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THE ROLE OF THE FINANCIAL INSTITUTIONS
IN ENRON’S COLLAPSE—VOLUME 2

HEARINGS
BEFORE THE
PERMANENT SUBCOMMITTEE OF INVESTIGATIONS
OF THE
COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ONE HUNDRED SEVENTH CONGRESS
SECOND SESSION

JULY 23 AND 30, 2002

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230. Timeline of Pertinent Information, Elbarge, LLC 

231. Summary of Merrill Lynch Enron-Related Investment Banking Compensation (By Business Segment), chart prepared by Merrill Lynch 

232. Merrill Lynch email, June 2000, re: LJM2 (The Committee (Debt Markets Commitment Committee) is being asked to consider $10MM share of a $65MM 364-day liquidity facility for the LJM2 Co-Investment LP. . . Please respond with your Yes/No vote at your earliest convenience). 

Follow-up Merrill Lynch email 

233. Merrill Lynch Interoffice Memorandum, July 2000, re: Request for an Exception to Policy for a $10MM Loan commitment to LJM II 

234. Merrill Lynch email, November 2001, re: LJM—updated summary (They all committed to this loan, as did we, because of the Andy Fastow/Enron relationship. . .) 

235. Merrill Lynch Interoffice Memorandum, February 2001, re: Enron (ML recently lost the mandate to underwrite $1.25 billion of zero coupon convertible debt because Enron does not believe ML is a financial partner. . . Merrill Lynch has decided to help Enron underwrite and syndicate these types of deals.) 

236. Merrill Lynch email, July 2001, re: Enron—rauchive (I just heard back from James and he told me that Enron will definitely not tie our loss to new business.) 

237. re: LJM2/Enron (. . . we took a substantial P/L hit for selling Zephyrus, not something we want to repeat. . .) 

238. Merrill Lynch email, December 2001, re: Structured loan transactions (. . . a snapshot of the structured loans in the portfolio are as follows. . .) 

239. Merrill Lynch Interoffice Memorandum, April 1998, re: Enron Common Stock Offering, Background, Merrill Lynch’s analyst relationship with Enron 

240. Merrill Lynch email, January 1999, re: Enron Account Update (. . . regarding our difficult relationship in Research . . . two significant mandates by Enron.) 

241. Merrill Lynch email, February 1999, re: Enron Mandate/Lay Letter (. . . it might be appropriate for you to send a note to Ken Lay at Enron thanking him for a recent mandate to serve as a co-manager on a 12 million share common stock offering ($775MM.) 

242. Merrill Lynch Interoffice Memorandum, December 1998, re: Andy Fastow (SVP & CFO of Enron) visit on December 4th 

243. Merrill Lynch Calling List for the Enron Corp. common stock offering, dated April 26, 30, and May 4, 1998 

244. Merrill Lynch Interoffice Memorandum, March 2001, re: $40.0 million participation request from Enron Corp. . . in funding a five-year Senior Secured Credit Facility for Zephyrus Investments, LLC 

245. Commitment Committee Information, Zephyrus Investments, LLC/Enron Corp., March 2001 

246. Merrill Lynch Interoffice Memoranda, October 1999, re: Skilling (Enron) Questions on LJM2 

247. Merrill Lynch LJM2 Co-Investment LP, Fee Calculation 

248. Merrill Lynch email, November 2001, re: LJM2, attaching Investor Status Summary, as of 9/30/01 

249. Merrill Lynch LJM2 Co-Investment, L.P., Private Placement Memorandum 

250. LJM2 Co-Investment, L.P., Limited Partner Groups 


252. LJM Investments, Annual Partnership Meeting, October 26, 2000, presentation 

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* May be found in the files of the Subcommittee
THE ROLE OF THE FINANCIAL INSTITUTIONS IN ENRON'S COLLAPSE—VOLUME 2

Exhibits (continued from Volume 1)
FROM: charlie.kulec@citicorp.com
TO: william.sullivan@citicorp.com
DATE: 12/17/98 7:41 AM
SUBJECT: Re: CALL REPORT - PROJECT ROOSEVELT (ERONI)

Steve/Bill,

the bank is able to take physical delivery of commodities on
international transactions in CITC, as our SPV's are domiciled in
Cayman Islands, this may count...

cheers

---

CALLING ON: Joe Bensel
Grant Zimmerman
CALLING OFFICERS: Steve Baillie
Casey Gorte
DATE: December 15, 1998
PURPOSE: Meet with Enron to clarify some details on the Roosevelt deal.

RESULTS:

Maturity: Enron is leaning towards a shorter deal (2 years) rather than the
original 5 years. This probably is due to their preference to ultimately replace
this financing with a Powerball-like structure. A shorter term deal is better
from a credit approval perspective.

Sureties: Thus far, Enron has 4 insurance companies lined up for $125MM each.
5 minimum are needed, and Travelers cannot be one (this has been communicated to
Enron). The mechanics are as earlier understood - the sureties make a payment of
the lesser of (1) the PV of future gas deliveries times the then gas price, and
(2) $500MM. Same as a scenario where the price of gas falls, liquidity
banks/CIC will recover less than it is owed from the sureties. The remainder
will be recovered from the swap CP's (who swaps should be in the money by an
amount equal to the difference between $500MM and the amount received from the
sureties). In a scenario where the price of gas has risen, the liquidity
banks/CIC should be repaid in full from proceeds from the surety. The swap
CP's will look to the margin account (and Enron for the threshold amount).

Definitions for the surety are contained in the Forward Sale Agreement.
Remarking Agreement: This is an agreement with Enron to act as our agent to re-sell the gas it has just sold to Delta. Enron is okay with this concept, but has not used this mechanism in its previous proposals, and is anxious to see a draft from Bancroft. In its deals with Chase it sells the gas to the SPV, the SPV sells to Chase, and Chase sells to Enron. Can Citibank deal in physical commodities?

Swaps/Margin Agreements: Barclays possible CP. If Barclays cannot take entire swap, Natwar is a possible CP. Enron will probably not back-to-back the interest rate swap (not yet decided), but will back-to-back the commodity swap. Enron will provide a margin agreement on the back-to-back swap with the commodity swap provider (falls under the company's master ISDA with Enron). This should have the effect of reducing the Enron risk inherent in the swap. Threshold levels in margin agreement will likely be whatever that CP has already agreed to with Enron (5-10M). L/C's will be posted as margin. Fallon/Kelly/Netirez/Deutze to discuss this issue. Also Joe Deffner communicated that they would prefer if Bancroft preparted the swap document between Delta and the swap CP since Enron was not a party to this leg.

Note: Joe Defner provided "heads up" that likely question from CP is to ensure that Delta is required to pass on index price of gas onto swap CP (i.e., it has no discretion).

Intercreditor Issues: Enron okay with the concept that liquidity banks look to surety, and swap CP look to margin sect/Enron.

FOLLOW-UP:
- Cheryl Quissett to call Bill Sullivan
- Cheryl Quissett to provide copy of a restruct agreement (timing Wed morning at earliest). Pass on to Enron.
- Dave O'Beirne to start discussion of pricing/fee proposal.
- Dave Ballina to confirm how pricing works in old Delta deal.
- Joe Defner to follow-up with L/C providers will be under margin agreement.
- Joe Defner to confirm daily margining (should be same as old Delta agreement.
- $8 to check.
- Ballina to determine threshold under Citibank's present ISDA with Enron.
- Bancroft to provide rough draft of documents to Citibank Wednesday.
- Ballina/Randolph/Kelly to develop credit memos.
- Bancroft to prepare swap doc. between Delta and swap CP.

QUESTIONS:
- CDS spread versus CP index, and implication on interest rate swap.
- if amount gas delivered assumes the drawn spread pricing from liquidity banks (i.e., a highest possible funding cost scenario) and actually funding cost is lower, how is the 'excess' passed back to Enron?

