



GOVERNMENT OF THE STATE OF MINAS GERAIS

Minas Gerais State Lottery

Game Development Division

Annex nº III - Risk Allocation/LEMG/DDJ/2024

PROCESS No. 2040.01.0000233/2023-04

ANNEX III:

RISK ALLOCATION AND ECONOMIC-FINANCIAL BALANCE

1. RISK ALLOCATION

- 1.1. The Concessionaire will be fully and exclusively responsible for all risks related to the Concession, including, but not limited to, the following risks:
- 1.1.1. Failure to meet projected demand to reach or exceed Gross Collection Contractual;
 - 1.1.2. Operation of Lotteries in an On Line/Real Time System in person (Land Based) and digital/virtual (Cyber Space);
 - 1.1.3. Obtaining and costs related to licenses, permits, authorizations and certifications relating to the Concession;
 - 1.1.4. Presentation of Game Plan projects for approval by LEMG;
 - 1.1.5. Estimate of taxes and respective rates applicable to the Concession;
 - 1.1.6. Excess costs related to the object of the Concession;
 - 1.1.7. Incorrect estimation of the cost of investments;
 - 1.1.8. Price increases or reductions in the main inputs for performing the service;
 - 1.1.9. Losses arising from risks inherent to business activity;
 - 1.1.10. Delay in meeting the deadlines established in the Contract and Annexes regarding the operation of Lotteries in the On Line/Real Time System, except in the cases foreseen regarding the responsibility of the Granting Authority;
 - 1.1.11. Technology used in the Concession;
 - 1.1.12. Social and/or public manifestations that affect the provision of the service in any way object of the Contract;
 - 1.1.13. Strikes carried out by employees hired by the Concessionaire;
 - 1.1.14. Increase in the cost of capital, including those resulting from increases in interest rates;
 - 1.1.15. Variation in exchange rates;
 - 1.1.16. Error/mistake in the payment of the prize to the Bettor, including overpayments made;

- 1.1.17. Fraud in Lottery betting tickets in the On Line/Real Time System;
- 1.1.18. Changes in Income Tax legislation;
- 1.1.19. Acts of God and force majeure that may be subject to insurance coverage offered to time of its occurrence;
- 1.1.20. Risks that may be subject to insurance coverage offered in Brazil on the date of its occurrence, but which cease to be so as a direct or indirect result of action or omission of the Concessionaire;
- 1.1.21. The rule referred to in this subsection will not be disregarded due to the impossibility of Concessionaire contracts, even if temporarily, insurance for a given asset and/or in a given locality.
- 1.1.22. Creation and/or existence of any type of games or lotteries other than Lotteries in On Line/Real Time System, including illegal gambling; It is
- 1.1.23. Losses caused to third parties, by the Concessionaire or its administrators, employees, agents or service providers or any other natural or legal person linked to it, in the carrying out of the activities covered by the Concession.

two. **THE CONCESSIONAIRE IS NOT RESPONSIBLE FOR THE FOLLOWING RISKS
RELATED TO THE CONCESSION, FOR WHICH RESPONSIBILITY IS THE POWER
GRANTOR:**

- 2.1. Non-compliance, by the Granting Authority, with its contractual or regulations, including, but not limited to, failure to comply with deadlines set out in this Agreement, or, also, in any other normative acts published by the Granting Authority after the signature of the Contract, especially those related to system approval;
 - 2.1.1. Any delay resulting from the failure to delivery by the Concessionaire of all required documents, studies and information, or in quality lower than the minimum established by the Granting Authority, which makes its assessment difficult.
- 2.2. Act of God or force majeure that cannot be covered by the insurance offered in Brazil at the time of its occurrence;
- 2.3. Changes in legislation and regulation of Service Tax for Any Nature - ISS to specifically increase the respective rate to more than 5% (five percent);
- 2.4. Subject to the provisions of the previous subitem, changes in legislation and regulations related to the creation, modification or extinction of other taxes or charges that change the composition economic-financial aspect of the Concession, excluding income tax legislation;
- 2.5. Changes in the income tax legislation levied on Lottery prizes in On Line/Real Time System, which changes the economic-financial composition of the Concession;
- 2.6. Interpretation of State Revenue, confirmed by an unappealable court decision, that the commercialization of Lottery games in an On Line/Real Time System is subject to Tax on Circulation of Goods and Services (ICMS);
- 2.7. Interpretation of the Federal Revenue, confirmed by an unappealable judicial decision, that, in relation to the commercialization of Lotteries in the On Line/Real Time System, the basis for calculating PIS/COFINS is not equal to the Concessionaire's Gross Revenue;
- 2.8. Changes in federal and/or constitutional legislation that alter award percentages of the modalities that make up the portfolio of Lotteries offered in the On Line/Real Time System;
- 2.9. Union legal actions that consider State Lottery operations to be irregular;
- 2.10. Cancellation of issuance or extraction of Lotteries in the On Line/Real Time System by fault of the Granting Authority;
- 2.11. Change in the regulation/regulation of the technology used in the Concession which, for in turn, cause an impact on the economic-financial composition of the Contract;

