

MAY 18, 2006



DISCUSSION MATERIALS

Information for the State of Indiana
Office of Management and Budget



STRICTLY PRIVATE AND CONFIDENTIAL



Agenda

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Introduction

- JPMorgan understands that the State of Indiana is considering a concession or sale of its Hoosier Lottery business
- We have assembled a multi-disciplinary, experienced transaction team to assist the State with this important assignment
- Hoosier Lottery is likely to be a very attractive sale candidate
 - Strong free cash flows
 - Relatively high historic and projected growth rates
 - Monopoly structure
 - High leverageability
- There are, however, a few key considerations the State will need to factor into its decision making
 - Transaction timing considerations
 - Federal tax leakage impact on valuation
 - Term and nature of privatization
 - Potential buyer universe
 - Impact on Hoosier Lottery employees
- JPMorgan understands the financial policy, legal, and political considerations required to successfully execute the contemplated transaction
- Our initial analysis indicates that Hoosier Lottery could be worth between \$2.7 - 3.5 billion
 - State tax collections could be worth up to an additional \$0.5 billion
 - Additional value upside could be derived through structuring
- There is a small group of potential domestic and international strategic buyers, plus a deep universe of financial sponsors

JPMorgan is a global M&A market leader

2005 global announced deals, by number of transactions

Rank	Advisor	No. of deals	Volume (\$mm)
1	Goldman Sachs	432	867,264
2	JPMorgan	395	659,411
3	Morgan Stanley	377	727,816
4	Citigroup	359	560,437
5	UBS	344	495,629
6	PricewaterhouseCoopers	334	46,497
7	Merrill Lynch	312	597,918
8	Rothschild	275	214,807
9	Credit Suisse	267	308,497
10	Deutsche Bank	244	369,091

2005 global announced deals, by \$ volume

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1	Goldman Sachs	867,264	432
2	Morgan Stanley	727,816	377
3	JPMorgan	659,411	395
4	Merrill Lynch	597,918	312
5	Citigroup	560,437	359
6	UBS	495,629	344
7	Lehman Brothers	433,677	234
8	Deutsche Bank	369,091	244
9	Lazard	309,388	217
10	Credit Suisse	308,497	267

Source: Thomson Financial Data Services, JPMorgan
 Note: Announced deals through 12/31/05, data as of 1/03/06



Recent JPMorgan advisory assignments

Pending
\$3.8 billion

 Advisor to Special Committee of Kerzner's Board of Director's on its sale to private investor group

Pending
\$51.2 billion

 Defense advisor to Endesa on the unsolicited bid by Gas Natural

Pending
\$33.3 billion

 Advisor to Viacom on the spin-off of its cable network business

Pending
\$27.4 billion

 Advisor to Exelon on its merger with Public Service Enterprise Group

Pending
\$22.5 billion

 Advisor to Guidant on its sale to Boston Scientific

2005
\$41.4 billion

 Advisor to UFJ Holdings on its merger with Mitsubishi Tokyo Financial Group

2005
\$28.8 billion

 Advisor to Telecom Italia on its acquisition of the remaining stake in Telecom Italia Mobile

2005
\$18.3 billion

 Advisor to Bayerische Hypo- und Vereinsbank on its sale to Unicredit Italiano

2005
\$18.1 billion

 Advisor to Permord-Ricard on the acquisition of Allied Domec

2005
\$14.3 billion

 Advisor to Suez on the buy-out of Electrabel

2005
\$10.8 billion

 Advisor to a private equity group on its acquisition of SunCard Data Systems

2005
\$6.1 billion

 Advisor to private equity group on its acquisition of Toys R Us

JPMorgan is a pre-eminent advisor on public private transactions

Any long term concession? expenses?

Ongoing



Strategic Consultant

Advising Harris County, Texas on the strategic evaluation of the Harris County Toll Road Authority.

Ongoing



Financial Advisor

Advising Cintra Zachry, LP on negotiation with Texas for Public-Private dev. of the Trans-Texas Corridor.

Ongoing



Financial Advisor


Advising State of New Jersey in privatization negotiations with Horizon Blue Cross Blue Shield.

Buy side

Buy side

Head Office Sale?

2005




Financial Advisor

Exclusive financial advisor to the State of New York when WellChoice agreed to be acquired by WellPoint, the leading health benefits company in the U.S.

2004


\$2.9 billion



Financial Advisor

Provided a Valuation Study & Report for the Public Utility Commission of Texas.

2001




Financial Advisor

Advised the State of Vermont Department of Public Service on sale options in connection with a sell-side assignment for Vermont Yankee Nuclear Power Station.

2001

\$903 million



Financial Advisor

Exclusive advisor to Niagara Mohawk & New York State Electric & Gas Corporation with the PSC in the sale of Nine Mile Point nuclear generating station.

2001

\$3.2 billion



Financial Advisor

Exclusive financial advisor to the Port Authority of New York and New Jersey on the privatization of the World Trade Center.

Sale

2001

\$837 million



Financial Advisor

Advised the New Hampshire PUC & the Connecticut DPUC on the sale of Seabrook Nuclear Power Station for \$837 million.

2000



Financial Advisor

Provided advisory services to the California Power Exchange on possible joint ventures or strategic alliances regarding energy related contracts.

2000

\$1.286 billion



Financial Advisor

Exclusive financial advisor to the Connecticut Department of Public Utility Control on the sale of Millstone Nuclear Power Station.

2000

\$1.3 billion



Financial Advisor

Exclusive financial advisor to the Connecticut Department of Public Utility Control on the Divestiture of Connecticut Light & Power's Non-Nuclear Assets.

2000

\$967 million



Financial Advisor

Financial advisor to NYP&A on the sale of two nuclear stations.

JPMorgan has a leading gaming investment banking franchise

Representative transactions

Mergers and acquisitions

 \$3.8 billion (pending) kerzner Sale of Kerzner to management led investor group Financial Advisor	 \$7.9 billion Acquisition of Mandalay Resort Financial Advisor	 \$1.45 billion Acquisition of Horseshoe Gaming Financial Advisor	 \$455 million Acquisition of Wembley, Inc. Financial Advisor	 £504 million Sale of retail bookmaking operations to William Hill PLC Financial Advisor
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Equity and equity-linked

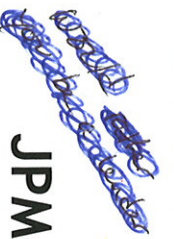
 \$225 million Initial Public Offering Joint Bookrunner	 \$794 million Initial Public Offering Co-Lead Manager	 \$492 million Initial Public Offering Co-Lead Manager	 \$375 million Senior Subordinate Convertible Notes Joint Bookrunner	 \$275 million Senior Subordinate Convertible Notes Sole Bookrunner
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Debt

 \$7.0 billion Senior Secured Credit Facility Joint Bookrunner	 \$1.3 billion Senior Secured Credit Facility Joint Bookrunner	 \$650 million Senior Secured Credit Facility Joint Bookrunner	 \$500 million Senior Secured Credit Facility Joint Bookrunner	 \$495 million Senior Secured Credit Facility Joint Bookrunner
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 \$1.8 billion (3 issues) Senior Unsecured Notes Joint Bookrunner	 \$750 million Senior Unsecured Notes Sole Bookrunner	 \$250 million Senior Unsecured Notes Joint Bookrunner	 \$400 million Senior Subordinated Notes Joint Bookrunner	 \$200 million Senior Subordinated Notes Joint Bookrunner
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JPMorgan is the leading provider of leveraged finance to sponsors

Notable large cap transactions



March 2006
Joint bookrunner—\$2.04 billion senior secured facilities
Terra Firma



February 2006
Joint bookrunner—\$1.65 billion senior secured facilities
Bain, Carlyle, T.H. Lee



February 2006
Joint bookrunner—\$1.10 billion senior secured facilities
Texas Pacific Group

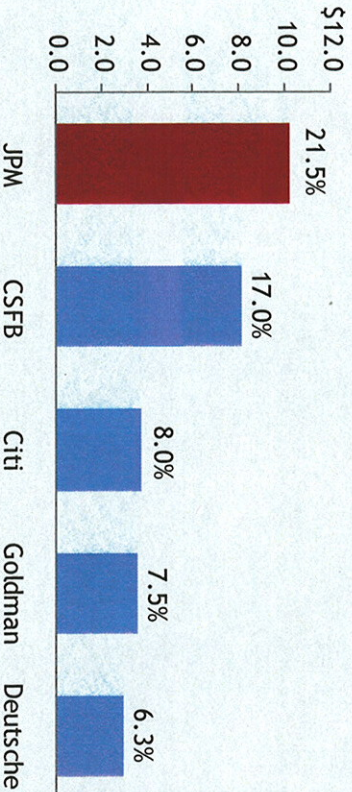


January 2006
Joint bookrunner—\$850 million senior secured facilities
Joint bookrunner—\$325 million senior subordinated notes
Apollo, JPM, Bain, Carlyle, Spectrum



December 2005
Joint bookrunner—\$3.85 billion senior secured facilities
Joint bookrunner—\$2.07 billion senior unsecured notes
Joint bookrunner—\$600 million senior subordinated notes
Joint bookrunner—\$5.8 billion ABS financing
CDBR, Carlyle Group, Merrill Lynch Global Partners

1Q'06 U.S. financial sponsor-related loans (\$ billions)



Source: LPC; full credit to lead arranger, equal if joint



Notable mid cap transactions



March 2006
Sole bookrunner—\$355 million senior secured facilities
Charlesbank Capital, Leonard Green & Partners, Grotech