CC: <steve.ballina@citi.com>, <william.fordciti.com>
From: joseph.nackiewicz@citicorp.com
To: alan.hull@citicorp.com
Date: 12/17/98 8:33am
Subject: Re: CALL REPORT - PROJECT ROOSEVELT (ENRON)

Regarding the Bankruptcy Remote Special Purpose Company (SPC) which will be the focal point of this deal:

1. Susan Johnson (Securitization's Staff Attorney) and I met with Bill Sullivan (Derivatives Staff Attorney) yesterday to discuss the possible use of Delta or Vega as the SPC. Bill agreed to research and report to the group today. Whatever entity we use, it will have to be:

   a. Bankruptcy remote from Enron (they've said they cannot own any of the equity)

   b. Not owned by Citicorp or any of its subsidiaries (understand both Delta and Vega are third party owned and incorporated in the Cayman)

   c. Clean -- no liabilities from previous transactions of any kind.

2. Assuming the SPC meets the above requirements and CHAI (as agent) has the right to replace Enron as marketing agent, I don't see any problem with the SPC taking title to natural gas and immediately reselling it (thus an agent to the market).

Susan/Bill would you not agree?

(Unless the guidelines for CITC have changed, I think it still remains a creature of the Export Trading Company Act and, therefore, is required to focus mainly on exports from the US. I doubt the domestic natural deliveries herein would qualify so trying to "shoehorn" this deal into CITC is probably not the right answer.)

Today's To Do List

1. Approvals:

   a. Confirm that Global Insurance will approve exposures on the five monolines. (Bill P)

   b. Confirm that P1 will approve PSI exposures on the swap bank(s). (Joe M/Jim Kelly)

   c. Determine the level of Enron exposure in the deal and how to portray it on the Enron CA. (Bill P/Jim Kelly)

2. Legal:

   a. Determine whether the SPC will be Delta, Vega or Novo. (Bill Sullivan/Susan Johnson)

   b. Determine whether Bracewell can be approved to prepare the Conduit docs. (Susan Johnson)

   c. Obtain opinion from Dabezio & Pingleton regarding the form of security bond; is it a "call-of-high-water" obligation and how does it differ from a commercial bank direct pay letter of credit. (Joe M)

   d. Prepare docs and circulate for review ASAP. (VAE, Bracewell)

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CITI-SPSI 0046702
3. Analytics/Credit Approval Memo:
   a. Model the commodity/interest rate swap versus the swap bond payments under various gas price scenarios. (Steve Baillie/Adam Kulick)
   b. Determine whether the deal will amortize over 2 or 3 years. (Steve Baillie)
   c. Draft transaction mechanics for insertion into Securitization's credit memo. (Steve Baillie/Dave Gorte/Adam Kulick)
   d. Prepare credit memo and CA. (Securitization)

4. Syndication:
   a. Submit to sell-down the 364-day (renewable) bank liquidity back-up from 1st (at closing) to ZOMB within 137 months. Timing to be impacted by discussions with Global Insurance. (Dave G)

I've probably missed a few points but I think these are today's key issues. Regards, Joe

--
Reply Separator

Subject: Re: CALL REPORT - PROJECT ROOSEVELT (EUR/CHF)
Author: Adam Kulick at OCEPHC
Date: 12/17/98 7:46 AM

Steve/Bill,

the bank is able to take physical delivery of commodities on international transactions in CITC. as our IPV's are domiciled in Cayman islands, this key count...

cheers

--
Reply Separator

Subject: Re: CALL REPORT - PROJECT ROOSEVELT (EUR/CHF)
Author: Bill Sullivan at ISDENCO/A-APL/E-CN/A-MCT/P-CITICORP
Date: 12/14/98 11:57 AM

Steve- Generally, the bank cannot deal in physical commodities.

Regards, Bill.

--
Reply Separator

Subject: CALL REPORT - PROJECT ROOSEVELT (EUR/CHF)
Author: Steve Baillie at ZSINCON/A-APL/E-CN/A-MCT/P-CITICORP
Date: 12/13/98 7:48 PM

CALLING ON: Joe Definer
Grant Zimmerman

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CITI-SPSI 0046703
1. Purpose

The purpose of this memorandum is to recommend approval for a $125 million bond position in a 246-day liquidity facility to backstop 246 day commercial paper issuance (the "Transaction") involving a $250 million 3-year

rate loan (the "Loan") to Delta Energy Corp. Agreement described in section III below. The Company will use the loan proceeds to purchase for cash a fixed and constant quantity of Delta Energy Corp. cap/floor agreement that will be used to backstop the forward sale of synthetic equity in the company. The loan proceeds will be used to purchase and hold the synthetic equity in the company. The Company will use the loan proceeds to purchase for cash a fixed and constant quantity of Delta Energy Corp. cap/floor agreement that will be used to backstop the forward sale of the synthetic equity in the company.

2. The Company

Enron is currently rated BBB+/Baa3 by S&P, Fitch and Moody's, respectively, and maintains an equity market capitalization of $18.7B as of December 22, 1994. S&P affirmed its BBB+/rating of 1994 on November 18, 1994. The company maintains a CIBC World Markets Risk assessment of 4+. Current ratings consider (i) the company's aggressive growth strategy during 1994 which has adversely affected its leverage and cash flow measures, and (ii) a one-year repayment strategy that calls for a combination of funding at subsidiary levels on a non-recourse basis to the parents, Enron Corp., and the monetization of certain existing assets. Memorization proceeds are earmarked for debt repayment.

Enron is currently rated BBB+/Baa3 by S&P, Fitch and Moody's, respectively, and maintains an equity market capitalization of $18.7B as of December 22, 1994. S&P affirmed its BBB+/rating of 1994 on November 18, 1994. The company maintains a CIBC World Markets Risk assessment of 4+. Current ratings consider (i) the company's aggressive growth strategy during 1994 which has adversely affected its leverage and cash flow measures, and (ii) a one-year repayment strategy that calls for a combination of funding at subsidiary levels on a non-recourse basis to the parents, Enron Corp., and the monetization of certain existing assets. Memorization proceeds are earmarked for debt repayment.

3. Transaction Summary

Overview

The Transaction is a three-year, $500 million prepaid natural gas and crude oil swap which will amortize in monthly principal payments, varying between approximately $10.1 million and $12.6 million, in exchange for an upfront payment of $520 million (the "Purchase Price") on closing, the Seller (in Enron's subsidiaries whose obligations will be guaranteed by Enron Corporation) will agree deliver a fixed amount of natural gas and crude oil at specified times and locations (all domestic) each month for a period of three years. The present value of the expected proceeds from the re-sale of such oil and gas will be equal to $500 million. The discount rate and future oil and gas prices used to determine the present value will be locked in through the Interest Rate Swap and Commodity Swaps described below. The Transaction will allocate $50 million for the purchase of natural gas and $200 million for the purchase of crude oil.
The key parties to the transaction are identified, and the key documents are summarized on the next page.

Exxon will agree to act as Delta's agent and resell the gas. The commodity price risk will be eliminated through a swap (the "Commodity Swap") between Delta and an acceptable financial counterparty. The interest rate risk will be eliminated through a swap (the "Interest Rate Swap") between Delta and Enron.

There will be a Margin Agreement between the Seller (again guaranteed by Enron Corporation) and Delta, and this Margin Agreement will be assigned to the Commodity Swap counterparty, which will mitigate such counterparty's exposure to a failure by Exxon to deliver oil or gas at a time when the related index price is above the fixed price that would be paid by the buyer. This is because the Margin Agreement will require Exxon to post collateral in the form of cash or LOC to the extent that the Commodity Swap has a negative "cash out" value to Delta. (Exxon will post margin for the Interest Rate Swap.)

