities for increasing productivity and reducing costs;
- This formulation is responsible for analyzing how "Value" is created and added to the Product or Service, through the organization of operations intrinsic to the business, in order to improve the qualitative perception of value delivery by the end Customer.

2.2.2. Thus, in this case, the **AUTHORITY DECIDED TO CONTINUE THE BUSINESS, LOGICALLY OPTING FOR PROPOSITION TO THE MARKET OF THE FORMATION OF A NEW PUBLIC-PRIVATE PARTNERSHIP**, by hiring a company, specialized and capitalized to carry out the operational activities inherent to the exploration and operation of Lottery games in an On Line/Real Time System, **EXCLUDING THE FIXED ODDS BETS (.bet)**, including games in person (Land Based) and digital/virtual (Cyber Space), observing the modalities prediction game lotteries provided for in federal and state legislation, through the granting of strategic planning services, creation of lottery games, implementation and operation of lottery products, marketing, creation and operation of a network of points of sale, marketing of games, development and implementation of websites, virtual gaming platforms, carrying out sweepstakes and paying prizes, under a service concession contract public, exclusively, within the limits of the state territory, under a contractual term qualified as long-term.

2.2.2.1. According to the extract above, a significant part of the presentation released to the market, the **FORMULATION OF THE BUSINESS MODELING IN NEW PUBLIC-PRIVATE PARTNERSHIP TO BE GRANTED**, already proposed in Public Consultation LEMG nº 001/2023, which took place on October 10th, was the to **ENSURE REGULAR CONTINUITY AND REQUIRE INCREMENTAL EXPANSION FOR OPERATIONAL PERFORMANCE, WITH FOCUS TOTAL IN MAGNITUDE AND QUALITY OF RESULTS.**

2.2.2.2. In view of this, aiming to increase the financial result and seek new sources of revenue to support its development and finance projects social services managed by the State Government, in 2023 LEMG began the procedures to carry out the bidding for the concession of the Lotteries operation in On Line/Real Time System.

2.3. Justification and Feasibility of Public - Private Partnership under Concession

2.3.1. For the State Public Power, it is operationally justifiable (technological and commercial innovation) and economically viable to delegate to companies of global competence of lottery games exploitation services through the due bidding procedure, through International Public Competition, in that broad competitiveness is ensured within the strict terms of the constitutional order.

2.3.2. Furthermore, the rationale applicable to the option of delegating the full exploitation of lottery services to private individuals derives from the fact that **LOTERIA DO STATE OF MINAS GERAIS DOES NOT HAVE OPERATIONAL CONDITIONS, BOTH HUMAN MATERIAL AND EQUIPMENT AND TECHNOLOGY, TO DIRECTLY PROVIDE THESE PUBLIC SERVICES**, considered essential for generating resources to be allocated to social programs managed by the State Government.

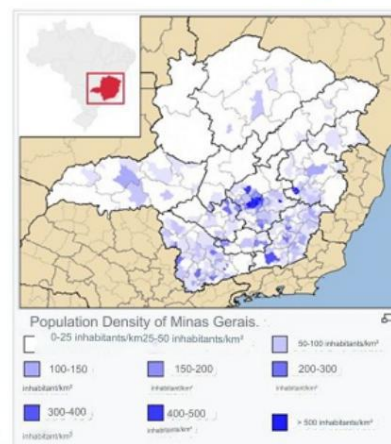
POPULATION DENSITY AND ECONOMIC INDICATORS OF MINAS GERAIS, YEAR 2022.1



State Dimensions Impacting the Lottery Business:

- Annual GDP -> R\$ 258.1 Billion;
- State Population -> 20.5 Million Inhabitants;
- Nominal Monthly Household Income Per Capita - R\$ 1,529;
- State Territory -> 586.5 thousand km² = (Portugal + Spain);
- Population Dispersion across 853 Municipalities -> High;
- Concentration only in 2 metropolitan regions -> BH and Vale do Aço;
- 20 Most Populous Municipalities in MG = 41%.

Ultimately, the result is good conditions for achieving more volume/value!



2.3.3. THE CURRENT CONCESSION, CARRIED OUT BY THE CONCESSIONAIRE INTRALOT SINCE 2010, WILL END IMPORTANTLY

ON THE DATE OF MAY 13, 2025.

2.4. Challenge and Design of the Mineira Lottery

2.4.1. Diligently and cautiously complete the **HIRING OF THE NEW DEALERSHIP WITH A MINIMUM ADVANCE OF TWELVE MONTHS TO THE MENTIONED DATE**, taking care to protect the marketing legacy, embodied in the preference of bettors for the games of our active portfolio, in maintaining the commercial strength of the network of existing points of sale, together with contracted resellers, avoiding any risks of discontinuity in the flow of government and private revenues, as indicated below, in the table showing item 3.2.

2.4.2. From the consolidation of the legacy already established in this business base, the **FOCUS OF THE NEW CONCESSION, ACCORDING TO THE VISION OF LEMG, WILL BE CONQUERED INCREMENTAL VOLUME AND HEGEMONY IN EXPANDED MARKET COVERAGE STATE, UP TO THE RANGE, PROVEN BY A TECHNICAL CENSUS-TYPE AUDIT OF THE DISTRIBUTION NETWORK AT THE END OF THE FIRST FIVE YEAR CYCLE OF EXECUTION OF THE OPERATION, OF THE EFFECTIVE OFFERING OF OUR DIGITAL/VIRTUAL GAMES, BY AT LEAST, IN THE HEADQUARTERS OF ALL 853 MUNICIPALITIES OF MINAS GERAIS. THIS GOAL IS FUNDAMENTALLY STRATEGIC FOR THE GRANTOR.**


2.4.3. **THEREFORE, THE AUTHORITY, IN TURN, WILL PROMOTE AN AWARD TO THE CONCESSIONAIRE IN RECOGNITION FOR THE GOOD WORK DONE AND WILL PROVIDE A FINANCIAL BONUS IN YOUR CASH FLOW, ACCORDING PROVIDED IN SUBITEM 5.2.3.1.**


3. SHARING INFORMATION ABOUT THE CURRENT CONCESSION

3.1. Portfolio of Existing Games in the On Line/Real Time System





3.1.1. These are in-person prediction games (Land Based) made available by Fixed Terminals installed at Points of Sales - POS's, mostly in the Bars, Restaurants and Grocery Store Channels, and remotely in a digital/virtual way (Cyber Space) for personal devices connected to the Internet.