March 2006
Sole bookrunner—\$258 million senior secured facilities
Leonard Green & Partners



February 2006
Sole bookrunner—\$160 million senior secured facilities
Sole bookrunner—\$175 million senior notes
Wellspring Capital

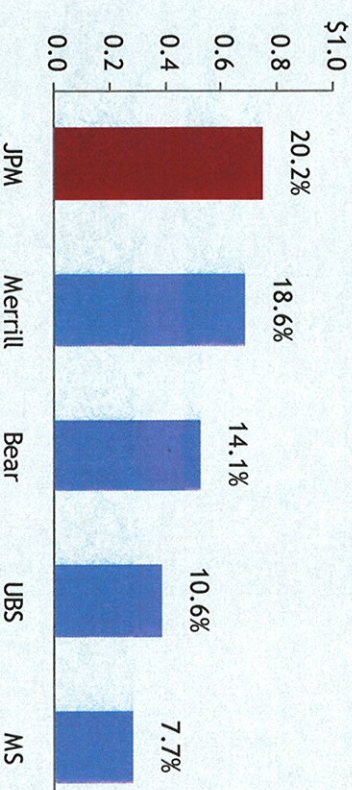


January 2006
Sole bookrunner—\$375 million senior secured facilities
One Equity Partners, DC Chemical



January 2006
Joint bookrunner—\$345 million senior secured facilities
Joint bookrunner—\$200 million senior subordinated notes
Bain

1Q'06 U.S. financial sponsor-related high yield (\$ billions)



Source: JPMorgan; full credit to book manager, equal if joint

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Key transaction considerations

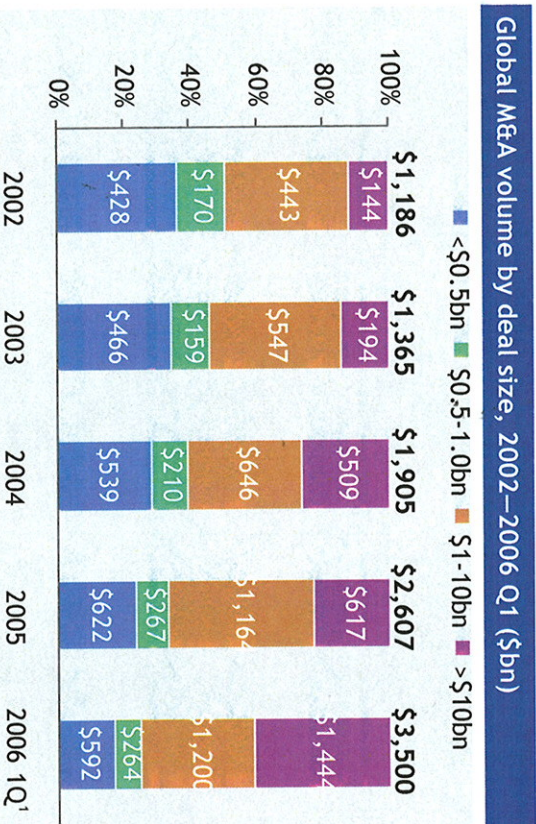
Key positives

- Strong, consistent free cash flows and low capital expenditures
- Relatively high historic and projected growth rates
- Current low market penetration rates in the U.S. as compared to Europe
- High leverageability
- State monopoly structure to be retained post-transaction
- Value creation opportunities
 - Ability to increase market penetration through enhanced advertising
 - Ability to introduce more games

Considerations

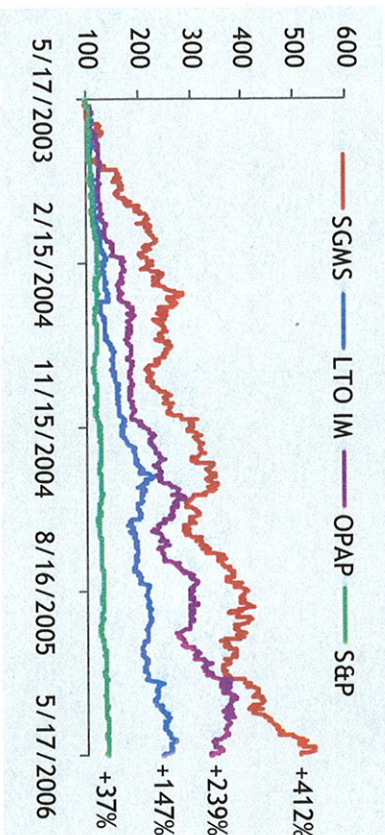
- Timing of transaction
 - Strong demand for high quality assets
 - High public market valuation levels for strategic buyers
 - Robust financing markets
- Federal tax leakage (35%) on profits
 - Transaction structures are available to help minimize impact
 - Asset deal
 - Royalties
- Potential buyer universe
 - Small group of domestic and foreign strategic buyers
 - Likely to attract considerable interest from financial sponsors
- Key concession agreement terms
 - Length of contract
 - State influence post-transaction
 - Monopoly status
- Impact on current Hoosier Lottery employees

Timing is optimal for the State to consider a divestiture of Hoosier Lottery

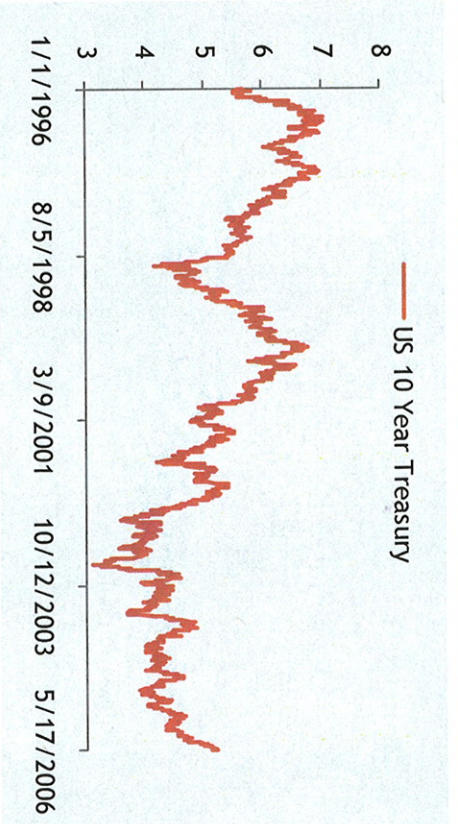


Source: Thomson Financial Data Services, JPMorgan
 Note: Announced deals through 3/31/06, data as of 4/03/06
¹ Annualized

Strategic buyer valuations



Gaming Index



Source: Tradeline

Robust private equity demand for the assets

- Significant growth in private equity funds
 - Over \$125bn of dry powder
- Historically low interest rates
- Resulting high leverage levels helping fund larger buyouts
- Most larger deals done as “consortium deals”
- Higher valuations, given lower return expectations and significant competition between private equity funds/ consortia

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Hoosier Lottery summary financials

\$ millions—Fiscal year ending June 30,

	2001	2003	2005	2006	2007	2008	2009	2010	2011	CAGR ('01-'05)	CAGR ('05-'11)
Revenues											
Instant ticket sales	\$309.8	\$405.5	\$489.7	\$548.5	\$609.1	\$755.9	\$750.3	\$803.0	\$859.4	12.1%	9.8%
On-line ticket sales	\$238.5	\$258.9	249.9	284.9	323.5	278.4	286.8	295.4	304.2	1.2%	3.8%
Total revenues	\$548.3	\$664.4	\$739.6	\$833.4	\$932.5	\$954.4	\$1,037.1	\$1,098.3	\$1,163.6	7.8%	7.8%
Game expenses											
Instant ticket expenses	\$185.0	\$258.5	\$327.2	\$367.1	\$407.7	\$452.5	\$502.3	\$537.6	\$575.4	15.3%	9.9%
On-line ticket expenses	119.5	124.6	121.0	137.5	155.6	134.5	138.6	142.7	147.0	0.3%	3.3%
Total other game expenses ¹	79.8	89.8	88.2	98.7	109.7	112.3	121.6	128.5	135.8	2.5%	7.5%
Total game expenses	\$384.3	\$472.9	\$536.4	\$603.3	\$673.0	\$699.3	\$762.5	\$808.8	\$858.2	8.7%	8.1%
SG&A	16.0	17.2	17.4	18.0	19.0	20.0	20.0	20.0	20.0	2.2%	2.3%
Total operating expenses	\$400.3	\$490.0	\$553.8	\$621.2	\$692.0	\$719.3	\$782.5	\$828.8	\$878.2	8.5%	8.0%
EBITDA	\$147.9	\$174.4	\$185.8	\$212.1	\$240.5	\$235.0	\$254.6	\$269.5	\$285.4	5.9%	7.4%
Depreciation	1.1	1.5	1.6	1.8	2.0	2.1	2.3	2.4	2.5	10.0%	7.8%
EBIT	\$146.8	\$172.9	\$184.2	\$210.3	\$238.5	\$233.0	\$252.4	\$267.2	\$282.9	5.8%	7.4%
Capex	\$0.5	\$4.8	\$0.7	\$2.2	\$2.4	\$2.2	\$2.4	\$2.5	\$2.7	6.5%	24.9%
Revenue-Growth Rates										Average ('01-'05)	Average ('05-'11)
Instant ticket sales %		14.8%	11.0%	12.0%	11.0%	11.0%	11.0%	7.0%	7.0%	11.5%	9.8%
On-line ticket sales %		(5.2%)	(14.9%)	14.0%	13.5%	(13.9%)	3.0%	3.0%	3.0%	(2.2%)	3.8%
Total Revenues % Growth		6.1%	0.6%	12.7%	11.9%	2.3%	8.7%	5.9%	5.9%	5.8%	7.9%
Game Expenses-Expense Margins											
Instant ticket expenses %	59.7%	63.7%	66.8%	66.9%	66.9%	66.9%	66.9%	66.9%	67.0%	63.5%	66.9%
On-line ticket expenses %	50.1%	48.1%	48.4%	48.3%	48.1%	48.3%	48.3%	48.3%	48.3%	48.4%	48.3%
Total game expenses %	70.1%	71.2%	72.5%	72.4%	72.2%	73.3%	73.5%	73.6%	73.8%	71.1%	73.1%
SG&A Margin	2.9%	2.6%	2.4%	2.2%	2.0%	2.1%	1.9%	1.8%	1.7%	2.4%	2.0%
EBITDA Margin	27.0%	26.2%	25.1%	25.1%	25.5%	25.8%	24.6%	24.6%	24.5%	26.1%	24.9%
Capex % Depreciation	49.5%	321.3%	43.5%	120.0%	120.0%	105.0%	105.0%	105.0%	105.0%	103.8%	100.5%
Capex % Revenues	0.1%	0.7%	0.1%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%