The credit risk mitigant in the transaction is the support provided by five insurance companies (rated "A" or higher) on behalf of Exxon. These "Surety Companies" will severally provide surety bonds for up to $200MM cash in the event that the gas is not delivered by Exxon. Should the Guarantor (Exxon) fail to deliver gas or crude or fail to pay the Replacement Value under the Forward Sale Agreement, the Surety Companies will be obligated to pay to Delta the lesser of the present values of the remaining undelivered gas and oil, at the lower of the fixed or then prevailing index price. At this transaction is structured, this will shift the bulk of the delivery risk from Exxon to the Surety Companies. The liquidity facility (i.e., Collateral and future assignees) will have a priority claim against the surety bonds, and the Commodity Swap counterparty will have a priority claim to the posted margin collateral under the Margin Agreement. The proceeds from the sale of these periodic deliveries of gas and crude, at an index price, combined with any settlement payments under the Commodity Swap and the Interest Rate Swap, will provide Delta with funds matching those required to repay the loan from (CRC/CAFICO).

Funding will be provided through (CRC/CAFICO) securitization conduit, which in turn will raise funds in the commercial paper market. Citibank will provide the 364 day, $200MM liquidity backstop facility to (CRC/CAFICO).
<table>
<thead>
<tr>
<th><strong>Summary of Key Parties</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Seller under Forward Sale Agreement:</strong> Enron Parent Gas Marketing Corporation (EPGMC), an wholly-owned subsidiary of Enron Corporation. EPGMC will also enter into a Margin Agreement under which it will agree to collateralize its forward sales obligations to make payments to the Commodity Swap counterparty under the Commodity Swap Agreement.</td>
</tr>
<tr>
<td><strong>Purchaser under the Forward Sale Agreement:</strong> Deltak Energy Corporation, a Cayman Islands Corporation. Deltak is a special purpose corporation used as the vehicle in which it will enter into the Commodity Swap agreement. Deltak will also be a party to the Commodity Margin Agreement that will be assigned to the Commodity Swap counterparty.</td>
</tr>
<tr>
<td><strong>Guarantor:</strong> Enron Corporation will guarantee EPGMC's obligations under the Forward Sale agreement and the Commodity Margin Agreement. Guarantor will also guarantee the obligations of Enron Capital &amp; Trade Resources Corp, a wholly-owned subsidiary of Enron Corp., the Marketer under the Marketing Agreement and the Interest Rate Swap counterparty.</td>
</tr>
<tr>
<td><strong>Surety Companies:</strong> Saul, Kaye, &amp; Co.</td>
</tr>
<tr>
<td>St. Paul Fire &amp; Marine Insurance Company</td>
</tr>
<tr>
<td>Fireman's Fund Insurance Company</td>
</tr>
<tr>
<td>Continental Casualty Company &amp; National Fire Insurance Co. of Hartford</td>
</tr>
<tr>
<td>Safeco Insurance Company of America</td>
</tr>
<tr>
<td>[Other Insurance Companies]</td>
</tr>
<tr>
<td><strong>Marketer under Marketing Agreement:</strong> Enron Capital &amp; Trade Resources Corp.</td>
</tr>
<tr>
<td><strong>Commodity Swap Counterparty:</strong> Enron Corporation</td>
</tr>
<tr>
<td><strong>Interest Rate Swap Counterparty:</strong> Enron Corporation</td>
</tr>
<tr>
<td><strong>Lender under Loan Agreement:</strong> [COCRACCO]</td>
</tr>
<tr>
<td><strong>Borrower under Loan Agreement:</strong> Delta</td>
</tr>
<tr>
<td><strong>Liquidity Bank:</strong> Inclusa, Colonia, N.J. Bank in N.J. is under consideration.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Key Transaction Documents</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Forward Sale Agreement:</strong> Agreement between Seller &amp; Purchaser specifying Seller's obligations to deliver natural gas &amp; steel oil to Purchaser. Specified terms include volumes, price &amp; delivery point.</td>
</tr>
<tr>
<td><strong>Commodity Margin Agreement:</strong> Agreement whereby EPGMC will provide initial and on-going margin for the initiation of the Commodity Swap Counterparty. The purpose of margin is to prevent the Commodity Swap counterparty's default.</td>
</tr>
<tr>
<td><strong>Commodity Swap Agreement:</strong> Agreement between the Commodity Swap Counterparty and Delta to hedge Seller's forward delivery of gas and crude.</td>
</tr>
<tr>
<td><strong>Surety Bond:</strong> Agreement whereby Surety Companies will make payments to the Purchaser should the Guarantor fail to deliver gas &amp; steel oil as specified.</td>
</tr>
<tr>
<td><strong>Marketing Agreement:</strong> Agreement between Delta &amp; Marketer whereby Marketer agrees to purchase the gas and crude on behalf of Delta at index prices to diversify Delta's exposure.</td>
</tr>
<tr>
<td><strong>Loan Agreement:</strong> Agreement whereby Lender will lend $950,000 to Borrower to be used by Borrower to purchase an obligation to purchase gas and crude under the Forward Sale Agreement.</td>
</tr>
<tr>
<td><strong>Asset Purchase Agreement:</strong> Agreement whereby the Liquidity Bank agrees to purchase the outstanding items in the event that [COCRACCO] cannot or will not continue to fund the loan.</td>
</tr>
<tr>
<td><strong>Interest Rate Swap Agreement:</strong> Agreement between Delta and the Interest Rate Swap Counterparty hedging the mark-to-market loss on the Commodity Swap Agreement. Delta will fix the mark-to-market loss at a point where Enron would have Delta hedge.</td>
</tr>
<tr>
<td><strong>Enron Guarantee:</strong> Agreement requiring Enron to guarantee all of its obligations under the Forward Sale Agreement, the Commodity Margin Agreement, the Marketing Agreement and the Interest Rate Swap Agreement.</td>
</tr>
</tbody>
</table>
Transaction Description

The transaction is made up of several components:

1. **Forward Sale:** The Seller enters into a Forward Sale Agreement with the Purchaser, by which Seller agrees to deliver a fixed amount of natural gas and crude oil of a minimum quality standard at a specific time and delivery point(s) to Purchaser. Gas and oil will be delivered in equal monthly amounts over a three-year period. The exchange Purchaser pays Seller $100,000 as closing.

2. **Guaranty:** Euron and Delta enter into the Euron Guaranty Agreement, by which Euron guarantees ENOGIC's obligation to deliver gas, and all other affiliate obligations to perform under all Transaction documents.

3. **Surety:** Surety bonds are provided by five insurance companies, all of whom are rated "A" or better. The surety bonds are "hill or high water" bonds which will make a payment to the Purchaser 10 days after receiving notification from the Seller of the failure of the Surety and Guarantor to deliver gas or make a Replacement Value payment. The amount of the payment from each Surety Company will be the lesser of: (1) a scheduled fixed amount which begins at $10,000,000 and reduces as per a schedule on a monthly basis ("Maximum Penalty Sum"), and (2) the present value of the gas remaining to be delivered at the then-market gas price.

4. **Commodity Price Swap:** The purpose of the Commodity Swap is to convert the gas and crude to be received from the Seller into a stream of cash flows which will repay the principal and interest of an LOAN between Delta and CRC/CAFCO. The swap amount, timing, and other terms of the swap payments will mirror those in the Forward Sale Agreement to ensure no leakage from the structure. Delta and the Commodity Swap counterparty will enter into a three-year swap in which Delta will pay the floating "Index" price of gas per MMBtu and crude oil per barrel for the delivery point(s) and dates in question, and receive a fixed and unchanging price per MMBtu of gas or per barrel of crude oil. The total amount of gas and crude oil swapped will equal the amount of gas delivered by ENOGIC. The timing of the swap flows will coincide with the gas and oil to be delivered by ENOGIC.