CONDITIONS OF THE i-LOTTERY
PROJECT: ON GOING BUSINESS, MINIMIZED MARKET RISKS.





Creation/Maintenance of Games Portfolio in
the On Line/Real Time System. In-
person (Land Based) and on the Web via Portal.




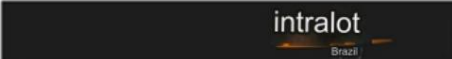


3.1.2. In person (Land Based) provided by Fixed Terminals installed at Points of Sales - POS's, the absolute performance champion o the KENO MINAS game, contributing more than 95% (ninety-five percent) of the Total Gross Collection.



LEMG - LOTTERY OF THE STATE OF MINAS GERAIS

DEALERS' GAMES PORTFOLIO






Here's a
Mineira Lottery!



Bet on Intralot Brasil games and
compete for more than R\$
2,000,000.00 million reais every day!
draws every four minutes!
bet online: kenominas.com.br



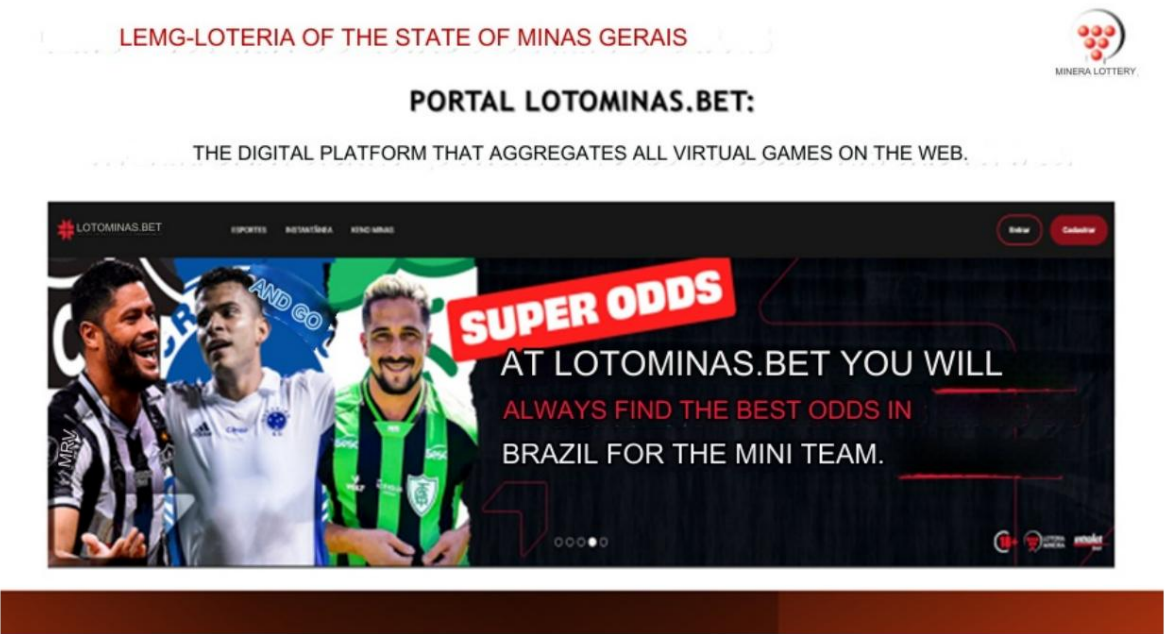
Appendix 1 - Business Modeling (79712641)

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3.1.3. The LotoMinas Portal is the Platform developed to organize and aggregate the offer of games, made available remotely in a digital/virtual way (Cyber Space) for personal devices with an Internet connection.



3.1.3.1. Pointing out once again, it was decided that **IN THE NEW CONCESSION THE POSSIBILITY OF EXPLORATION WILL BE EXCLUSION COMMERCIAL OF FIXED ODD BETS (AQF)**, also known as sports betting.

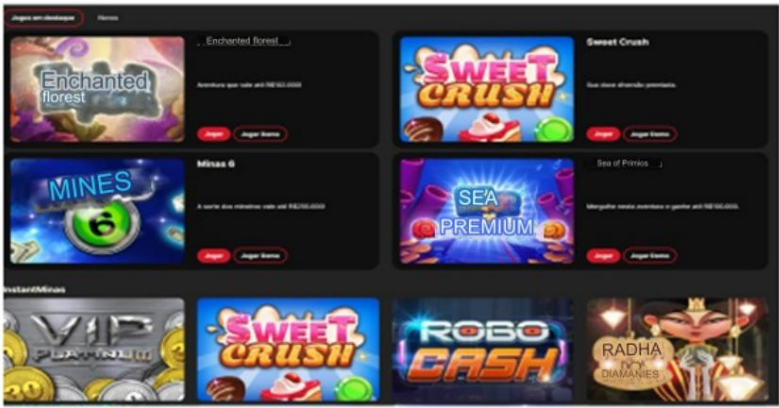


3.1.3.2. In this way, the games portfolio will continue to be based and focused on numerical and instant prediction games, as well as other modalities additional provisions that may be regulated.



PORTAL LOTOMINAS.BET:

THE DIGITAL PLATFORM THAT AGGREGATES ALL VIRTUAL GAMES ON THE WEB.



- 3.2.
- History of Gross Collection Performance in the Market, Prizes Attributed to Bettors and Transfer to the Grantor
- 3.2.1.
- Below are the data for the PERIOD FROM SEPTEMBER 2010 TO SEPTEMBER 2023.
- 3.2.1.1.
- At the end of the current year, the MARK OF R\$ 1.5 BILLION IN BETS CAPTURED will be easily surpassed .
- 3.2.1.2.
- Additionally, the overview presented is complemented with the information that, ONLY IN COMMUNICATION AND MARKETING, were also invested MORE THAN R\$ 73 MILLION.