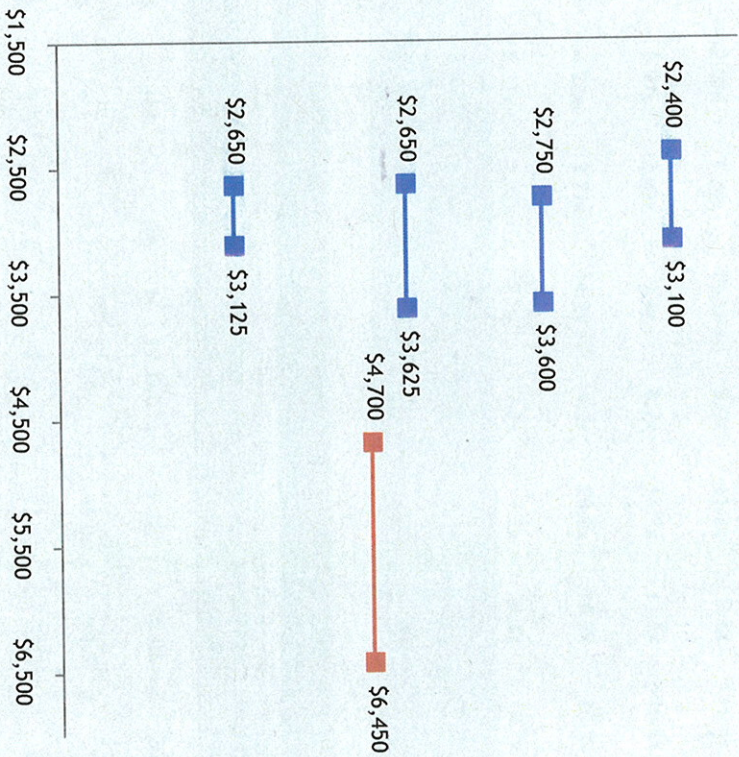
Source: JPMorgan estimates
 Note: ¹ Includes: ticket printing costs, advertising and promotion, retailer commissions, on-line professional services and LTVM lease and courier expenses

Hoosier Lottery preliminary valuation

Valuation summary (firm value, \$ millions)

Potential value of the future state tax stream could be up to \$465 mm¹

- Comparable public analysis**
 - 10.0x to 13.0x CY 2007E EBITDA²
- Precedent transactions**
 - 13.0x to 17.0x FY 2006E EBITDA
- Discounted Cash Flow³**
 - With Federal and State taxes
 - Without taxes
- Leveraged Buyout⁴**
 - Maximum Leverage of 10.0x FY 2007E EBITDA



Statistic	Low	High
EBITDA		
EBITDA multiple		
EBITDA	\$237.7	\$212.1
EBITDA multiple	10.0x	13.0x
EBITDA	\$212.1	\$212.1
EBITDA multiple	12.5x	17.1x
EBITDA	\$212.1	\$212.1
EBITDA multiple	22.2x	30.4x
EBITDA	\$240.5 ⁵	\$240.5 ⁵
EBITDA multiple	11.0x	13.0x

Note: FYE, June 30

¹ Based on 8.0% discount rate

² 2007 CY EBITDA of \$237.7 mm calculated as midpoint of FY 2007 of \$240.5 mm and FY 2008 of \$235.0 mm





³ Based on perpetuity growth rate of 3.25%-3.75% and discount rates of 7.5%-8.5%

⁴ Assumes 11.0x-13.0x LTM EBITDA exit multiple and 16% to 22% required returns





⁵ FY 2007E EBITDA

Public market comparables

Gaming universe—Market information (\$USD)

Company	Price (\$USD)	% 52 wk high	Equity Mkt Cap. (\$mm)	Firm value (\$mm)	FV/Revenues			FV/EBITDA			FV/EBIT			P/E	Dividend Yield	Growth Rate
					CY 2006E	CY 2007E	CY 2006E	CY 2007E	CY 2006E	CY 2007E	CY 2006E	CY 2007E				
 OPAP	\$36.79	85.2%	\$11,736	\$11,321	2.00x	1.86x	11.1x	9.0x	11.2x	9.2x	16.4x	12.8x	5.9%	12.0%		
 Lottomatica	43.06	87.1	5,558	8,359	3.97x	3.43x	9.6x	8.7x	13.7x	11.8x	16.9x	18.9x	3.8%	9.0%		
 Sci. Games	38.32	94.4	3,474	4,016	4.22x	3.72x	14.2x	11.9x	20.9x	16.3x	30.2x	23.6x	NA	20.8%		
 Intralot	30.25	84.8	2,354	2,292	2.31x	2.42x	7.0x	7.7x	7.7x	8.6x	16.1x	21.9x	2.7%	15.5%		
Average					3.12x	2.86x	10.5x	9.3x	13.4x	11.5x	19.9x	19.3x		4.2%	14.3%	
Median					3.14x	2.92x	10.3x	8.8x	12.4x	10.5x	16.7x	20.4x		3.8%	13.8%	

Gaming universe—Credit and operating information (\$USD)

Company	Equity Market Cap (\$mm)	Firm Value (\$mm)	Debt/Tot. Mkt Cap	Interest Coverage	Total Debt/ LTM EBITDA	'05-'06 Sales Growth	'06-'07 Sales Growth	'06 EBITDA Margin	'07 EBITDA Margin	EBITDA-Capex/Sales	Credit Rating (Moody's/S&P)
 Lottomatica	5,558	8,359	36.0%	4.1	3.7	8.0	16.0	41.5	39.4	37.0%	Ba1/BBB
 Scientific Games	3,474	4,016	14.3%	8.5	2.6	21.9	13.4	29.8	31.4	24.6%	Ba2/BB
 Intralot	2,354	2,292	3.0%	40.5	0.4	47.5	(4.3)	32.9	31.2	26.6%	NA
Average			13.4%	141.7x	1.7x	24.2%	8.0%	30.5%	30.7%	26.9%	
Median			8.7%	24.5x	1.5x	20.6%	10.2%	31.3%	31.3%	25.6%	
 Hoosier Lottery						12.7%	11.9%	25.5%	25.8%	25.5%	

Source: estimates taken from equity research: OPAP-NBGI Research 3/16/06, Lottomatica (proforma for GTech) - Centrosim 3/23/06, Scientific Games- IBES 5/9/06, Intralot-Proton Securities 3/29/06. Market data as of 5/16/06 and financial information as of 12/31/05

Mergers and acquisitions activity

Transaction comparables (\$ millions, except per share figures)

Date Announced	Target	Acquirer	Country	Value 100% (\$USDmm)	Transaction Value /		
					Revenues (sales)	EBITDA	EBIT
Service Providers							
Jan-06	Gtech	Lottomatica	USA	\$4,800	3.71x	9.8x	15.5x
Bingo and Lotteries							
Dec-05	Banca Comerciála Romana	Erste Bank (61.9%)	Romania	7,272	N/A	N/A	N/A
Aug-05	Gala Group	Permira (30%)	UK	3,393	N/A	13.3x	N/A
Jul-05	Opap	Int'l investors (16.4%)	Greece	14,165	3.49x	16.7x	17.2x
Jun-05	Westvale Leisure	Top Ten Holdings	UK	10	1.63x	N/A	N/A
Feb-03	Gala Group	Candover/Cinven	UK	2,032	2.84x	10.8x	13.0x
Nov-01	Lottomatica (59%)	De Agostini Family	Italy	1,031	2.87x	7.0x	13.6x
Sept-01	Global Bingo Corp (50%)	Lottomatica	Spain	77	0.21x	N/D	N/A
Median					2.23x	10.8x	13.3x
Online							
May-05	Newbold	Gaming Corp	Internet	\$20	N/A	10.1x	N/A
Oct-04	Paradise Poker	Sportingbet	Internet	298	6.75x	N/A	12.1x
Median					6.75x	10.1x	12.1x
Betting/bookmakers							
Dec-05	Coral	Gala	UK	\$3,838	N/A	13.6x	N/D
Jul-05	Jack Brown Welsh	Ladbrokes	UK	134	N/A	9.5x	N/D
May-05	Stanley LBOs	William Hill	UK	933	0.37x	13.5x	16.1x
Feb-05	Sisal Spa	Clessidra Capital Partners	Italy	507	1.12x	6.6x	10.3x
Oct-02	Coral Eurobet	Charterhouse	UK	1,236	0.49x	10.5x	12.7x
Median					0.49x	10.5x	12.7x
Spreadbetting							
Oct-05	Sporting Index	Hg Capital	UK	\$133	3.50x	10.2x	12.6x
Mar-03	IG Index	CVC	UK	233	3.67x	9.2x	11.0x
Dec-02	Sporting Index	Duke Street Capital	UK	83	0.64x	6.8x	N/A
Median					3.50x	9.2x	11.8x