5. **Interest Rate Swap:** The purpose of the Interest Rate Swap is to hedge the mismatch between the fixed rate Delta will pay in the financing costs. Delta and Enron Corp. (a subsidiary of Euron) will enter into a three-year swap in which Delta will pay a fixed interest rate based on the Floating Interest rate amount of the Loan, and will receive a Floating Interest rate. If the Lender in CRC/CAFCO, the Floating rate received by Delta will be based on CRC/CAFCO's CF cost of funds plus the program fee, liquidity bank commitment fees, and other costs. If the Liquidity Bank(s) have purchased the Loan from CRC/CAFCO, the floating rate received by Delta will be adjusted to reflect swaps pricing under the liquidity facility.

6. **Re-marketing Agreement:** An agreement between Delta and ECT, in which ECT agrees to act as Delta's agent and sell the gas or crude oil purchased by Delta. ECT may sell the gas or crude oil to (1) any purchaser who is rated B or higher, as long as each such buyer does not constitute more than 4% of the commodity purchased in that month, or (2) any other purchasers, including Euron or an Euron subsidiary, provided however that, if the purchaser is Euron or an Euron affiliate, there must be cash payment for each purchase simultaneous with or prior to delivery of the gas or crude. These two circumstances fulfill CRC/CAFCO's obligation to deliver and sell the specified dates at a price equal to the Index price on such date times the volume of oil or gas Euron is obligated to deliver on such date. To ensure the delivery of commodity futures exchange regulatory issues, the
1470

sates of the gas crude oil from Delta may need to initially be sold to all other entities such as Vego, a special purpose Cayman Island corporation used in other Citibank arranged commodity transactions.

5. Credit Agreement: The Loan agreement whereby [CRC/CACIC] will lend $100,000 to Delta. The proceeds of the Loan will be used by Delta to pay its obligations to purchase gas and crude from the Seller under the Forward Sale Agreement. The Loan will amortize over 3 years. The interest on the Loan is to be paid semi-annually and in the event of default, the outstanding balance will be due and payable in full. The interest rate is to be determined by Citibank, NA (the initial Liquidity Bank), [CRC/CACIC], and Delta. This agreement also provides for the Liquidity Banks to purchase the Loan in the event that (CRC/CACIC) cannot or will not continue to fund the Loan. In essence, the Liquidity Banks are taking the credit risk of the non-payment by the Seller Companies in the event that Delta fails to perform under the Forward Sale Agreement, the credit risk of the Commodity Swap counterparty, and the event commodity prices have fallen, and the credit risk of Euron as the Interest Rate Swap counterparty, and as the Margin Agreement in the event Euron fails to deliver when commodity prices have risen.

IV. Pricing

5. Structuring Fee $2,500,000

Ongoing

Program Fee: 25 bps
Liquidity Fee: (25) bps
Dealer/Investor Fees: 7 bps
Less: Credit Enhancement 4 bps

$2,385,000 first 12 months ongoing revenue assuming $100,000,000 are outstanding

Assignee Rate (funded): Libor + 125

First 12 months New Mkt Revenue to Citibank

$4,385,000

(V) Allocation between Product and Relationship Groups TBSD

V. Syndication Strategy

Citibank will initially provide 100% of the liquidity in this transaction and will ultimately hold $125,000.

Attached is the Loan Syndication Approval Memo for an underwriting of $375,000 in liquidity commitments to be syndicated in the first quarter of 1999.

VI. Key Risks & Mitigations

Risk 1. The Seller fails to deliver gas, and Euron Corporation fails to honor its guarantee.

If the Seller fails to deliver gas as scheduled, the Forward Sales Agreement provides for a payment by the Seller of the “Replacement Value” in the amount of the economic shortfalls suffered by the Purchaser, consisting of the cost to replace the deficient quantity, including transportation and other costs and fees associated with the purchase. If the Seller fails to make this payment, an “Early Termination Event” has
1471

occurred and a "Termination Payment" plus any "Unpaid Amounts" are due. The Purchaser can then call upon the surety bonds to pay it an amount equal to the lesser of:

(1) the present value of the future gas to be delivered valued at the prevailing market index gas price; and

(2) a scheduled fixed amount which begins at $500MM (in aggregate) and reduces on a monthly basis ("Maximum Penal Sum" or outstanding Loan balance) to reflect the amortization of the deal.

Hence the risk profile will depend on how the price of gas or crude has moved between the day that the deal was entered into (and the fixed gas price under the commodity swap was finalized), and the day payment is made by the Surety Companies.

If the price of gas and crude has risen (index > fixed price), the amount paid by the Surety Companies will be based on the fixed price and will be equal to the Maximum Penal Sum. This amount will always be equal to the amount outstanding under the Credit Agreement, and the surety(s) or the liquidity bank(s) will be fully repaid. The margin under the Margin Agreement is needed to cover any breakage fees in terminating the Commodity Swap.

If the price of gas and crude has fallen (index < fixed price), the amount paid by the Surety Companies will be based on the index price. Since the price of gas or crude has fallen, the amount paid by the Surety Companies is less than the Maximum Penal Sum, and less than the principal outstanding under the Loan. The "cash out" value of the Commodity Swap will be positive for Delta and, together with the Surety Companies' payments, will be equal to the outstanding Loan principal. The Commodity Swap counterparty will be a highly rated financial institution (we anticipate Barclays or Natexis). Euron, who will act as the Interest Rate Swap counterparty, is rated BBB+ by S&P and Moody’s respectively.

Risk 2: Euron delivers gas, but experiences "credit difficulties"

A "Guarantor Event of Default" as defined in the Euron Guarantee (which includes cross payment default, cross acceleration, and bankruptcy) constitutes an Event of Default under the Forward Sale Agreement, and hence permits a call on the surety bonds. In this case the transaction is terminated, and if the Surety Companies and both swap counterparties fulfill their obligations, the Lender will be repaid in full.

The terms of the Margin Agreement are of less concern to the Liquidity Banks since they are looking primarily to the Surety Companies for payment if Euron fails to perform. Nonetheless, mechanically, if there is a "Trigger Event" under the Margin Agreement (which is defined as a breach of the debt capacity test or a net worth test), then Euron must post margin for the full amount of the exposure under the Commodity Swap. However, this does not trigger a Termination Event unless the company fails to post margin. Hence it is possible for Euron to fail certain financial tests, but as long as it delivers gas, posts margin, and does not breach a "Guarantor Event of Default", there will be no Termination Event under this transaction.

Risk 3: LNGMC delivers gas, but ECT fails to resell gas under remarketing agreement.

The Purchaser has the ability to replace ECT as marketer of the gas at its sole discretion. Given the liquidity of this commodity at the specified delivery point, finding an alternate marketer and selling the gas should be achievable. Subsequent to delivery, Delta will have a secured interest in the gas or crude oil collateral.

Risk 4: Fixed-Floating interest rate mismatch.

The interest rate on the loan from CR/CACFCO will be floating (either CP funded through CR/CACFCO or bank funded through the Asset Purchase Agreement), whereas cash flow into Delta is...
determined using a fixed discount rate. The floating leg of the interest rate swap provided by Enron will be set to cover the Debe's floating cash, another CP or bank funded. Enron, who will pay the interest rate swap counterparty, is rated BB+B by S&P and Moody's respectively. Citibank's Derivatives group has established the PSA exposure to Enron to be $20.M.

VIII. Policy or Program Exceptions
None.

VIII. Commercial Paper Related Securities Law Considerations
N/A

IX. Credit Risk
100% Credit Risk will be assumed by Global Energy for the risk associated with the borrower transactions. In addition, Global Insurance will be approving Citibank's remaining share of the total Transaction's 5104M as obligor risk exposure in each of the 5 Energy Companies for 6 months. Global Energy will undertakes 2075M of liquidity commitment to be syndicated during the second quarter of 1999.

XI. Attachments / Exhibits
- Control Unit CA
- Global Loan Agreement Memorandum

[Signatures]

[Confidential]
CITI-SPS 0021368
Merry Christmas!