Intralot Concession: Online/Real Time Games Financial Performance Summary			
Periods	Collection Gross (R\$)	Awards Assigned (R\$)	Transfer LEMG (R\$)
2010	4,984,828.00	3,004,524.50	496,242.72
2011	22,527,360.50	14,104,939.00	2,459,529.02
2012	61,897,398.00	37,875,654.50	6,707,224.97
2013	102,928,509.50	63,133,675.70	11,278,868.73
2014	120,473,080.50	72,528,333.57	14,225,632.60
2015	120,330,388.85	71,960,481.31	13,782,578.19
Total 1st Cycle	433,141,565.35	262,607,608.58	48,950,076.23
2016	117,449,537.30	71,740,204.93	13,035,024.94
2017	118,944,488.60	71,794,692.19	13,716,740.52
2018	114,473,322.10	69,516,177.73	12,856,146.85
2019	134,339,852.00	82,237,408.04	14,838,263.27
2020	115,190,336.97	73,637,999.87	12,361,992.31
2021	135,652,781.40	82,444,933.04	15,152,481.73
Total 2nd Cycle	736,050,318.37	451,371,415.80	81,960,649.62
2022	163,202,407.80	100,158,285.35	17,407,094.27
2023 (*)	123,368,371.62	74,021,022.97	12,996,857.95
2024			
2025			
Total 3rd Cycle	286,570,779.42	174,179,308.32	30,403,952.22
Grand Total up to Set' 2023 (*)	1,455,762,663.14	888,158,332.70	161,314,678.07

Table 1: Summary of the Historical Financial Performance of the Current Concession between September 2010 and September 2023.

3.2.2. The Concession, within the state territorial limits, to a single company, specialized and capitalized, to carry out the operational activities inherent to the

exploration and operation of Lottery games in an On Line/Real Time System, excluding Fixed Odds Bets (.bet), through face-to-face means (Land Based) and digital/virtual (Cyber Space), **IS JUSTIFIED BY THE NEED FOR CONTINUED COMMERCIAL EXPLORATION** of these lottery services, subjected to the regime of transfer of full responsibility to the private sector, with rights and duties established in contract.

3.2.2.1. And, certainly, through public-private partnership, the best economic results are obtained. And, compared to other exploration, understanding becomes simple, as there is always more focus, availability of resources for investment, management expertise and internationally diverse prior experience.

4. THE VISION OF THE MINING LOTTERY

4.1. Draft Elements

4.1.1. To understand the **VISION OF LEMG**, it is worth highlighting the summaries made available to participants during the Public Consultation, which took place at the headquarters of LEMG on October 10th, with the following analytical perspectives:

ANALYTICAL PERSPECTIVES FOR DEFINING THE BUSINESS SCOPE FOR THE NEW I-LOTTERY CONCESSION.



1) GENERAL OVERVIEW: ✓

COMMITMENT TO PROMOTING THE EXPANSION OF CURRENT PERFORMANCE ✓

- CREATE/EXPAND NETWORK OF RESELLERS AND INSTALLED TERMINALS (LAND BASED);
- ENHANCEMENT OF THE HEGEMONIC PERFORMANCE OF THE KENO-TYPE GAME ON OTHER CHANNELS;
- MASSIFICATION OF THE DIGITAL PLATFORM ON THE WEB VIA THE PORTAL.

FOCUS ON LEVERAGING THE IMPACT OF COMMERCIAL ACTIONS ✓

- SETTING MINIMUM GUARANTEED TARGETS FOR VOLUME/VALUE GROWTH.
- INCREASE OF MARKET PENETRATION THROUGHOUT THE STATE TERRITORY.

ANALYTICAL PERSPECTIVES FOR DEFINING THE BUSINESS SCOPE FOR THE NEW I-LOTTERY CONCESSION.



II) DEVELOPMENT POTENTIAL: ✓

RELEVANT DIMENSIONS OF MARKET MAGNITUDE ✓

- DEMOGRAPHY, ECONOMY, LOGISTICS AND GENERAL COMPETITION;

CHARACTERISTICS OF THE GAMES INDUSTRY AS ENTERTAINMENT ✓

- EFFICIENCY IN DISTRIBUTION AND EFFECTIVENESS IN SALES ARE MANDATORY;
- QUALITATIVE PREFERENCES AND PERCEPTION OF VALUE OF RESELLERS/PLAYERS.

ANALYTICAL PERSPECTIVES FOR DEFINING THE BUSINESS SCOPE FOR THE NEW i-LOTTERY CONCESSION.



III) IMPLEMENTATION AND EVOLUTION OF THE OPERATION: ✓

5 CRITICAL SUCCESS FACTORS IN RETAIL ✓

- CONSOLIDATION OF THE CURRENT VALUE CHAIN IN AN INTEGRATED WAY;
- INCREASED PRESENCE AND SUPPLY IN INTERIOR MUNICIPALITIES;
- INCREASED PRESENCE AND OFFER IN NEW DISTRIBUTION CHANNELS;
- USE OF INTERACTIVE TERMINALS TO IMPACT MORE BETTERS (SELF-SERVICE);
- DEDICATION TO DETAILED EVERYDAY MANAGEMENT IN ALL VECTORS.