Source: Annual reports, Company data, press releases

Preliminary discounted cash flow analysis: tax rate 43.5%

Financial projections (\$ millions)

	Projection period				
	2007	2008	2009	2010	2011
Net revenue	\$932.5	\$954.4	\$1,037.1	\$1,098.3	\$1,163.6
% growth	11.9%	2.3%	8.7%	5.9%	5.9%
EBITDA	240.5	235.0	254.6	269.5	285.4
% margin	25.8%	24.6%	24.6%	24.5%	24.5%
EBIT	238.5	233.0	252.4	267.2	282.9
% margin	25.6%	24.4%	24.3%	24.3%	24.3%
Taxes	103.7	101.3	109.8	116.2	123.0
EBIAT	134.7	131.6	142.6	150.9	159.8
+ Depreciation and amortization	2.0	2.1	2.3	2.4	2.5
+ Change in NWI	(3.2)	(0.8)	(2.7)	(2.0)	(2.2)
- Capex	(2.4)	(2.2)	(2.4)	(2.5)	(2.7)
Free cash flows for discounting	131.2	130.8	139.8	148.8	157.5

Present value of FCF

WACC	(\$mm)
7.5%	\$590
8.0%	\$583
8.5%	\$577

Terminal Value (\$mm)

WACC	Perpetuity growth rate		
	3.25%	3.50%	3.75%
7.5%	\$2,665	\$2,839	\$3,035
8.0%	\$2,330	\$2,466	\$2,617
8.5%	\$2,060	\$2,168	\$2,288

Firm value (\$mm)

WACC	Perpetuity growth rate		
	3.25%	3.50%	3.75%
7.5%	\$3,255	\$3,429	\$3,625
8.0%	\$2,913	\$3,049	\$3,200
8.5%	\$2,637	\$2,745	\$2,864

Terminal value/ Firm value

WACC	Perpetuity growth rate		
	3.25%	3.50%	3.75%
7.5%	82%	83%	84%
8.0%	80%	81%	82%
8.5%	78%	79%	80%

Firm value/ FY 2006E EBITDA

WACC	Perpetuity growth rate		
	3.25%	3.50%	3.75%
7.5%	15.3x	16.2x	17.1x
8.0%	13.7x	14.4x	15.1x
8.5%	12.4x	12.9x	13.5x

Terminal value/ FY 2011E EBITDA

WACC	Perpetuity growth rate		
	3.25%	3.50%	3.75%
7.5%	9.3x	9.9x	10.6x
8.0%	8.2x	8.6x	9.2x
8.5%	7.2x	7.6x	8.0x

Preliminary discounted cash flow analysis: tax rate 0.0%

Financial projections (\$ millions)

	Projection period			
	2007	2008	2009	2010
Net revenue	\$932.5	\$954.4	\$1,037.1	\$1,163.6
% growth	11.9%	2.3%	8.7%	5.9%
EBITDA	240.5	235.0	254.6	269.5
% margin	25.8%	24.6%	24.6%	24.5%
EBIT	238.5	233.0	252.4	267.2
% margin	25.6%	24.4%	24.3%	24.3%
Taxes	0.0	0.0	0.0	0.0
EBIAT	238.5	233.0	252.4	267.2
+ Depreciation and amortization	2.0	2.1	2.3	2.4
+ Change in NWI	(3.2)	(0.8)	(2.7)	(2.0)
- Capex	(2.4)	(2.2)	(2.4)	(2.5)
Free cash flows for discounting	234.9	232.1	249.6	265.0
				280.6

Present value of FCF

WACC	(\$mm)
7.5%	\$1,051
8.0%	\$1,039
8.5%	\$1,028

Terminal Value (\$mm)

WACC	Perpetuity growth rate		
	3.25%	3.50%	3.75%
7.5%	\$4,747	\$5,056	\$5,406
8.0%	\$4,150	\$4,391	\$4,661
8.5%	\$3,669	\$3,862	\$4,075

Firm value (\$mm)

WACC	Perpetuity growth rate		
	3.25%	3.50%	3.75%
7.5%	\$5,799	\$6,108	\$6,458
8.0%	\$5,190	\$5,431	\$5,700
8.5%	\$4,697	\$4,890	\$5,103

Terminal value/ Firm value

WACC	Perpetuity growth rate		
	3.25%	3.50%	3.75%
7.5%	82%	83%	84%
8.0%	80%	81%	82%
8.5%	78%	79%	80%

Firm value/ FY 2006E EBITDA

WACC	Perpetuity growth rate		
	3.25%	3.50%	3.75%
7.5%	27.3x	28.8x	30.4x
8.0%	24.5x	25.6x	26.9x
8.5%	22.1x	23.1x	24.1x

Terminal value/ FY 2011E EBITDA

WACC	Perpetuity growth rate		
	3.25%	3.50%	3.75%
7.5%	16.6x	17.7x	18.9x
8.0%	14.5x	15.4x	16.3x
8.5%	12.9x	13.5x	14.3x

LBO analysis summary

Illustrative LBO assumptions

- Transaction date 6/30/07
- Minimum equity contribution of 30.0%
- Maximum leverage of 10.0x FY 2007E EBITDA of \$240.5 mm
 - 9.0% blended interest rate cost
- Entry and exit at the same EBITDA multiple or lower
- Minimum target rate of return of 16.0-22.0%

IRR sensitivity

Entry Multiple	Firm value	LTM Exit multiple		
		12.0x	13.0x	14.0x
12.0x	\$2,886	21.3%		
13.0x	\$3,127	13.0%	17.7%	
14.0x	\$3,367	7.1%	11.5%	15.4%

Illustrative example of 14.0x entry EBITDA multiple, 9.75x leverage

Sources and uses (\$ millions)

Sources		% total
New Debt	\$2,345	67.7%
New Equity	1,121	32.3%
Total sources	\$3,466	100.0%
Uses		
Purchase price	\$3,425	98.8%
Fees and Expenses	41	1.2%
Total uses	\$3,466	100.0%

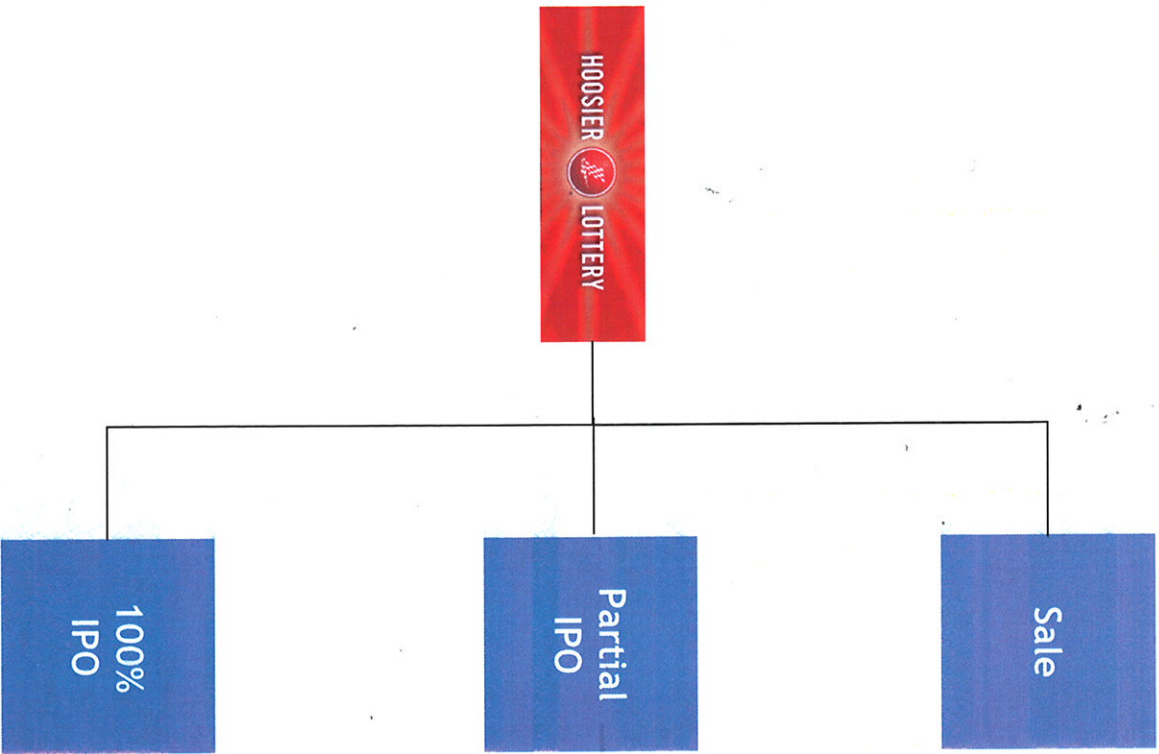
Credit Statistics

	FY ending June 30,	2007	2008	2009	2010	2011	2012
Total debt	\$2,345	\$2,323	\$2,296	\$2,259	\$2,213	\$2,156	
Total debt/EBITDA	9.8x	9.9x	9.0x	8.4x	7.8x	7.1x	
EBIT/Interest	1.1x	1.1x	1.2x	1.3x	1.4x	1.5x	
EBITDA/Interest	1.1x	1.1x	1.2x	1.3x	1.4x	1.5x	
EBITDA - Capex/Interest	1.1x	1.1x	1.2x	1.3x	1.4x	1.5x	