Attached is an outline of major issues related to project Roosevelt for the working group to think about.

This facsimile is confidential, may also be privileged and is intended only for the use of the individual or entity named above. If you are not the intended recipient, or the employee or agent responsible for delivering it to the intended recipient, you are hereby notified that any dissemination, distribution, copying or other unauthorized use of this communication is strictly prohibited. If you have received this facsimile in error, please notify us immediately by telephone and remove the facsimile to the sender at the above address via the United States Postal Service.
PROJECT ROOSEVELT
OVERVIEW OF MAJOR ISSUES
(12/24/98)

Background

Project Roosevelt arose two weeks ago when Project Powerball was deferred to 1999, creating a $500 million year-end funding need.

Enron's goals include (i) use of a Prepaid Hydrocarbons structure, (ii) limited recourse and (iii) closing prior to 12/31/98.

Citibank's goals include (i) CP Conduit funding, (ii) 364-day renewable bank liquidity backstop, (iii) avoiding any 'physical' hydrocarbons-related risks which Citibank is unable to deal with and (iv) keeping transaction tenor within three years.

Implications

1. CP Conduit funding means the transaction must comply with what we've represented to the rating agencies and CP investors; including:
   - 'A' quality pool (either through each obligor's own ratings, like the sureties, or through diversity and overcollateralization on the sales side)
   - Surety coverage of Unpaid Amounts on the supply side
   - Matching of swap and surety bond bases
   - Avoidance of grace periods and notice requirements if Enron has failed to supply
   - Cash control and avoidance of commingled sales proceeds
   - Funding cost coverage, whether CP or Libor based

2. Avoidance of 'physical' hydrocarbons-related risks means:
   - Making sure that all delivery, measurement, reporting, insuring, and compliance obligations which Delta incurs through the Forward Sale Agreement are passed on through the Marketing Agreement,
   - Making sure obligor 'failure to take' risk is passed on to whichever entity arranged the sales contract,
   - Making sure that 'servicing' costs incurred by Delta in pursuit of delinquent gas or oil obligors are covered.

3. Delayed Amortization and Associated Issues:
   - Credit approval has been sought on the basis of a three year final maturity and thirty equal 36-month amortization. There may be room for flexibility (perhaps starting shipments as late as March 1999) provided the final maturity remains three years.
   - In fact, delaying the onset of amortization a few months may help us resolve certain issues (establishing a second bankruptcy-remote special purpose company, determining how best to overcollateralize the pool on the sales side, etc).

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CITI-SPSI 0043747
Facsimile

PROJECT ROOSEVELT

Structured Securitization

CITICORP SECURITIES INC.

1475

Date: December 24, 1991

From: [Name]

To: [Name]

FAX: (212) 355-3210

Merry Christmas!

Attached is a Status Report as of this morning.

This facsimile is confidential, may not be reproduced and is intended solely for the use of the individual or entity named above. If you are not the intended recipient, you are hereby notified that delivering it to the intended recipient, you are hereby notified that delivering it to the intended recipient you are hereby notified that delivering it to the intended recipient you are hereby notified that delivering it to the intended recipient you are hereby notified that delivering it to the intended recipient you are hereby notified that delivering it to the intended recipient you are hereby notified that delivering it to the intended recipient.
<table>
<thead>
<tr>
<th>Documentation Item</th>
<th>Status</th>
<th>Responsible</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward Rate Agreement</td>
<td>Initial Draft</td>
<td>Roosevelt, VAE</td>
<td>1. Impact Analysis provided to client 2. Term Sheet including Community Swap definition 3. Draft is based on knowledge of Responsible Officer</td>
</tr>
<tr>
<td>Terms Guarantee</td>
<td>Initial Draft</td>
<td>Roosevelt, VAE</td>
<td>1. Coverage of Marketing Agreement 2. Coverage of Interest Rate Swap 3. Assignee of all signing confidentiality agreements</td>
</tr>
<tr>
<td>Survey Bond</td>
<td>Initial Draft</td>
<td>Exon (1)</td>
<td>1. Assignment to Colleague Agent 2. Coverage of accrued interest 3. Use as margin for Swap Conducibility 4. Additional DAP language now out 1/12</td>
</tr>
<tr>
<td>Commodity Swap</td>
<td>Initial Draft</td>
<td>Roosevelt, VAE</td>
<td>1. Form of schedule-mortgaging Barclays/ISMA form or form previously distributed</td>
</tr>
<tr>
<td>Commodity Swap Margin Agreement</td>
<td>Initial Draft</td>
<td>Roosevelt, VAE</td>
<td></td>
</tr>
<tr>
<td>Commodity Swap Margin Assignment Agreement</td>
<td>Initial Draft</td>
<td>Roosevelt, VAE</td>
<td></td>
</tr>
<tr>
<td>Interest Rate Swap (J-8 margin)</td>
<td>Open</td>
<td>Roosevelt, VAE</td>
<td>1. Coverage of all interest, fees &amp; similar payments—reserve adjusted lines, accrued fees, unused fees, etc.</td>
</tr>
<tr>
<td>Mastering Agreement</td>
<td>Initial Draft</td>
<td>Roosevelt, VAE</td>
<td>1. LOC to cover potential default, increased costs, fees &amp; other losses not covered elsewhere (Surry Bond, Guarantee, Swaps)</td>
</tr>
<tr>
<td>Credit Agreement</td>
<td>Initial Draft</td>
<td>Roosevelt</td>
<td></td>
</tr>
<tr>
<td>Security Agreement</td>
<td>Initial Draft</td>
<td>Roosevelt</td>
<td></td>
</tr>
<tr>
<td>Delta Administrative/Management Agreement</td>
<td>Open</td>
<td>MAC, Exon</td>
<td>Does not cover the Transaction? If not, who would be responsible?</td>
</tr>
<tr>
<td>Exon Corporate Certificate/Opinions</td>
<td>Open</td>
<td>Exon, VAE</td>
<td></td>
</tr>
<tr>
<td>Delta Energy Certificate/Opinions</td>
<td>Open</td>
<td>MAC, Roosevelt</td>
<td></td>
</tr>
</tbody>
</table>
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PROJECT ROOSEVELT

Structural Securities
333 Park Ave, 8th Floor, NY, NY 10001

Date: 10/22/92

From: Joe Diaz, Vice President

To: Jim, Wes, Nino, Cheryl

Subject: Jim, let's try this again. Please call if the fax is illegible. Wes Speas.
<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Therapy</td>
<td>[Details]</td>
</tr>
<tr>
<td>Charges</td>
<td>[Details]</td>
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<tr>
<td>UBO Balance</td>
<td>[Details]</td>
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<td>Power Adjule</td>
<td>[Details]</td>
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<tr>
<td>Delivery Charge</td>
<td>[Details]</td>
</tr>
<tr>
<td>Collection Cost</td>
<td>[Details]</td>
</tr>
<tr>
<td>Cost of Power, Storage, Transportation</td>
<td>[Details]</td>
</tr>
</tbody>
</table>

**LordSPV**

Two Wall Street New York, New York 10005 212.346.9000

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CMAC Minutes
June 22, 1999

Members Attending: Fred Chapley (Chairman), Eleanor Wagner (Client Risk Management), Jim Garnett (Risk Architecture), K. Ananthakumar (Audit & Risk Review), Susan Hayward (Secretary)

Committee Members Absent (Represented by): Catherine Ganzinger (Robert Hanan/Mike Lalo), Mel Taul (Nat Schoedel), Bill Mockry (Mike Day (Pat Butler/Laura Lan), Mary Engel (Scott Flood)

Guests: Tom Franciosi, Ramesh Gupta, Lynn Pratsch, Joe Erlinger, Narayan Prasad, Mike O'Donnell, Nancy Paulson, Shinghua Hu, Aparna Kesicha

Credit Risk Step-Down Swap
Presenter: Nancy Kesich, Gloria Schneider

A structure was presented that will provide yield enhancement to customers that have a view that interest rates will not exceed a pre-determined barrier level. The structure consists of a combination of products that Citibank currently trades. However, based on the combination of the components and the arbitrability feature, the transaction can be booked in the back office processing system. Therefore, a spreadsheet has been developed to initially book the deal until it can be booked in the back office system. The spreadsheet has been tested and reviewed by risk analytics. Operating policy is to limit the number of spreadsheet transactions to five per desk. The desk will follow-up with Operations to determine how many spreadsheet deals are outstanding. This will determine the number of deals that the origination team can execute.