4.2. Definition and Materialization of LEMG's Vision

4.2.1. The lottery business in the new concession will be an **INNOVATIVE ENTERTAINMENT WITH HIGH CONNECTIVITY AND INTERACTIVITY, IMPACT AND REWARDING PRIZES, WITH QUALITY AND CREDIBILITY, AVAILABLE THROUGHOUT THE TERRITORY STATE.**

Concession of Lotteries in an On Line/Real Time System Different Projections of Gross Business Revenue Potential Market Scenarios during the Contract Term			
Projections	Scenario 1: Base	Scenario 2: Conservative	Scenario 3: Optimistic
Percentage (%)	100.0	+47.6	+ 122.4
Annual Average Millions (R\$)	415.00	620.00	963.00
Total Concession Period Millions (R\$)	10,375.00	15,500.00	24,075.00

4.2.2. The success of the enterprise is strategic for the Autarchy to pursue its mission of developing citizenship and building social well-being for the community. However, in a prudent and conscious strategy, LEMG projects its gross revenue vision for the new Concession based on scenario 02 Conservative, the result of critical analysis by the Bidding Committee - CEL and the Board, in a decision resulting from the Autarchy's long operational experience, as well as as well as the PMI LEMG 01/2021 studies and the various contributions debated and accepted during public events, Consultations and Hearings, of this process tender in question.

4.2.2.1. In this sense, it will be essential that the new Contractor can guarantee the performance of the current portfolio of On Line/Real Time games, on the channels in-person (Land Based) and on the Web via Portal;

4.2.2.2. Furthermore, a focus on innovation and creative initiative is expected to launch new options for bettors from Minas Gerais, in addition to the portfolio original games and terminals;

4.2.2.3. This is about ensuring continuity in the success of the best-selling game, Keno Minas, according to the profile of the majority of players. bettors, especially in the Bars, Restaurants and Grocery channels.

4.2.3. Prior to signing the contract, the future concessionaire will be required to officially present action plans for the Internet portal and installation of basic equipment on the market;

- 4.2.3.1. Two distinct situations are then configured, in terms of quantities, for capturing bets (Land Based), namely:
- a) number of terminals not less than the size of the current network of active resellers. **TODAY, THERE IS AVAILABILITY OF AROUND 280 DIFFERENT MUNICIPALITIES, SOMETHING CLOSE TO A THIRD OF THE STATE** with a park of 2,812 Bet Collection Terminals;
 - b) number of innovative interactive terminals, of the SELF-SERVICE TYPE, developed to directly serve bettors in new distribution channels.

5. THE MAIN VECTOR OF EXPANSION OF THE OPERATION

- 5.1. Meritorious Achievement of Incremental Volumes and Market Hegemony
- 5.1.1. The state market , in its entirety, deserves and demands to receive the possibility of enjoying the updated offer of our regulated games.
- 5.1.2. **THE BIGGEST INTENT WILL BE TO MASSIVELY EXPAND THE AVAILABILITY OF OUR REGULATED GAMES OFFER DIGITAL/VIRTUAL IN NEW DISTRIBUTION CHANNELS IN ALL LOCATIONS IN THE TERRITORY.**
- 5.2. Growth Propulsion
- 5.2.1. **THE MAIN VECTOR OF EXPANSION OF THE OPERATION WILL BE TO IDEALLY POSITIVE PENETRATION, DEFINITELY, IN THE LARGEST NUMBER OF LOCATIONS IN THE STATE.**
- 5.2.2. Firstly, the **GEOGRAPHIC PLANNING OF THE FUTURE OPERATION** must consider logistics that provide **CONTINUITY TO 100% of CURRENT COVERAGE, THAT ALREADY DULY EARNED.**
- 5.2.3. Then, **AS A STRATEGIC BUSINESS GOAL TO BE ACHIEVED, CONSOLIDATED AND BONUS BY CONTRACTING PARTY TO CONTRACTED PARTY, THE FUTURE OPERATION MUST MOVE ADVANCE TO PROVENLY ACHIEVE THE OFFER IN-PERSON (LAND BASED) OF REGULATED DIGITAL/VIRTUAL GAMES, AT LEAST, IN ALL HOME CITIES OF EACH ONE OF THE 853 MUNICIPALITIES OF THE STATE.**
- 5.2.3.1. In the event of compliance with this extremely important contractual goal in the Concession, **AS A REWARD TO THE CONCESSIONAIRE, THE GRANTOR WILL PROMOTE DOUBLE DISCOUNT ON ANNUAL INSTALLMENTS RELATED TO THE DILUTION OF THE ADVANCE OF PAYMENT OF REMUNERATION, reducing the plan to 10 (ten) successive installments instead of 20 (twenty).**
- 5.3. Planning and Execution with Control of Operation Growth Dynamics
- 5.3.1. With the aim of facilitating the daily management of business logistics, the Grantor suggests that the geographical planning of the operation uses the matrix which divides the State's territory into **INTERMEDIATE AND IMMEDIATE GEOGRAPHIC REGIONS. IN IT, THE 853 MUNICIPALITIES ARE DISTRIBUTED IN 70 IMMEDIATE GEOGRAPHIC REGIONS, WHICH IN TURN ARE GROUPED INTO 13 GEOGRAPHIC REGIONS INTERMEDIARY**, according to the division of the Brazilian Institute of Geography and Statistics - IBGE in force since 2017. Thus, the monitoring and inspection of expansion evolution can be carried out in an objective and auditable manner.
- 5.4. It is included within the scope of the **GRANTOR'S SUPERVISION POWERS** and the **CONCESSIONAIRE'S OBLIGATION TO CARRY OUT IN THE SIXTH, ELEVENTH, SIXTEENTH AND TWENTY-FIRST YEARS OF THE EXECUTION OF THE OPERATION** , or at any time, whenever deemed convenient, of **MARKET AUDIT**, with the aim of carrying out a CENSUS OF THE DISTRIBUTION NETWORK, verifying the dispersion of sales points (catching bets) across the entire state territory, that is, the status inherent to the real availability of the offer of LEMG digital/virtual games in the face-to-face environment (Land Based), at least in the headquarters of the 853 municipalities in Minas Gerais.
- 5.4.1. The Census aims to count the points of sale (catching bets) in the state territory, identifying their characteristics in a structure of channel segmentation, producing essential information for defining commercial strategies and making investment decisions in driving optimal public-private partnership.
- 5.4.2. **THE GRANTING AUTHORITY** may, at its sole discretion, **REQUEST THE CONCESSIONAIRE TO CONTRACT, AT THE EXPENSE OF THE OWN CONCESSIONAIRE, INDEPENDENT AUDIT COMPANY**, suitable and with notable specialization for carrying out the census provided for in subitem 5.4.1.