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Analysis of strategic alternatives



- Achieves 100% separation
- Strategies available to minimize value leakage due to Federal taxes (e.g. asset sale and royalty structures)
- Robust buyer universe
- Strong financing markets and public company valuations

- Achieves partial separation only
 - No clarity on timing of 100% separation
- Public market valuation is likely to be lower than private market valuation (revenue synergies for buyers)
- IPO discount and underwriting costs
- More limited strategies available to minimize value leakage due to Federal taxes (no step-up in basis from asset sale)
- Need to establish public company infrastructure/ timing to go to market
- No true U.S. market comparables

- Same considerations as above, plus:
 - Achieves 100% separation
 - Market appetite for 100% IPO

Asset sales and royalties could help bridge the valuation gap due to Federal taxes

Illustrative asset purchase example

- Upon privatization, profits at Hoosier Lottery will be subject to a 35% Federal income tax
 - Value loss due to Federal taxes of ~ \$2.0-2.8bn
- In the context of a sale, there are two main avenues by which this tax leakage may be minimized
 - Structure transaction as an asset purchase
 - Potential asset write-ups (including to intangibles) will be tax deductible
 - Structure some form of recurring royalty payment to the State to reduce taxable income
- Royalties can typically be structured as:
 - Percentage of revenues (or ticket price)
 - Percentage of profits
 - Fixed dollar amount per year
- Revenue royalties may allow State to achieve its objectives
 - Royalties on profits are harder to define in legal contracts
 - Fixed dollar royalty may not optimize buyer/state objectives
- Transaction structures require further study

Revenue Royalties (assumes perpetual concession agreement)

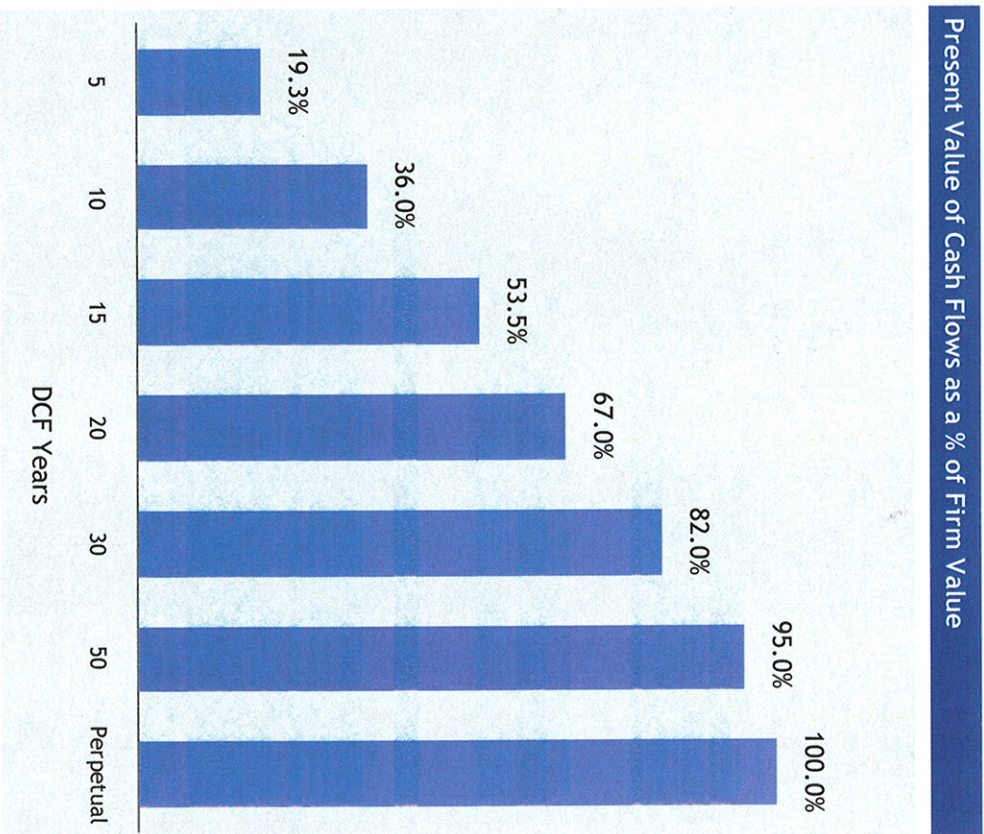
% of Revenues	Value to buyer ¹	Value retained by State			Total	Total value	Value at 0% taxes	Value realized
		State tax	Royalty ¹	Total				
0%	\$3,049	\$465	\$0	\$465	\$3,514	\$5,431	65%	
2%	\$2,795	\$427	\$471	\$899	\$3,693	\$5,431	68%	
4%	\$2,541	\$389	\$943	\$1,332	\$3,872	\$5,431	71%	
6%	\$2,287	\$351	\$1,414	\$1,765	\$4,051	\$5,431	75%	
8%	\$2,033	\$313	\$1,885	\$2,198	\$4,231	\$5,431	78%	
10%	\$1,779	\$274	\$2,356	\$2,631	\$4,410	\$5,431	81%	

Note: ¹ At 3.5% perpetuity growth rate and 8.0% discount rate

	8.5%	8.0%	7.5%
Discount rate	8.5%	8.0%	7.5%
Sale proceeds	\$2,745	\$3,049	\$3,429
Assumed tax basis in assets	\$150	\$150	\$150
Tax deductible intangible	\$2,595	\$2,899	\$3,279
Intangible amortization: Period (years)	15	15	15
Amount	\$173	\$193	\$219
Tax benefit per year @ 43.5%	\$75	\$84	\$95
Tax loss per year @ 8.5%	(\$15)	(\$16)	(\$19)
Net tax benefit	\$61	\$68	\$77
Potential additional value realized	\$503	\$579	\$675
Sale proceeds	\$2,745	\$3,049	\$3,429
	\$3,248	\$3,628	\$4,104
State taxes	\$465	\$465	\$465
Total value realized	\$3,713	\$4,093	\$4,569
DCF Value (pre-tax)	\$4,890	\$5,431	\$6,108
Sale proceeds as % value realized	76%	75%	75%

Key terms of concession agreement

- Terms and number of years
- Monopoly status
- Royalty structure
- Plans for other gaming venues
- Treatment of employees
- Post-privatization governance
 - Change of control
- Limits on advertising








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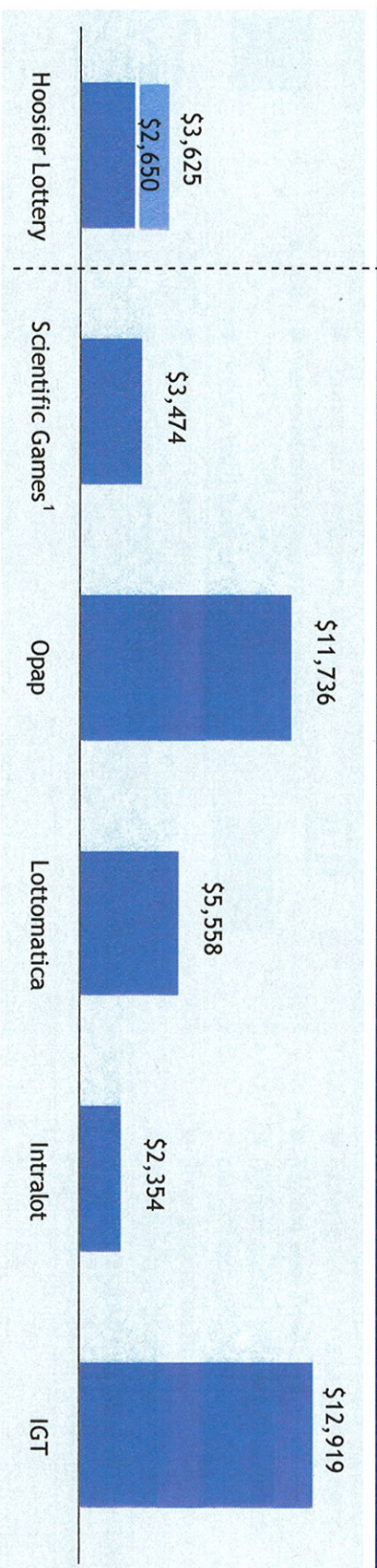
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Overview of potential strategic buyers

Selected buyer list

Name	Market cap	'05 revenues	'05 EBITDA	06 FV/EBITDA	06 P/E	Business description
Service providers						
 SCIENTIFIC GAMES	\$3,474.4	\$781.7	\$224.5	14.2x	30.2x	Provides services, systems, and products to the lottery and pari-mutuel wagering industries worldwide
Foreign companies						
 ORION	11,736.0	3,695.2	714.0	11.1x	16.4x	Organizes and conducts lottery games for the Greek State
 LOTTOMATICA	5,558.2	1,839.9	788.9	9.6x	16.9x	Manages and operates lottery games and offering other automated services; announced the acquisition of GTeach on 1/10/06
 INTRALOT	2,354.3	523.0	160.0	7.0x	16.1x	Leading global supplier of integrated gaming and transaction processing systems to lottery organizations and financial services providers worldwide
Equipment manufacturers						
 IGT	12,918.7	1,180.9	906.6	13.7x	30.0x	Engages in the design, development, manufacture, distribution, and sale of computerized gaming machines and systems products worldwide