- 2.12. Unilateral amendment to the Contract, at the initiative of the Granting Authority, by inclusion and modification of services that affect the economic-financial balance;
- 2.13. Fact of the prince or fact of the administration that causes economic-financial impact on the Contract.
- 2.14. The Concessionaire declares:
- a) Have full knowledge of the nature and extent of the risks assumed by it in the Contract; It is
 - b) Have taken such risks into consideration when formulating their Economic Proposal Writing and Winning Proposal.
- 2.15. The Concessionaire will not be entitled to the restoration of the economic-financial balance if any of the risks assumed by it in the Contract materialize.

3. ECONOMIC-FINANCIAL BALANCE:

- 3.1. Whenever the conditions of the Contract are met and the allocation of risks therein is maintained established, its economic-financial balance will be considered maintained;
- 3.2. The restoration of the economic-financial balance on the initiative of the Concessionaire will only occur in the cases provided for in item 2, above, if the Parties do not choose to terminate the agreement.

4. PROCEDURE FOR RECOMPOSING THE ECONOMIC BALANCE - FINANCIAL:

- 4.1. So that the object of possible economic-financial rebalancing can be determined, the Parties must express their request for recomposition within 365 (three hundred and sixty-five) days counted from the occurrence of the fact or incident giving rise to the request.
- 4.1.1. Pursuant to item 2, above, in the event that the claim arises from a legislative change, the deadline of 365 (three hundred and sixty-five) days, mentioned above, will begin after the period of vacatio legis, _____ if existing.
- 4.2. The request for restoration of the economic-financial balance may be sent by either Party, by sending a reasoned request to the other Party.
- 4.2.1. The request for restoration of the economic-financial balance must be accompanied by the following documents:
- a) Technical report or expert report that demonstrates the financial impact, verified or designed, as a result of the event giving rise to the claim, in accordance with the provisions of this Contract; It is
 - b) Other documents necessary to demonstrate the suitability of the claim.
- 4.2.2. If they deem it necessary to evaluate and/or process the request for restoration of the economic-financial balance, the Parties may request other documents, as well as reports specific economic statements prepared by independent entities and contracted by the Party requesting the claim.
- 4.2.3. Under the terms of this subitem, despite the Party requesting the claim contracting the independent entity, the Party that requires specific documents and/or economic reports will be responsible for reimbursing the respective costs, and the reimbursement criteria will be determined in the within the very procedure of recomposing the economic-financial balance, when conclusion.
- 4.2.4. Except as provided in subitem 4.2.2, above, all other costs with diligence and studies necessary to fully complete the request will be the responsibility of the Party requesting the claim.

4.2.5. Upon receipt of the request for restoration of the economic-financial balance, the other Party must express its opinion on its agreement or not, within a maximum period of up to 45 (forty and five) days, its omission being considered as agreement to the beginning of the procedure restoration of the presented economic-financial balance.

4.2.6. After agreement, by correspondence sent to the other Party, or by omission, after the expiration of the period provided for in the previous sub-item 4.2.4, the Parties will begin negotiations to carry out the procedure for restoring the economic-financial balance of this Concession, which must be concluded within a period not exceeding 120 (one hundred and twenty) days, except in the case, duly justified, where an extension of this period is necessary.

4.3. The decision that establishes the rebalancing of the Contract, in its exact terms, will be automatically enforceability and will be binding on the Parties, regardless of an arbitration or court decision that confirms it.

4.4. The Granting Authority will have the prerogative to choose the way in which it will be the restoration of the economic-financial balance has been implemented, always seeking to ensure the continuity of provision of the service granted.