IBGE Map: Geographical Division - Administrative of the Territory of the State of Minas Gerais / Intermediate and Immediate Regions.

5.4.2.1. In the Matrices shown below, **INTERMEDIATE GEOGRAPHIC REGIONS AND THEIR RESPECTIVE REGIONS** are presented **INTEGRAL IMMEDIATE CITIES, WITH THEIR POLE MUNICIPALITIES, ORDERED BY IBGE CODIFICATION**, spatially organizing the **ADMINISTRATIVE GROUPING OF MUNICIPALITIES INTO SETS**.

5.4.2.2. For **EACH POLO MUNICIPALITY, THERE IS AN INDICATION OF THE NUMBER OF OTHER BOUNDARIES, UNDER ITS LOCAL INFLUENCE EXTENDED**. This simplifies the precise outline of **HOW TO PROCEED TO EXECUTE PROPER COMMERCIAL PROSPECTION OF NEW RESELLERS WITH THEIR SALES POINTS TO ACHIEVE THE MAXIMUM POSSIBLE COVERAGE FOR THE OFFER OF** digital/virtual products and services throughout the territory of Minas Gerais.

Região geográfica intermediária ^[1]	Código	Número de municípios	Região geográfica imediata	Código	Número de municípios
Belo Horizonte	3101	74	Belo Horizonte	310001	29
			Sete Lagoas	310002	19
			Santa Bárbara-Ouro Preto	310003	6
			Curvelo	310004	11
			Itabira	310005	9
Montes Claros	3102	86	Montes Claros	310006	32
			Janaúba	310007	11
			Salinas	310008	14
			Januária	310009	8
			Pirapora	310010	7
			São Francisco	310011	6
			Espinosa	310012	8
Teófilo Otoni	3103	86	Teófilo Otoni	310013	27
			Capelinha	310014	10
			Almenara	310015	14
			Diamantina	310016	13
			Araçuaí	310017	8
			Pedra Azul	310018	7
			Águas Formosas	310019	7
Governador Valadares	3104	58	Governador Valadares	310020	26
			Guanhães	310021	20
			Mantena	310022	7
			Aimorés-Resplendor	310023	5
Ipatinga	3105	44	Ipatinga	310024	22
			Caratinga	310025	16
			João Monlevade	310026	6

Juiz de Fora	3106	146	Juiz de Fora	310027	29
			Manhuaçu	310028	24
			Ubá	310029	17
			Ponte Nova	310030	19
			Muriae	310031	12
			Cataguases	310032	10
			Viçosa	310033	12
			Carangola	310034	9
			São João Nepomuceno-Bicas	310035	9
			Além Paraíba	310036	5
Barbacena	3107	49	Barbacena	310037	14
			Conselheiro Lafaiete	310038	21
			São João del Rei	310039	14

Varginha	3108	82	Varginha	310040	5
			Passos	310041	15
			Alfenas	310042	13
			Lavras	310043	14
			Guaxupé	310044	9
			Três Corações	310045	6
			Três Pontas-Boa Esperança	310046	5
			São Sebastião do Paraíso	310047	5
			Campo Belo	310048	5
			Piumhi	310049	5
Pouso Alegre	3109	80	Pouso Alegre	310050	34
			Poços de Caldas	310051	8
			Itajubá	310052	14
			São Lourenço	310053	16
			Caxambu-Baependi	310054	8
Uberaba	3110	29	Uberaba	310055	10
			Araxá	310056	8
			Frutal	310057	6
			Iturama	310058	5
Uberlândia	3111	24	Uberlândia	310059	11
			Ituiutaba	310060	6
			Monte Carmelo	310061	7
Patos de Minas	3112	34	Patos de Minas	310062	18
			Unai	310063	11
			Patrocínio	310064	5
Divinópolis	3113	61	Divinópolis	310065	20
			Formiga	310066	10
			Dores do Indaiá	310067	9
			Pará de Minas	310068	7
			Oliveira	310069	10
			Abaeté	310070	5

6. **PROJECTION OF BUSINESS EVOLUTION - MINIMUM ANNUAL TARGETS FOR GROSS COLLECTION AND TRANSFER TO GRANTOR**
- 6.1. **Minimum Gross Collection**
- 6.1.1. In the business evolution projection, **THE VALUE ESTIPULATED** for the **MINIMUM GROSS COLLECTION** in the sum of the Concession period, **EQUIVALENT TO THE VALUE OF THE CONTRACT, WILL BE R\$ 15,476,190,476.19 (fifteen billion, four hundred and seventy-six million, one hundred and ninety thousand, four hundred and seventy-six reais and nineteen cents).**
- 6.2. **Minimum Transfer**
- 6.2.1. From this perspective of setting minimum annual Gross Collection targets, as per the Projection indicated in Table 2 below, **AS A PRE-DEFINED CONTRACTUAL FLOOR**, when applying the formula for calculating the **TRANSFER TO THE GOVERNMENT**, as stipulated in Annex I - Basic Project/Appendix 2 subitem 3.3.1, the **CONCESSIONAIRE WILL HAVE TO COMPULSORY PAYMENT OF MINIMUM TOTAL FINANCIAL COMMITMENT**, throughout the contractual term. It should be noted that there may be compensation between the financial results of annual cycles in a cumulative manner, aiming to enable the achievement of the total and absolute minimum target required for transfer to LEMG.
- 6.2.2. **THE MINIMUM REMUNERATION TO THE GRANTOR FOR THE GRANT OF THE CONCESSION WILL BE R\$ 650,000,000.00 (six hundred and fifty million reais), under the condition of ABSOLUTE MINIMUM TRANSFER GOAL.**
- 6.2.3. **AFTER THE BEGINNING OF THE EXECUTION OF THE MARKET OPERATION, FROM YEAR ONE ONwards, THE EXERCISE OF CALCULATION OF THE EVOLUTION OF DISCHARGE OF THE MINIMUM PAYMENT COMMITMENT TO Loteria Mineira WILL COMPLY WITH ACCOUNTING PROCEDURES (account accounting) IN FIVE-YEAR PERIODS, namely:**
- a) **First Five-Year Year: 1st to 5th year;**
 - b) **Second Five-Year Year: 6th to 10th year;**
 - c) **Third Five-Year Year: 11th to 15th year;**
 - d) **Fourth Five-Year Year: 16th to 20th year, and**
 - e) **Fifth Five Years: 21st to 25th year.**
 - f) It should be noted that, in the last and fifth five-year period, there will be, by authority of the Grantor, a preliminary investigation that will take place **UNTILABLE AT THE END OF THE 23rd (twenty-third) YEAR OF EXECUTION OF THE OPERATION, and which will be completed AT THE END OF THE 25TH TWENTY-FIFTH YEAR).**
- 6.2.4. In these calculation exercises, the Grantor will also observe compliance with contractual commitments relating to the payment of the award to bettors and also investment in communication and marketing. This involves verifying the achievement of the respective minimum contractual percentages of 60% (sixty percent) and 5% (five percent) of the amount of gross collection for each period audited.
- 6.3. **Projection of Minimum Annual Targets with the Five-Year Period for Checking Payment Payments**