The committee also discussed the ability to independently price the structure. The rate responsibility group will be contacted to ensure that they can obtain the necessary market information check the MTM of the structure.

The deal has been approved by the committee.

Follow-ups
Determine the number of deals that are booked on a spreadsheet (Mike Lalo/PST)
Ensure that rate responsibility unit can obtain the market rates (Joe Erlinger)

Prepaid Oil Transaction
Presenter: Adam Kulick, Jim Reilly

A transaction was discussed which would allow Enron to execute a prepaid 3 month swap on 30MM barrels of oil (cot pays fixed price at inception – appet $50/MM – and receives

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The transaction provides favorable accounting treatment for the customer. Although the deal is effectively a loan, the form of the transaction would allow the customer to reflect it as "liabilities from price risk management activity" on their balance sheet and also provide a favorable impact on reported cash flow from operations.

The committee discussed the following issues:

- The appropriateness of the transaction. The RM stated that the transaction was appropriate for the customer and that prepaid forwards are common in the industry and that the company discusses such transactions with external notaries and owning agencies. Additionally, the internal approval for the transaction will acknowledge the fact that we were basically making a loan to the customer and that the RM has had numerous conversations with Senior Management of the company about the structure.

- Margin arrangement. Although the client has a margin agreement with Citibank, the transaction will not be covered under the agreement.

The appropriate Desk to book the transaction. Fred Chapey will have discussions with the trading desk and the originators to decide if it would be more appropriate to book the deal on the Commodity Desk.

The transaction was approved subject to:

Follow-up items

- Ensure that appropriateness and suitability of the transaction to the customer are covered under the deal approval (Adam Kueck/Denis Reilly)
- Decide which desk to book the transaction (Fred Chapey)
Joseph,

This email is to confirm that:

1. Global Energy and Mining ("GEM") have approved the full $125MM still outstanding under the "Roosevelt" prepay. Our approval runs for another 4-7 years. At an aside, in addition, in our most recent Enron memo, we comment that our expectation was now that the deal would not be repaid until December. Our approval to extend deliveries was done verbally.

2. We do not believe that we (i.e., GEM) need any form of approval or acknowledgment from Global Insurance since we approve the entire deal size (although we were unable to confirm this with Tom Stott as he is away this week).

Regards
The diagram below shows the Truman prepay that was closed Sep 29, 1999. Citibank provides the prepay swap, while TD provides the commodity swap on half the transactions, and their roles are reversed in the other half. We were able to substantially lower the commodity swap charge because Citibank and TD have essentially offsetting risk under their commodity swaps.

The second alternative that we spoke of was settling three banks (i.e. Citibank, Barclays, RBS) as the prepay providers and TD as the commodity swap provider in all three prepaids. This would allow the participation of Citibank, Barclays and RBS, but would result in higher commodity swap costs because TD would bear incremental credit risk from the three banks. The diagram for alternative 2 would simply be the "Citibank Prepay" diagram, with Citibank replaced with Barclays and RBS for the other two prepaids.

Please call with any questions.

Jung Suh  713-853-7666

 crude prepay 685629 diagram 2.
To: Simon Crowe/LON/ECT/BECT
cc: Theresa Kirby/LON/ECT/BECT, Matthew Landy/LON/ECT/BECT

Subject: Re: Y2

Just to close the loop on this one following our discussion, I will need by January to:

1. get a detailed understanding of the Q4 Y2 swap
2. confirm the netting point
3. or alternatively confirm that no payments will

Regards

Jonice

Simon Crowe

To: Jonice Jiggins/LON/ECT/BECT
cc: Theresa Kirby/LON/ECT/BECT

Subject: Re: Y2

A few points

- I have requested all the closing docs for Y2
- Equal and opposite payments but not necessarily in all cases
- See the swap for the netting language
- We will insert the 1/1/2001 first repayment date.
- Y2 will set up a UK bank account
- No discussion on new EU WHC
- The bond will be listed in Lux

No doubt we will speak later.

regards

Simon

Jonice Jiggins

To: Theresa Kirby/LON/ECT/BECT
cc: Simon Crowe/LON/ECT/BECT, Matthew Landy/LON/ECT/BECT, James Sand/LON/ECT/BECT

Permanent Subcommittee on Investigations
EXHIBIT #188j
Subject: Y2

1. US withholding on Oli swap with Y2

I still need copies of the underlying Y1/Oli swap documentation to properly analyse the transaction. As I mentioned the draft on Man's file is dated 3 Nov and appears to exclude the cashflows from netting - this is critical.

I am assuming that all of the funding mismatch is now taken care of by the Enron Corp Magic note, so that all that the Oli/Y2 swap represents is:

- Y2 pays to Oli an amount equal to the Interest on the Delta assets
- Oli pays to Y2 an amount equal to the Interest on the Delta assets
- Oli makes various payments to Y2 in the event of an Enron credit event

It is assumed that the first two items are equal and opposite so that if netting applies there will be no residual payment upon which to apply withholding. Please can you confirm:

i) that the assumption re equal and opposite payments is correct; and
ii) that netting applies to all payments under the swap

If this is not the case, such that some payments are made by Oli to Y2, then our position would be:

1. That the swap is a notional principal contract (sourced to the payer ie Jersey) therefore no US withholding.
2. With equal and opposite payments it may be difficult to get within the definition of an NPC (although it is not clear) therefore we would then be in the same position as the other swap - basically a withholding risk for 2000 but not after 1/1/2001.

To summarise - best position is netting with no residual payment, fallback is NPC argument. If we are not comfortable with this fallback then the safest route would be to defer payments until 1/1/2001 to catch the new rules.

2. UK bank account

Just to confirm, it is the Y2 that will set up a UK bank account and not a Jersey paying agent.

Since the Interest is not UK source the fact that Y2 uses a UK bank account will not introduce additional UK withholding risk. In any event the bonds are quoted Eurobonds held within Cede & Co and Euroclear so no UK withholding will apply.

Travia, has there been any discussion with respect to the risk of a new EU withholding tax, other than what is already in the offsetting memorandum? Although we have a Jersey issuer the Eurobond will be listed in Luxembourg I believe.

Regards

Janine

Confidential Treatment Requested By Wilmer, Cutler & Pickering
A few points
- I have requested all the closing docs for Y1.
- Equal and opposite payments but not necessarily in all cases — Simon is not sure how this will work. We need to check the documents to settle this.
- See the swap for the netting language — not yet covered.
- We will budget the 1/1/2000 first repayment date.
- Y2 will set up a UK bank account.
- No discussion on new EU WHT.
- The bond will be listed in Jan.

No doubt we will speak later.

regards

Simon

---

[Signature]

John Judge
11/24/99 10:10 PM

To: Tranz Kirby/LON/ECT DIRECT
CC: Simon Crow/LON/ECT DIRECT, Mathew Laidy/LON/ECT DIRECT, James Sins/LON/ECT DIRECT

Subject: Y2

1. US withholding on Old swap with Y2

I'm still working on the underlying Y1/Old swap documentation to properly analyze the transaction. As I mentioned, the draft on Matt's file is dated 5 Nov and appears to exclude the cashflows from netting - this is critical.

