

LOTEX - The Federal Government Instant Lottery Public Service Concession

In a meeting held on August 23, 2017, the Council of the Investment Partnership Program (CIPP) approved the concession of the Exclusive Instant Lottery (LOTEX). The concession term will last for twenty-five years and, as defined by law, gross revenue from ticket sales will be split three ways: 65% for payout; 18.3% for the concessionaire; and 16.7% for the Federal Government.

In 2015, preliminary plans conceived the privatization of a subsidiary of CAIXA, CAIXA INSTANTANEA S.A, in order to operate LOTEX. CAIXA INSTANTANEA S.A was created in January 2016 and the idea was to sell 51% of its equity to a private company with expertise in instant lottery operations.

However, studies conducted under the current administration by the National Bank for Economic and Social Development (BNDES), the institution responsible for executing and monitoring the privatization process of LOTEX, recommended issuing a Common Concession directly to a private firm on the grounds that LOTEX is not an essential public service.

In addition to the legal possibility of the Common Concession, which was established by Law 13,155 of August 4, 2015, the Ministry of Finance considered three elements in its decision:

- (i) this public service will be provided at the risk and expense of the private concessionaire;
- (ii) the absence of any subsidy from the Federal Government, either directly or through its state-owned companies and
- (iii) the Federal Government is the main beneficiary of the success of LOTEX and will earn 16.7% of the instant lottery's revenue – earmarked for sports, the prison system and social security spending items – and will collect taxes on the concessionaire's profits and income tax generated off LOTEX lottery winnings.

The tender of LOTEX will take place by auction. It is expected that the public consultation will take place in September 2017, with the tender notice scheduled for October 2017. The auction is expected to be held in mid-December 2017, with the submission of sealed bids.

The winner of the auction will be determined by the highest bid, which must be paid in a single installment. The minimum bid for the right to operate LOTEX (for the next 25 years) will be approximately R\$ 1 billion.

The Finance Ministry expects the auction to attract major global instant lottery operators, which could result in a significant premium over the minimum bid in the auction. Additional benefits include greater competition in the local lottery market and the development and modernization of the sector in Brazil. Growth in the instant lottery

space in Brazil will also result in extra revenue for sports, the prison system and social security.