New Concession Online/Real Time System Games Business Financial Modeling Projection of Minimum Goals with Payment Check for Five Years						
Exercises	Periods	(R\$) Gross Collection 100%	(R\$) Pay Out/Premium 60%	(R\$) LEMG transfer 12.00% (Net Revenue)	(R\$) LEMG Transfer Absolute Difference vs. Last year	LEMG Transfer % Growth vs. Previous & Average Year in Five-Year Cycles
2024 Base Year of Implementation						Prior Structuring Period of the Operation
2025	1st Year	165,000,000.00	99,000,000.00	6,930,000.00	-	Partial Operating Period 7.5 Months
2026	2nd Year	180,000,000.00	108,000,000.00	11,340,000.00	-	Operating Period Full 12 Months
2027	3rd Year	203,000,000.00	121,800,000.00	12,789,000.00	1,449,000.00	12.8%
2028	4th Year	220,000,000.00	132,000,000.00	13,860,000.00	1,071,000.00	8.4%
2029	5th Year	237,000,000.00	142,200,000.00	14,931,000.00	1,071,000.00	7.7%
Subtotal 1st Five-Year Cycle		1,424,999,999.99	603,000,000.00	59,850,000.00	-	9.6%
2030	6th Year	381,000,000.00	228,600,000.00	16,002,000.00	1,071,000.00	7.2%
2031	7th Year	409,500,000.00	245,700,000.00	17,199,000.00	1,197,000.00	7.5%
2032	8th Year	441,000,000.00	264,600,000.00	18,522,000.00	1,323,000.00	7.7%
2033	9th Year	472,500,000.00	283,500,000.00	19,845,000.00	1,323,000.00	7.1%
2034	10th Year	508,500,000.00	305,100,000.00	21,357,000.00	1,512,000.00	7.6%
Subtotal		2,212,499,999.99	1,327,499,999.99	92,925,000.00	-	7.5%

2nd Five-Year Cycle						
2035	11th Year	540,000,000.00	324,000,000.00	22,680,000.00	1,323,000.00	6.2%
2036	12th Year	573,000,000.00	343,800,000.00	24,066,000.00	1,386,000.00	6.1%
2037	13th Year	607,500,000.00	364,500,000.00	25,515,000.00	1,449,000.00	6.0%
2038	14th Year	642,000,000.00	385,200,000.00	26,964,000.00	1,449,000.00	5.7%
2039	15th Year	682,500,000.00	409,500,000.00	28,665,000.00	1,701,000.00	6.3%
Subtotal		3,044,999,999.98	1,826,999,999.99	127,890,000.00	-	6.0%
3rd Five-Year Cycle						
2040	16th Year	717,000,000.00	430,200,000.00	30,114,000.00	1,449,000.00	5.1%
2041	17th Year	754,499,999.99	452,700,000.00	31,689,000.00	1,575,000.00	5.2%
2042	18th Year	793,499,999.99	476,100,000.00	33,327,000.00	1,638,000.00	5.2%
2043	19th Year	833,999,999.99	500,400,000.00	35,028,000.00	1,701,000.00	5.1%
2044	20th Year	875,999,999.99	525,600,000.00	36,792,000.00	1,764,000.00	5.0%
Subtotal		3,974,999,999.97	2,384,999,999.98	166,950,000.00	-	5.1%
4th Five-Year Cycle						
2045	21st Year	904,499,999.99	542,700,000.00	37,989,000.00	1,197,000.00	3.3%
2046	22nd Year	934,499,999.99	560,700,000.00	39,249,000.00	1,260,000.00	3.3%
2047	23rd Year	965,999,999.99	579,600,000.00	40,572,000.00	1,323,000.00	3.4%
2048	24th Year	994,499,999.99	596,700,000.00	41,769,000.00	1,197,000.00	3.0%
2049	25th Year	1,019,190,476.29	611,514,285.77	42,806,000.00	1,037,000.00	2.5%
Subtotal		4,818,690,476.26	2,891,214,285.76	202,385,000.00	-	3.0%
5th Five-Year Cycle						
General Total (R\$) 15,476,190,476.19			9,033,714,285.72	650,000,000.00	% Average Annual Series 5.9%	

Table 2: Progression of Minimum Annual Gross Collection Targets and Transfer to LEMG.