Hoosier Lottery DCF vs. Market Capitalization of potential strategic buyers

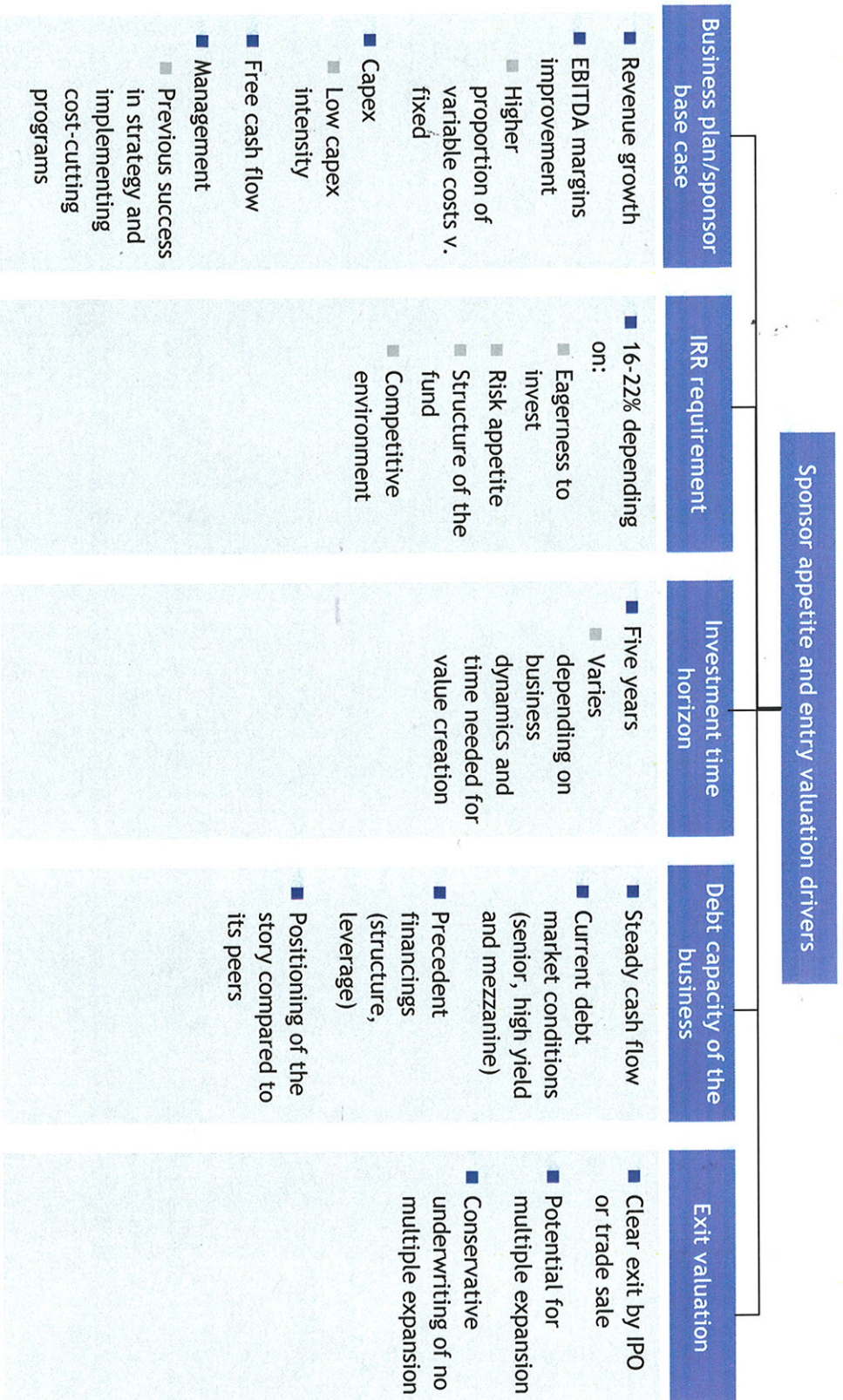


Note: ¹ 24% owned by MacAndrews & Forbes

Potential financial sponsors

Sponsors (\$ millions)		
Sponsor	Fund size	Comments
 APOLLO MANAGEMENT L.P.	\$10,000	<ul style="list-style-type: none"> Value-focused sponsor Focuses on companies with stable cash flows
BainCapital	10,000	<ul style="list-style-type: none"> New fund Known for extensive due diligence and consulting heritage Looked at GTECH
 BC Partners	€5,800	<ul style="list-style-type: none"> New fund Demonstrated interest in consumer and entertainment industry
 The Blackstone Group	13,500 ¹	<ul style="list-style-type: none"> Significant track record in consumer and entertainment investments
 The Carlyle Group	7,850 ²	<ul style="list-style-type: none"> Strong experience in working with the government/public sector History of investments in hotel and resort industries
 CERBERUS CAPITAL MANAGEMENT, L.P.	10,000+	<ul style="list-style-type: none"> Aggressively looking to deploy capital Contrarian investment thesis
 Goldman Sachs	8,500	<ul style="list-style-type: none"> Demonstrated interest in consumer sector Took a hard look at GTECH
 JPMorgan Partners	4,000 ¹	<ul style="list-style-type: none"> Consumer is key area of focus Experienced in restaurant sector
¹ Target		
² Excludes European fund		
Sponsor	Fund size	Comments
 KKR	\$12,000 ¹	<ul style="list-style-type: none"> Able to write large equity checks Highly seasoned corporate partner
 MACANDREWS & FORBES HOLDINGS, INC.	N/A	<ul style="list-style-type: none"> Demonstrated strong interest in entertainment and consumer sector Investor in Scientific Games
 MDP [®]	6,500 ¹	<ul style="list-style-type: none"> History of investments in restaurant and entertainment industry Strong Midwestern culture
 OAKTREE CAPITAL MANAGEMENT, LLC.	1,770	<ul style="list-style-type: none"> Strong gaming sector experience Actively seeking to deploy capital
 Permira	€10,000 ¹	<ul style="list-style-type: none"> Large European fund with U.S. presence Aggressively looking to deploy capital
 PROVIDENCE EQUITY	4,250	<ul style="list-style-type: none"> Dedicated focus on entertainment industry. Looked at GTECH
 terra firma	€7,600	<ul style="list-style-type: none"> Focused on large complex businesses Specialize in operations and strategy
 THI	9,000 ¹	<ul style="list-style-type: none"> Experienced in restaurant industry Raising new fund
 TEXAS PACIFIC GROUP	14,000 ¹	<ul style="list-style-type: none"> Demonstrated interest in consumer companies Strong focus on branded assets “Contrarian” investment thesis
 WARBURG PINCUS	8,000	<ul style="list-style-type: none"> Recently closed new \$8.0 billion fund Aggressively looking to deploy capital

Financial sponsor considerations

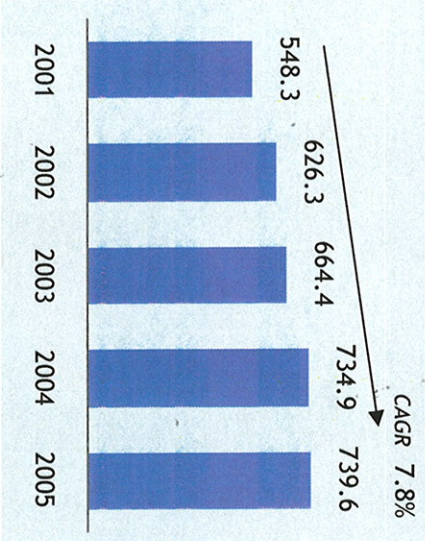


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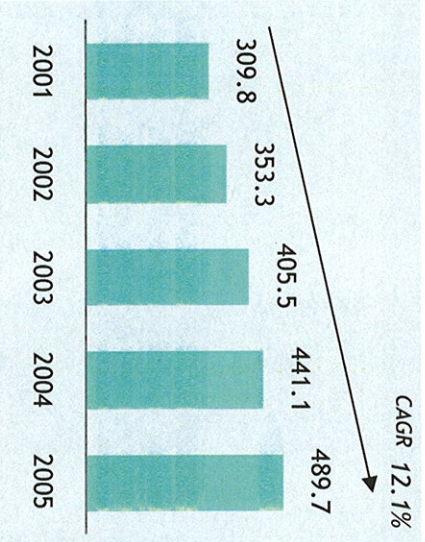
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Historical Revenues and Expenses

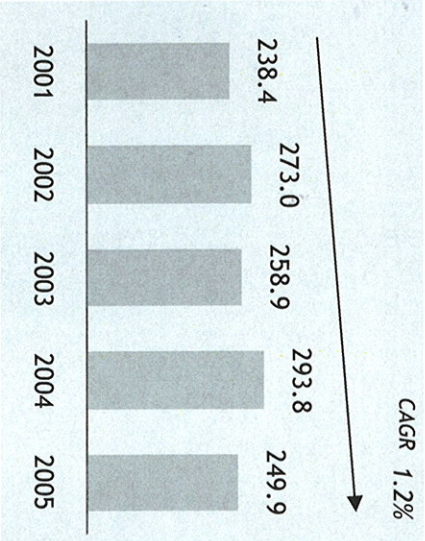
Operating Revenues (\$ mm)