4.5. The Granting Authority may use, at its discretion, the measures listed below, individually or jointly, to restore the economic-financial balance of the Concession:

4.5.1. Increase in the Concession Term;

4.5.2. Modification of the Concessionaire's contractual obligations; or

4.5.3. Another form defined by mutual agreement between the Granting Authority and the Concessionaire.

4.6. The criteria provided for restoring the economic-financial balance of the Contract will be the marginal cash flow. This methodology consists of determining a cash flow only with the expenditure flows and/or marginal revenues from the event that gave rise to the economic-financial imbalance of the Contract. The Contract will be considered rebalanced when the impacts of the event are compensated by the rebalancing mechanism adopted by the Granting Authority, in such a way that the value net present of the flow is equal to 0 (zero), calculated according to the following formula:

$$VPL = \sum_{i=0}^n \frac{FCM_i}{(1+r)^{t_i}}$$

Where:

FCMi is the ith marginal cash flow calculated

i is the ith period, corresponding to FCMi

r is the discount rate to be used to discount the flow, according to the following formula: $r = \text{Selic} + 1\%$

Selic is the reference rate of the Special Settlement and Custody System for federal securities defined by Central Bank of Brazil, the Bank's most recent projection should be used to forecast the rate Central do Brasil, in the event of Selic extinction, the rate that replaces it must be used.

4.7. For the purposes of determining the flows of marginal expenditures, criteria will be used market to estimate the value of investments, costs, expenses and taxes resulting from the event that gave rise to causes rebalancing.

4.8. For the purposes of determining marginal revenue flows where it is necessary to adopt a demand projection, the following procedure will be used, in two stages:

4.8.1. When restoring the economic-financial balance, the initial calculation for the dimensioning of the recomposition will consider the real demand observed in previous years, and will adopt

best practices for projecting demand until the end of the Concession term;

4.8.2. Periodically, this initial calculation will be revised to replace the projected demand for the respective amounts realized, in accordance with the provisions of the following sub-items.

4.9. The demand projection mentioned in subitem 4.8, above, will be prepared by Concessionaire and submitted for approval by the Granting Authority, which may choose to use projection own, observing the criteria set out in the Contract.

4.10. For each process of recomposing the economic-financial balance in which it has been Once a demand projection is adopted, the Granting Authority will periodically review the respective marginal revenue flows referred to in the previous sub-items, for the purpose of adjusting the data from the demand projection to the actual data calculated during the Concession Term, being that:

4.10.1. The periodicity of reviews will be established by the Granting Authority, and must be carried out at maximum intervals of 3 (three) years and at the end of the Concession;

4.10.2. The review to be carried out by the Granting Authority may also consider other real information calculated during the Concession Term to replace variables estimated in the preparation of the marginal cash flow, changing the estimated values for investments is prohibited, costs and expenses considered in marginal expenditure flows; It is

4.10.3. In the review to be carried out by the Granting Authority, the discount rate must be maintained originally used in the projected marginal cash flow.

4.11. In the event of new investments or services requested by the Granting Authority, the The Concessionaire must present, prior to the process of restoring the economic-financial balance and at the request of the Granting Authority, the reference project for these services, considering that:

4.11.1. The reference project must contain all the elements necessary for pricing the investment and estimates of the impact of investments and services on the Concessionaire's revenues, according to best practices and market criteria, all in accordance with technical standards and directives eventually established by the Granting Authority.

4.11.2. The Granting Authority will establish the limit value of the cost of services to be considered for the purpose of restoring the economic-financial balance, taking as a basis, for this purpose, the average values practiced by the market.

5. NEW INVESTMENTS:

5.1. In the event of new investments or services requested by the GOVERNMENT and not provided for in the CONTRACT, the latter may request the CONCESSIONAIRE, prior to the ECONOMIC-FINANCIAL REBALANCE OF THE CONTRACT, the preparation of the Basic Project of Specification and Implementation Project for new SERVICES, considering that:

5.1.1. Said projects must contain all the elements necessary for pricing the investment and estimates of the impact on the CONCESSIONAIRE'S REVENUE, according to best practices and market criteria.

5.1.2. THE GOVERNMENT will establish the limit value of the cost of projects and studies to be be considered for the purpose of ECONOMIC-FINANCIAL REBALANCE of the CONTRACT.

5.2. To new investments, including new services, requested by POWER GRANTOR, all the rules of the CONTRACT will apply.



Document signed electronically by **Ronan Edgard dos Santos Moreira, General Director**, on 03/22/2024, at 10:30, according to official Brasília time, based on art. 6th, § 1st, of the [Decree No. 47,222, of July 26, 2017.](#)



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