6.3.1. Therefore, every **FIVE YEAR**, with the aim of certifying the fulfillment of the financial goals in the contractual series, the Contracting Party together with the Contractor will determine the total value of transfers received, **IF THE VALUE CALCULATED FOR THE FIVE YEAR IS LESS THAN THE SUM OF THE PRE-ESTABLISHED ANNUAL TARGETS, THE TRANSFER RESIDUE MUST BE REFUNDED BY MEANS OF DAE, BY THE 30TH DAY OF THE EFFECTIVE BILLING FROM THE CONTRACTING PARTY, TO BE ALWAYS MADE BY THE END OF JANUARY OF THE SUBSEQUENT YEAR, SPECIFICALLY IN THE SIXTH, ELEVENTH, SIXTEENTH, TWENTY-FIRST, TWENTY-THIRD YEAR AND AFTER THE END OF THE CONTRACT).**

This item aims to determine the execution of the minimum obligation of transfers year by year, throughout the series of **26 (twenty-six) YEARS** established as a period of contractual term. However, as an element to facilitate the settlement of any minor differences in relation to the annual targets, the Granting Authority will consider the formation of an accounting account to accumulate possible excess balances of the annual results in the obligation to achieve the total target. Therefore, a possible The largest difference in the calculation of the transfer in a given year of the series, caused by a Gross Collection performance higher than that predicted in the progression of the goals, as indicated in Table 2 above, will be considered as a positive balance in the accounting account of the calculation throughout the term contractual, so that perform the total minimum transfer amount of R\$650,000,000.00 (six hundred and fifty million reais).

7. ABOUT THE REQUIREMENT OF ADVANCE PAYMENT OF REMUNERATION

7.1. Fixed Value

7.1.1. THE ADVANCE PAYMENT OF REMUNERATION TO THE GRANTOR WILL HAVE THE NOMINAL VALUE OF R\$ 18,270,000.00 (eighteen million, two hundred and seventy thousand reais), which is EQUIVALENT TO THE SUM OF THE FIRST 2 (two) ANNUAL CYCLES OF THE SERIES TEMPORAL, as set out above in Table 2.

7.2. Rational

7.2.1. Based on the reasons set out below, it will be understood as undoubtedly reasonable to establish the advance of said amount. And the logic is its own of the following elements:

- The first deals with compliance with the determination provided for in art. 2nd of State Decree No. 47,902, of March 31, 2020, updated on May 3, 2021, recently amended on 08/31/2023, entitled Minas Gerais State Lottery Regulation, which stipulates as competence _____ generate resources and allocate them to promoting social well-being and various assistance programs. In other words, it is the execution of the mission essential to organize, promote and develop the exploration of lottery games with high expectation of winnings, aiming to raise resources for _____ finance projects by the Government of the State of Minas Gerais to promote social well-being: _____

- b) The second, in the 21st century, that of the technology empire, paradoxically highlights the irrefutable magnitude of the persistent lack widespread public services such as education, security, health, assistance, welfare, to which the overwhelming majority of population of the country, and, in our case, the people of Minas Gerais. Therefore, a reality against which, as state employees, we are charged with fighting to overcome it, in order to promote the urgent and necessary evolutionary transformation;
- c) The third indicates the seriousness of the State's current financial situation generated by the critical debt accumulated since the 1990s until the present day, today, which results in a shortage of government budgetary resources to cover all of society's needs listed in the foundation previous, to demand immediate solutions aimed at reestablishing the financial health of the public entity;
- d) The fourth notes the long history of economic performance, with relevant positive results, of the two different concessions already hired by LEMG, based on the exploration of lottery games in the On Line / Real Time System, since the 1990s. Finding strategy that results in minimized business risks for the continuity of the aforementioned business in the market, the subject of the ongoing bidding process;
- e) The fifth duly recognizes the panorama of high financial expectations for Grantors, the target of this intense debate in the National Congress, and the effective scenario of investments that have been made by market players in several other processes of state accreditation already occurred, related to fixed odds betting.
- f) The sixth points out the provision expressed in Article 40, items II and IX, of Law No. 8,666/93, regarding the definition of the content of the Notice and its Annexes.

7.3. **Payment Occasion**

7.3.1. **ADVANCE PAYMENT WILL OCCUR WHEN THE CONCESSION AGREEMENT IS SIGNED**, emphasizing that, in this precise instantaneously, a **WACC DISCOUNT RATE FOR CALCULATION OF THE PRESENT VALUE will be applied to this AMOUNT TO BE ADVANCED**, with based on the methodology summarized below, in subitem 7.6.

7.4. **Advance Amortization**

7.4.1. **THE DILUTION OF THE ADVANCE PAYMENT OF REMUNERATION** will take place in a **DISCOUNT PLAN IN THE CALCULATION OF THE UPCOMING TRANSFERS** throughout the Contractual Term.

7.4.3. **THE DISCOUNT PLAN** will have **20 (twenty) FIXED ANNUAL INSTALLMENTS OF EQUAL VALUE**.

7.4.3.1. The establishment of the discount plan in 20 equal installments, with the first payment starting in the sixth year of execution of the operation, in dilution annual serial and regular amount of the amount to be advanced by the future Concessionaire, this discount to be made in full during the term of the contract, corresponds to the fact that this methodology constitutes the best financial flow alternative, in ideal suitability, for the Grantor's budget administration.

7.4.4. **PAY ATTENTION HERE TO THE PROPOSITION OF A BONUS ON THE FINAL NUMBER OF INSTALLMENTS, WHEN THE IDEAL GEOGRAPHIC COVERAGE GOAL OF THE OPERATION**, promotion described above in subitem 5.2.3.

7.4.4.1. The reduction in the number of installments in the discount plan series, from 20 to 10 annual payments, starting from the sixth year of the contract, aims to award, in BONUS FOR SIMPLE, SINGLE AND OBJECTIVE GOAL, THE FUTURE CONCESSIONAIRE FOR OPTIMAL ACHIEVEMENT OF THE RESULT OF POSITIVE COVERAGE, demonstrably, of all the headquarters of the 853 municipalities in the State.

7.4.4.2. In other words, it will be a FINANCIAL BONUS to the future Concessionaire for the good logistical work carried out in confirmation that there will be at least one active point for capturing bets at the headquarters of each of the 853 municipalities in Minas Gerais.