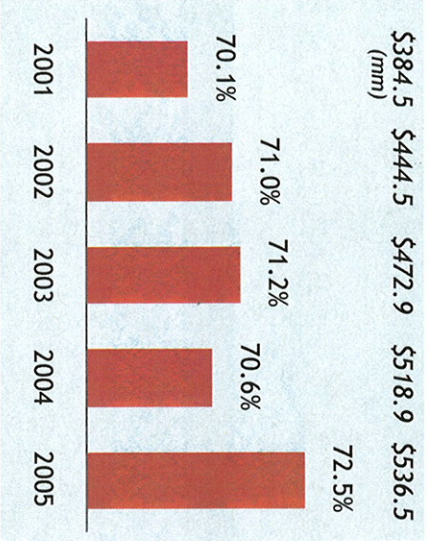
Instant Game Revenues (\$ mm)



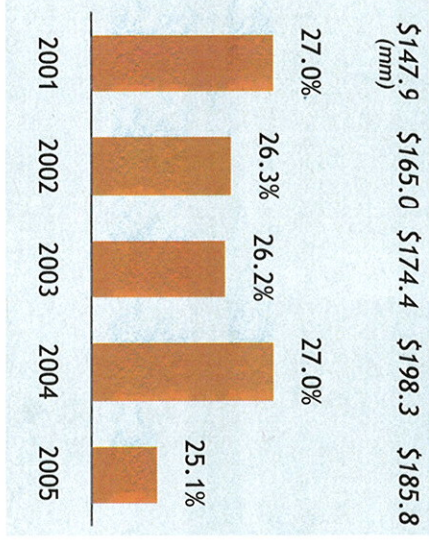
On-line Game Revenues (\$ mm)



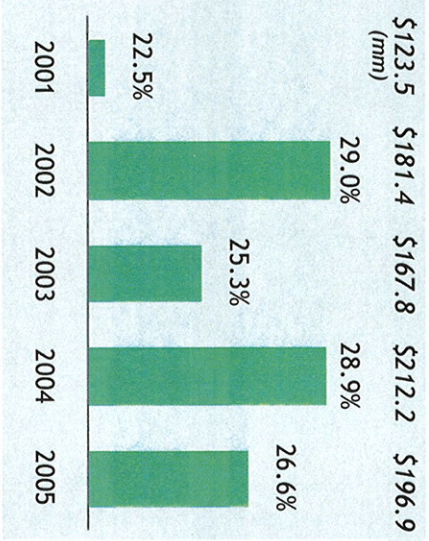
Game Expenses¹ (% of Revenue)



EBITDA Margins (% of Revenue)



Free Cash Flow Margins (% of Revenue)



\$384.5 \$444.5 \$472.9 \$518.9 \$536.5
(mm)

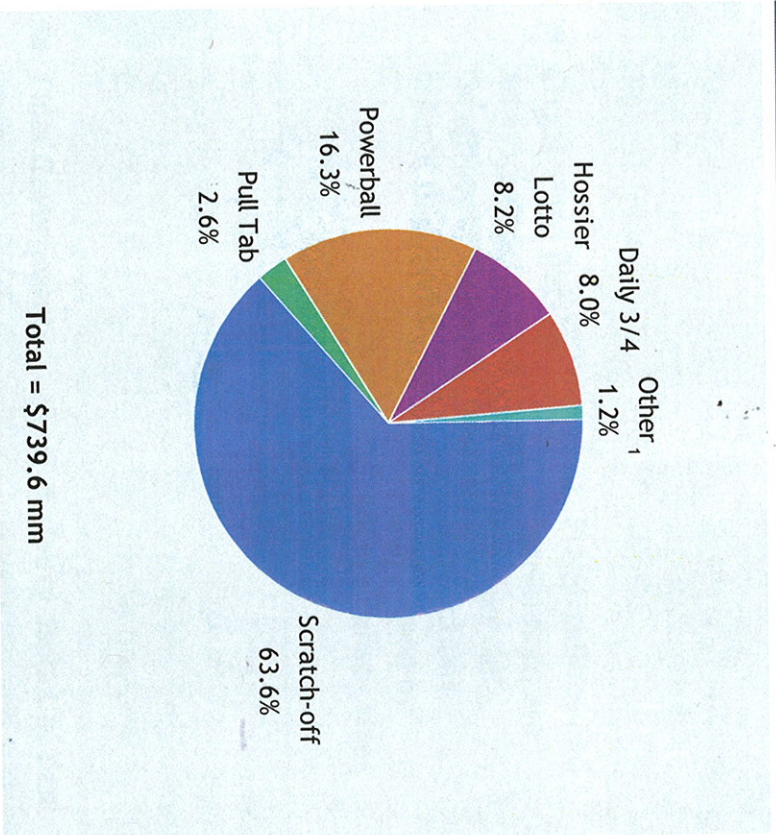
\$147.9 \$165.0 \$174.4 \$198.3 \$185.8
(mm)

\$123.5 \$181.4 \$167.8 \$212.2 \$196.9
(mm)

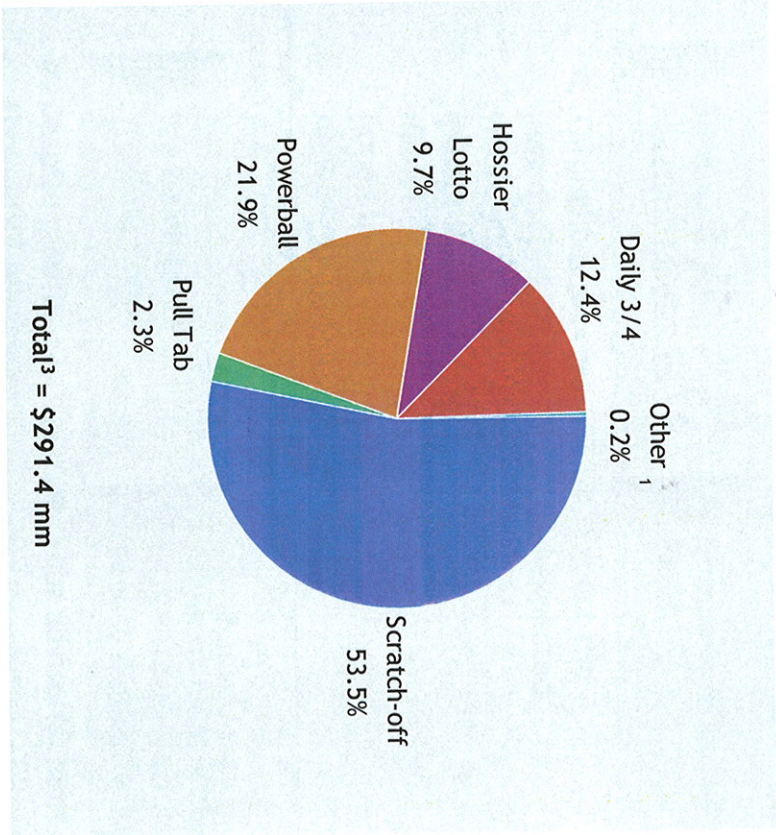
Source: State Lottery Commission of Indiana 2001 - 2005 CAFR
¹ Includes television game show prizes, ticket printing costs, advertising and promotion, retailer commissions, on-line professional services and ITVM lease and courier services

Game Revenue and Gross Margin

FY 2005 Revenues by Game (% of total)



FY 2005 Gross Margin by Game² (% of total)



Gross Margin by Game

Game Expenses	2005	2004
Scratch-off tickets sales/ Instant ticket sales	66.9%	65.0%
Pull-tab	65.3%	64.7%
Powerball	46.9%	47.9%
Hossier Lotto	53.7%	53.4%
Daily Draw games	46.4%	45.5%
Other	50.0%	NA

Source: State Lottery Commission of Indiana 2005 CAFR
¹ Other includes Raffle, TV Bingo, and Lucky 5
² Revenue - less game expenses

Insights from years of privatizations

Teamwork & Cooperation = Highest Value

- Cooperation between Advisors and Government Team is critical to success

Private Transactions in Government World

- Privatizations and conversions are commercial transactions conducted by Government rules

Finding Hidden Assets & Liabilities

- Throughout process, may discover value where you least expect it and liabilities when you hoped there were none

Problems from Left Field

- Expect the unexpected

Don't End Up on the One Yard Line

- Final Government approvals - NOT agreement between parties - is the Objective

From the Beginning, Think Backwards

- Every aspect of deal execution and strategy should be focused on public acceptance and Government approvals

It's a Long & Winding Road

- Despite careful, thoughtful planning, invariably, the transaction will not end up as envisioned from the start

Advisors must know GOVERNMENT to secure highest value

- Your advisor(s) must
 - Know Government
 - Know the Assets
 - Be Solutions Oriented

The State could issue Lottery Revenue Bonds to generate funds

Hoosier Lottery

- The State may consider issuing Lottery Revenue Bonds
- As previously discussed, Hoosier Lottery system is leverageable by either the State or a potential buyer or lease partner
- Hoosier Lottery may issue either taxable or tax-exempt bonds without any security obligation from the State
 - 3x to 5x Debt Service Coverage
 - 30-year level debt service
 - Debt Service Reserve Fund requirement
 - Debt Capacity of \$527 million to \$976 million¹
- With 2x coverage, bonds would likely need to carry a credit commitment such as a moral obligation pledge by the State to achieve rating of “A” or better
 - Debt Capacity of \$1.318 billion to \$1.464 billion¹

¹ Market Conditions as of May 15, 2006

Lottery Revenue Bonds: Peer Comparison

- Oregon
 - Rating: A1
 - Debt Service Coverage: 6x
 - Additional Bonds Test: 4x
 - Moral Obligation pledge by the State
- West Virginia
 - Rating: A2
 - Debt Service Coverage: 4x
 - Additional Bonds Test: 3x
 - Outstanding bonds must have lien priority
- Florida
 - Rating: A3
 - Debt Service Coverage: 5x
 - Additional Bonds Test: 3x

JPMorgan has played a significant role in prominent privatization transactions



JPMorgan Role:

Financial Advisor
Evaluated Proposed Capital Master Plan

Transaction:

Evaluation of financing alternatives

Importance:

JPMorgan leveraged its experience with sovereign debt and supra-national entities to finance the \$800+ million project.