I am assuming that all of the funding mismatch is now taken care of by the Enron Corp swap note, so that all that the Old/Y2 swap represents is
- Y2 pays to Old an amount equal to the interest on the Delta notes
- Old pays to Y2 an amount equal to the interest on the Delta notes
- Old makes various payments to Y2 in the event of an Enron credit event.

It is assumed that the first two items are equal and opposite so that if netting applies there will be no residual payment upon which to apply withholding. Please can you confirm:
- that the assumption re equal and opposite payments is correct, and
- that netting applies to all payments under the swap.

Confidential Treatment Requested By Wilmer, Cutler & Pickering
If this is not the case, such that same payments are made by C1T to Y2, then our position would be:

1. That the swap is a notional principal contract (sourced to the payee in Jersey) therefore no US withholding.
2. With equal and opposite payments it may be difficult to get within the definition of an NPC (although it is not clear cut), therefore we would then be in the same position as the other swap - basically a withholding rate for 2000 but not after 1/1/2001.

To summarize - best position is ending with no residual payments. Fallback is NPC argument. If we are not comfortable with this fallback then the safest route would be to defer payments until 1/1/2001 to catch the new rules.

2. UK bank account
Just to confirm, it is the Y2 that will set up a UK bank account and not a Jersey paying agent.

Since the interest is not UK source the fact that Y2 uses a UK bank account will not introduce additional UK withholding tax. In any event the bonds are quoted Eurobonds held within Cede&Co and Euroclear so no UK withholding will apply.

Theresa, has there been any discussion with respect to the risk of a new EU withholding tax, other than what is already in the offering memorandum? Although we have a Jersey issuer the Eurobond will be listed in Luxembourg. I believe.

Regards
Jasmine
### Key Statistics

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>Event Corp.</td>
</tr>
<tr>
<td>Citibank Commitment ($)</td>
<td>$120 million</td>
</tr>
<tr>
<td>Citibank Hold ($)</td>
<td>$120 million</td>
</tr>
<tr>
<td>Deal Size ($)</td>
<td>$120 million</td>
</tr>
<tr>
<td>UP Amount ($)</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>DL Amount ($)</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>Pre-Approve (Y/N)</td>
<td>No</td>
</tr>
<tr>
<td>Amount Amount ($)</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>Days Pre-Approved</td>
<td>No</td>
</tr>
<tr>
<td>Scheduled Loan Date</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>Originating Unit</td>
<td>GDM Houston</td>
</tr>
<tr>
<td>Scheduled Closing Date</td>
<td>December 12, 1999</td>
</tr>
<tr>
<td>GBS Industry</td>
<td>Global Energy &amp; Mining</td>
</tr>
<tr>
<td>Set Down Duration</td>
<td>Not Applicable</td>
</tr>
</tbody>
</table>

### CGB Market

- US Book
- Secured (Y/N): No
- Unsecured (Y/N): No

### Agent(1)/Amount ($MM)

- Agent Amount ($MM): Not Applicable
- Liquidity Pricing Exception (Y/N): No
- Liquidity (Y/N): No

---

CIT-SPSI 0021811

Permanent Subcommittee on Investigations
EXHIBIT #1588k
A. PURPOSE

Recommended approval a new PFR for a Palos Verdes, a $120 million incentive for Encino Corp ("Encino") with a year end up to 180 days. Final maturity is expected to be on or before 264/4/2000. 


2. The transaction is similar to the "Due" transaction, which closed in 1999. The interest rate is a fixed exchange with Tenders, $400 million Credit Suisse transaction that is designed to include an interest-bearing note in the US, long-term capital markets, in the first quarter 2000. If, in the event of Non-Tender, the proceeds will be refinanced either through a dollar-denominated Tenders or a syndicated bank facility.

With this approval, Credit Suisse will have $744 million. Outstanding and reserved commitments total $448 million, resulting in an Effective Transfer of $19 million. These bonds reflect the closing on the Tenders transaction, representing an increase of $22.5 million (Cuban is expected to close on 121/1/1999). As outlined in the "Due" experience, the Tenders Transactions secured Elan exposure by $150 million, with the requirement of Tenders and Reserve transactions.

At the December 17, 1998 closing, we expect to receive a premium of $100,000 on Elan. The transaction yields a 30-day, down-cost. Through the non-distribution of Tenders II, there is no limit on tendering Non-Tenders or Credit Suisse transactions of approximately $22.5 million in bond-underwriting fees and a recoup of $100 in other expected payments. 

B. TRANSACTION DESCRIPTIONS

The Tenders transaction is approved as of December 17, 1998, with Credit Suisse advising $120 million in a trade of bond-underwriting fees. The transaction is expected to have a maturity of up to 30 days, with provisions of principal and interest scheduled as of or before 264/4/2000. Including collateral exposure on the associated commodity price swap, Non-Tender exposure totals $216 million. Non-Tenders are priced similar to Tenders, $400 million (33 year) Credit Suisse arranged oil swap that closed in September 1999 and was repaid on 10/4/1999. Tenders was a commodity bond underwriting.

At the closing, Credit Suisse will pay $120.5 million, derived as the product of a discount on the proposed price of oil and the 121/1/1998 oil index price. At maturity, Elan will deliver cash equal to the current value of the futures price of the current oil index futures price on December 17, 1998. Credit Suisse will pay a premium of $100 million (33 year) Credit Suisse arranged oil swap that closed in September 1999 and was repaid on 10/4/1999. Tenders was a commodity bond underwriting.

Barclays and Royal Bank of Scotland will receive identical $100 million oil-swap transactions with Elan, which will close simultaneously with Tenders. Tenders will close simultaneously with Barclays and Royal Bank of Scotland, respectively.

mention TD - Encino Corp
Refinancing Plan:

**Unsecured II**

Citicorp expects to eliminate the former exposure from Nisus via the $175 million capital markets transaction, "Unsecured II," arranged by Citibank/JS. In Unsecured II, a special purpose trust will purchase AAA-rated, and cash flow from the bank market, totaling $175 million in aggregate. The purchased paper will consist of three securities, one swap totaling $175 million. Unsecured II is particularly valuable to JSP as a source of swaps, because the swapped assets (Unsecured II) can achieve rates in excess of those available in the swap market. Prepay swap is based on the assets in the company's inventory trading book.

The trust will fund itself via the sale of 20-year Euro-Cd-Like notes. We expect maturities prior to the end of the second quarter 2000.

**Asset Exposure**

Recent transactions affecting our asset exposure is outlined below. With the close of the Yoonville transaction, Total Facilities are $344 million, Total Outstanding and Unused commitments are $151 million, and our Obligee Exposure has been eliminated. The Yoonville transaction was recapitalized with proceeds from Yoonville, which closed on 11/10/99. Including exposure at the close of Nisus and Hoos, we expect Total facilities to be $724 million, Total Outstanding and Unused Commitments of $444 million, and an Obligee Exposure of $19 million.

<table>
<thead>
<tr>
<th>$ In Millions</th>
<th>Total Facilities</th>
<th>Obligee Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net of 11/6-1</td>
<td>272,933</td>
<td>0</td>
</tr>
<tr>
<td>(Deposit)</td>
<td>(400)</td>
<td>0</td>
</tr>
<tr>
<td>(Reserves)</td>
<td>(330)</td>
<td>0</td>
</tr>
<tr>
<td>(Assignment of 354 day)</td>
<td>(15)</td>
<td>0</td>
</tr>
<tr>
<td>Net of Yoonville Close</td>
<td>271,844</td>
<td>56</td>
</tr>
<tr>
<td>Equityholders' Retract</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Nisus</td>
<td>125</td>
<td>19</td>
</tr>
<tr>
<td>Hoos</td>
<td>72</td>
<td>0</td>
</tr>
<tr>
<td>Net: 11/7-21</td>
<td>274,574</td>
<td>96</td>
</tr>
</tbody>
</table>

Obligee Exposures increased to $19 million from $370 million or at 1.6% for core business. At 12/31/1999, Obligee exposure includes derivative changes in exposure totaling $674 million.