7.4.4.3. FINANCIAL BONUS will be the celebration of the achievement of the availability of our lottery products and services for players locations, throughout the state territory.

7.5. **THE SPECIFIC DISCOUNT PLAN RULES WILL BE DULY ESTABLISHED IN AN INSTITUTED ORDINANCE BY LEMG'S BOARD OF DIRECTORS, EVEN BEFORE PAYMENT TO THE GRANTOR OF THE SAID ADVANCE ON THE OCCASION OF THE SIGNING OF THE CONCESSION AGREEMENT**

7.6. **THE INSTALLMENT** will be established based on the **ABSOLUTE AMOUNT IN ADVANCE**, defined after due calculation of the Present Value.

year **INSTALLMENTS** will be computed as **CREDITS IN FAVOR OF THE CONCESSIONAIRE** 7.6.1. (sixth), being the first effective launch from the 6th until the last of the Concession contractual series.

7.7. **WACC concept - Weighted Average Cost of Capital**

7.7.1. WACC is the acronym for the English term "Weighted Average Cost of Capital", which determines the joint cost of capital raised by a company, therefore, is the Weighted Average Cost of Capital, in the proportion between its own capital and that financed. Defined as the appropriate discount rate to the capital budget of a business. It highlights the diagnosis of an organization's financial health. It is an indicator that will depend on the specific combination the magnitude of the weights of the critical variables involved. It is a calculation affected by different factors:

- Uncontrollable Macro Elements (Governments): Fiscal, Monetary and Tax Policies; Institutional legal security.
- Controllable Micro Elements (Companies): Integrity Management, Operational Performance, Financial Health, Financing Capacity, Competitiveness, Innovation, etc.

7.7.2. The Indicator will result from the technical weighting of the level of the basic interest rate in the national economy, the cost of financing the company in issue in the domestic and foreign markets, of the sectoral performance involved, combined with its own risk matrix, also computing operational performance, total leverage (cash generation versus debt), market competition, corporate image, ability to distribute profits and dividends, etc.).

7.7.3. To calculate the value of equity, we use the CAPM, an acronym for "Capital Asset Pricing Model" or Capital Asset Pricing Model, a method of analyzing the relationship between risk and the expected return of an investment. Used to price risky securities and generate expected returns for assets, the CAPM determines the appropriate theoretical rate of return for a certain asset, relative to a diversified market portfolio.

7.7.4. In the capital structure, there is a measurement of the balance between equity and financed capital, in addition to consideration of other macroeconomic assumptions, with government influence (Basic Interest Rate - Selic) and sectoral competition in which the company operates. In the present case, regarding the sectorial alignment of the future concession business, the "Deleveraged Beta and Average Debt" indices, recognized worldwide, were considered for the Hotel/Gaming sector), data taken from annual estimate studies carried out by professor Aswath Damodaran (2021).

7.7.5. In the Example Spreadsheet below for WACC calculation, there is **AN EFFECTIVE SIMULATION FOR THE MONTH OF LAST JUNE, ONLY AS REFERENCE**.

		2023
Capital Structure		
(A) Equity Participation	% AND	60.03%
(B) Third-Party Capital Participation	%D	39.97%
Cost of Equity (CAPM)		
(1) Risk-Free Rate	Rf (UST10y)	3.72%
(2) Market Rate of Return	RM (S&P 500)	10.58%
(3) Market Risk Premium	E (Rmt - Rft)/n	6.86%
(4) Unleveraged Beta	β	1.06
(5) IR/CSLL	Tm (IR + CSLL)	34%
(6) Leveraged Beta = $\{(A) + (B) * [1-(5)]\} / (A) * (4)$	β^*	1.53
(7) Business Risk Premium = (3) * (6)	$\beta^* \epsilon (Rmt - Rft)/n$	10.50%
(8) Brazil Risk Premium	Rb (EMBI+)	3.49%
(9) Size risk premium	Bench Maracanã	
(10) Cost of Nominal Equity = (1) + (7) + (8)	Rf $\beta^* (Rmt - Rft) + Rb$	17.71%
(11) American Inflation Rate	CPI	2.47%
(12) Real Cost of Equity (CAPM) = $[1+(9)]/[1+(10)]-1$	Ke	14.87%
Cost of Third Party Capital		
(13) Brazilian Inflation	π (FOCUS)	5.96%
(14) Real Cost of Debt	Kd (BNDES)	9.20%
(15) Nominal Cost of Debt = $[1+(13)] * [1+(12)]-1$	Kd nominal	15.71%
(16) Nominal Cost of Debt Net of Taxes = (14) * $[1-(5)]$	Nominal Kd without taxes	10.37%
(17) Real Cost of Third Party Capital = $[1+(12)]/[1+(15)]-1$	Kd (1-Tm)	4.16%
WACC		
(18) WACC = (A) x (12) + (B) x (17)		10.59%

8. INVESTMENT PLAN IN EQUIPMENT TO CAPTURE BETS

8.1. Committed Objectives

8.1.1. Based on the **STATUS** corresponding to the operation situation in **OCTOBER 2023**, as informed in Table 4 of Annex I - Basic Project, **THE NEW CONCESSIONAIRE WILL BE REQUIRED TO COMMIT TO THE INITIAL FIRM INVESTMENT IN A MINIMUM PARK OF TERMINALS ON THE ORDER OF 4,000 (FOUR THOUSAND) EQUIPMENTS (KITS).**

8.1.2. **THE GOAL OF EQUALING THE CURRENT BASE COVERAGE MUST BE DULY ACHIEVED**, tested and ready to operate in advance, **WITHIN THE LIMIT OF THE BEGINNING OF APRIL 2025.**

8.1.3. The other time phases, in accordance with Table 5 of Annex I - Basic Project, must also be fulfilled, *performing* the minimum park required of Equipment (Kits) installed on the market.



Document signed electronically by **Ronan Edgard dos Santos Moreira, General Director**, on 12/29/2023, at 2:35 pm, according to official Brasília time, with based on art. 6th, § 1st, of [Decree No. 47,222, of July 26, 2017](#).



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