JPMorgan Role:

Financial Advisor

Transaction:

Privatization of United Nations' Hotel

United Nations Capital Master Plan

- JPMorgan was retained by the United Nations to develop a concept paper evaluating financing alternatives for its Capital Master Plan
- The Capital Master Plan includes the renovation of the New York Headquarters complex and provides comprehensive, systematic and cost efficient methods to address deficiencies of the aging buildings.
- As part of its assignment, JPMorgan developed an innovative credit and security structure to introduce the United Nations to the capital markets
 - JPMorgan's cash flow modeling focused on implementing a cost efficient structure based on the United Nation's cash flow needs
 - Of particular concern were the uncertainty and sovereign risks associated with member assessments

United Nations' Hotel - New York Economic Development Corporation

- JPMorgan later advised the New York City Economic Development Corporation on the privatization of the United Nations' Hotel to private corporations
- The highest valuation for the sale of a Government owned hotel was realized. The sale to a Hong-Kong hotel chain closed in 1997 netting \$102 million

Michael Finnegan

Managing Director, New York
Head of Public-Private Initiatives

Michael Finnegan, Managing Director and Head of the Regional Offices of Public Finance, headed the East Group and was responsible for housing, environmental and sports finance before assuming the role as the department's Head of Public-Private Initiatives. Prior to joining Morgan, Mr. Finnegan served three years as Chief Counsel to Governor George Pataki of New York, where he was responsible for all legislative, legal and policy matters. He was the first appointment to the new Administration and, at midnight on January 1, 1995, swore in George Pataki as the 57th Governor of New York. The American Academy of Public Administrators twice recognized Mr. Finnegan for his work in State government, and he received the 1997 Rockefeller Institute Award for Distinguished Public Service. In 1998, he received the Conspicuous Service Medal, New York's highest award for civilian service.

Mr. Finnegan was the JPMorgan Team Leader advising the State of Connecticut in the sale of hydra-electric assets in 1998. He led three other assignments advising the State of Connecticut in subsequent auctions. He was a member of the historic World Trade Center sale by the Port Authority of New York and New Jersey. He worked with Massachusetts, New Hampshire and Rhode Island in the auctions of nuclear power plants and currently leads the JPMorgan team advising Harris County Texas regarding the sale of its toll roads.

Mr. Finnegan was appointed to the EPA Environmental Finance Advisory Board in 1997 and also served on the board of the UN Development Programme. He was a participant in the Aspen Institute's symposium on Wall Street's valuation of environmental performance and serves on the Hudson River Greenway Council. He frequently lectures on environmental issues at locations such as the Confederación Hidrográfica del Ebro (Zaragoza, Spain), Pace Environmental Law Center, the American Law Institute/American Bar Association Annual Conference on Environmental Law, Columbia University's Graduate Program in International Affairs, and the New York State Bar Association International Environmental Law Conference in London.

Mr. Finnegan was twice recognized by the American Academy of Public Administrators for his work in State government, received the Rockefeller Institute Award for Distinguished Public Service and was awarded the "Conspicuous Service Medal", New York's highest award for civilian service.

Eric Rockhold

Managing Director, Chicago
Public Finance

Eric Rockhold, *Managing Director and Head of Central Region*, has focused throughout his 18-year career in public finance his efforts on clients across the Midwest and has structured a variety of transactions for municipal issuers in Indiana, Illinois, Kentucky, Ohio, Michigan and Wisconsin. Moreover, he has had significant experience working closely with a number of state-level issuers, having senior managed transactions for the State of Indiana, the Commonwealth of Kentucky, and many agencies in the States of Illinois, Michigan, Ohio and Wisconsin. His other municipal clients have included Indiana University, City of Indianapolis, City of Chicago, Midway and O'Hare Airports, Illinois Tollway Authority, City of Columbus, Ohio State University, and the University of Michigan. Mr. Rockhold holds a B.A. from Ohio Wesleyan University and an MBA from The University of Chicago Graduate School of Business. Selected senior managed transaction experience over the past two years includes:

- Indiana Finance Authority: swap counterparty and dealer
- Indiana University; Commercial Paper dealer and senior manager
- Indiana State Office Building Commission
- Indiana Housing Financing Authority: co-manager
- Commonwealth of Kentucky Asset/Liability Corporation: multiple transactions
- Illinois Toll Highway Authority advisor and senior manager in 2006; forward purchase agreement
- Michigan State Building Authority: senior manager and remarketing agent
- Ohio Public Facilities Commission: swap provider, hedging program advisor, and senior manager for OPFC's Higher Education and Common Schools credits
- City of Chicago: variable rate and fixed rate bonds; escrow structuring; general obligation and sales tax experience
- Midway and O'Hare Airport financings and debt restructurings
- Illinois Metropolitan Water Reclamation District: credit provider
- Ohio State University: variable rate transactions
- University of Illinois swap counterparty and underwriter

Glenn Carlin

Managing Director, New York
Head of Lodging & Gaming

Mr. Carlin is a Managing Director in the Real Estate, Lodging & Gaming Investment Banking group at JPMorgan, where he is the Global Head of all lodging and gaming company coverage. Glenn advises these clients on mergers & acquisitions as well as provides access to a range of capital market products including bank, bonds, equity, and risk management. Most recently, Glenn advised the Special Committee of the Board of Directors of Kerzner International on the sale of the company to a management-led investor group for \$3.8 billion. Also this year, Glenn advised Colony Capital and Kingdom Holdings on its \$3.9 billion acquisition of Fairmont Hotels & Resorts. In 2005, Glenn advised Wyndham International on its \$3.24 billion sale to Blackstone as well as BLB Investors (a consortium of Kerzner International, Starwood Capital, and Waterford Gaming) in its \$455 million acquisition of Wembley Inc. Glenn was also co-financial advisor to Harrah's on its acquisition of Horseshoe and MGM Mirage on its acquisition of Mandalay. Glenn has completed lead capital markets transactions for Caesars (\$375 million convert), Kerzner (\$400 million high yield bonds), Harrah's (\$750 million bonds), Wynn Resorts (\$1.3 billion high yield bonds), Scientific Games (\$200 million high yield bonds and \$275 million convertible) and Gaylord Entertainment (\$223 million common equity).

JPMorgan was also a co-lead in Wynn Resorts' \$492 million IPO and Las Vegas Sands' \$794 million IPO. Glenn also advised the management of Sunburst Hospitality in a management-led buy-out as well as Boca Resorts in the \$335 million sale of the Arizona Biltmore to KSL Enterprises. In 1999, Glenn advised Wyndham's review of strategic alternatives, which led to a \$1 billion convertible preferred investment by an investor group led by Apollo and Thomas H. Lee and \$2.45 billion in new credit facilities.

Glenn led JPMorgan's lodging team in its advisory and financing roles in Starwood's acquisition of ITT Corporation. Glenn has been with JPMorgan, or its predecessor firms, for 13 years which follows four years at Morgan Stanley Realty and nearly two years at HVS Financial Services, a hospitality investment banking firm which he co-founded.

Glenn received an MBA in Real Estate Finance from Columbia Business School and a BS in Economics from the Wharton School of Business. Glenn is also a Certified Public Accountant.

Aakash Bhasin

Vice President, New York
Mergers & Acquisitions

Aakash Bhasin is a Vice President in the Global Mergers and Acquisitions group of JPMorgan. Aakash joined the M&A group in 1998 and is primarily responsible for covering the real estate, mining and metals and chemicals sectors. He has a B.A. degree in Economics (with honors) from Grinnell College, Iowa. Selected transaction experience includes advising:

- Special Committee of Kerzner on sale of company
- EQR on pending sale of its Lexford subsidiary
- JPMorgan Chase on the sale of its insurance business
- Colony Capital and Kingdom Ventures on the acquisition of Fairmont
- American Red Cross on the sale of its Blood Plasma business
- Phelps Dodge recapitalization in response to agitating shareholder
- AMLI on its sale to Morgan Stanley
- Pro Mach on its sale to Odyssey
- Millennium Chemicals on its sale to Lyondell
- Coeur d'Alene on its hostile acquisition of Wheaton River
- Tasty Baking Company on implementation of shareholder rights plan
- Equity Office Properties on formation of an office joint venture with TIAA-CREF
- Freeport on the elimination of its dual class share structure
- Honeywell on sale of its pharma fine chemicals business to Teva
- Crescent Real Estate Equities Company on its restructuring of COPI
- Newmont Mining on its acquisition of Franco-Nevada and Normandy Mining
- Hutchison Whampoa on its investment in VoiceStream/Omnipoint
- Sylvan Learning Systems' placement of convertible debentures to Apollo
- Global Crossing on its acquisition of Frontier
- UPM Kymmene on its proposed merger with Champion
- RCN Corporation on its placement of convertible preferred stock to Vulcan Ventures
- Teligent on its placement of convertible preferred stock to an investor group
- GTCR Golder Rauner on its acquisition of Hollywood Theatres
- Jacobson Manufacturing on its sale to Cordant Technologies