In addition, we expect our 51% minority interest in JT Holdings, Inc. (sympathetic based transaction) to be issued prior to December 31, 1999. We have purchased swaps for protection totaling $124 million, and have $10 million in Loans of Credit from managing under commodity swaps transactions. Our $10 million exposure in the Equityholder is backed by our AA rated insurance company.
ESPOSURE SUMMARY

<table>
<thead>
<tr>
<th>Facility Description</th>
<th>Current</th>
<th>Forecast</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>$1494</td>
<td>$1526</td>
<td>$32</td>
</tr>
</tbody>
</table>

Credits: $1494

Debt Service Cover Ratio: 11.3x

Average Life: 10.9 years

Net Present Value: $119.1 million

Maturity: 85 years

Callable: Yes

Puttable: No

Collateral: Yes

 Guarantor: Yes

Adviser: Not Applicable

Arranger: Not Applicable

C. RETURN TO CONCISE

Return on Investment:

We expect to generate revenue of $377,000 as a total of the Illion transaction, consisting of a $195,000 upfront fee and $377,000 interest revenue. We expect to generate approximately 23 bps of ROE, based on an interest expense of $23.41 million. Illion is projected to sell for the lowest price per share. Illion's debt is expected to generate $2.0 million in dividend revenue and a deficit of $10.0 million of other miscellaneous revenue.

Return on Earnings:

Revenue as of September: $114.4 million

Adjusted Operating Expense: $61.2 million

ROE:

1999: 21.7%

1998: 19.1%

D. MANAGEMENT AND RELATIONSHIP BACKGROUND

We continue to maintain an extensive, long-term relationship with Illion, one that will produce over $100 million in revenue in 1999 as well above the ROE. Our success to date has been measured by our ability to find new opportunities, manage and expand our business in a competitive environment.

At "Illion", we have maintained a strong, positive relationship with the company. Specifically, Illion has invested in our company's common equity issuance in February, subsequent notes issuance (related to the DOH share exchange agreement and related DOH equity offering). In July, the recent CBA 7 structured bond issuance and most importantly the high profile Yasawa transaction. In...

CONFIDENTIAL

CITI-SPSI 0021614
E. **Credit Update**

Please see Brian Credit Update that is included in the Nieren approval memorandum dated 12/4/1999, which is part of this package.

**F. Exhibits**

1. 2000 Annual Review
2. GNP51
Subject: Yeoman\textsuperscript{2} - interim Solution

---Original Message---

From: Kirk, Nils C.
Sent: Sunday, December 06, 1999 2:21 AM
To: Reilly, James F.; Kulus, Adam SSB; Baltie, Steve
Subject: Yeoman\textsuperscript{2} - interim Solution

---End of Original Message---

---Original Message---

From: Kirk, Nils C.
Sent: Monday, December 06, 1999 2:31 AM
To: Reilly, James F.; Kulus, Adam SSB; Baltie, Steve
Subject: Yeoman\textsuperscript{2} - interim Solution

---End of Original Message---

---Original Message---

From: Kirk, Nils C.
Sent: Monday, December 06, 1999 8:46 AM
To: Reilly, James F.; Kulus, Adam SSB; Baltie, Steve
Subject: Yeoman\textsuperscript{2} - interim Solution

---End of Original Message---
CWM - Credit Derivative

Trader: Timothy Swan
Trader: Doug Airways
Broker:

COUNTERPARTY INFORMATION

Name: Enron North America Corp.
Address:

Contact:

Telephone:

ECONOMIC INFORMATION

Currency: USD - U.S.
Expiry Date: Contract Date: Experienced Frequency: Exit Date: 25/12/2000
Amortization:

Underwritten:

Basis:

P preliminary

Premised:

Business Date: New York, London

CITIBANK PAYMENTS:

Spread at Issue Spread at Issue Rate Other

First Period Rate: 7.5625 Spread at Issue: Rate Other

Day Basis: A/360

Sett: Prev. Day


End Stub To: End Stub Ind:

CUSTOMER PAYMENTS: Floating

Spread at Issue Spread at Issue Rate Other

First Period Rate: N/A

Day Basis: A/360

Sett: Prev. Day

Reset: Prev. Day 15 Compound Prev.: Begin Stub:

End Stub:

OTHER INFO

Swap or Note: Reference Currency:

TDI Roll off:

Drop off Date:

Day Count:

TDI Clear Start:

TDI Clear Finish:

Up-front Payment of $104,300,000 to be made on 12/25/2000

Floating Rate is April 2001 NYMEX Crude Futures Contract

PAYMENT INSTRUCTIONS

Basis

CONFIDENTIAL

CITI-SPS1 0035766
Confidential Information

CITI-SPSI 9036767

1499

Account #: 1499
Alt #: 1499
Tel: 1499

Credit Risk Factor:
Case Study: Case Study
Settlement Risk:

Notes:

Special Instructions: CRI is to use $166,666,666 to the customer on 12/10/20
Floating Rate Party = Enron North America Corp.
Floating Amount = 5,347,306.52
Floating Index = April 2001 NYMER index
Settlement Payment Date = 1/1/2002

5,347,306.52 calculated in conjunction with TDC swap M31962001 to pay interest and principal on $166,666,666 advance on 12/10/20, based on APR for closing date or 12/9/01.

Payment = $166,666,666 x (1.01500 x (0.12% x 0.03%)) = $166,666,666

Net is netted out of existing margin agreement. Threshold for CRI posting under existing margin agreement is increased to $336,000 for term of this transaction.

Transaction Notes:

Transaction responsible for trading:

Date: 1/1/2002

Confirm Status (Specify if client wants to confirm):

Any other special instructions:

Attach OK Sheets Here:

Originator/Trader:
Trader:
Operations:

Confidential

CITI-SPSI 9036767
Yosemite and CLN Payment Structures

Yosemite I, II

Enron → Delta

Delta → Yosemite Trust

Credit Linked Note (CLN) – Yosemite III, IV

Enron → Citigroup

Citigroup → CLN Trust

Prepay principal

Floor

Premiums for Floors and Cap

Cap

Principal at maturity

Loan principal

Prepay principal

Floor

Premiums for Floors and Cap

Prepay principal

Loan principal

Principal at maturity

Prepay principal

Floor

Citigroup

Yosemite Trust

Enron

Delta

Prepared by U.S. Senate Permanent Subcommittee on Investigations, August, 2002
Project Yosemite

Objective:
- Increase bank liquidity

Highlights:
- Loan securitization vehicle for Enron structured debt
- Ability to target specific banks via credit default swaps
- "Black-box" feature
  - ability to substitute structured loans
  - disclosure limited to only Citibank
- No change in the accounting treatment of the underlying transactions
- Non-consolidation of the Yosemite SPV
Yosemite Credit Default Swap Structure

- ENE Revolver
- 3rd Party Bank
- Citi
- AAA Investments
- SPV
- ENE CLBs
- Yosemite Bondholders

Note: P&I
Enron Default Swap
IR Swap
Asset Swap
Cash Flow Swap
Return
P&I
$
Yosemite Default Swap - Payout Scenario

Assumptions
- Enron payment default/ Bankruptcy
- Enron bonds → Recovery Rate = 70%

ENE Revolver → 70% recovery → 3rd Party Bank → 30%

ENE → N/A → Citi → 30%

AAA Investments → Liquidation 100%

SPV → 0% → Equity

ENE CLBs
Yosemite Bondholders

70%
Summary

- Yosemite provides for a permanent takeout of highly structured bank transactions while maintaining the flexibility typically associated with the bank market.

- The "black-box" feature provides considerable flexibility through substitution rights while limiting disclosure to only Citibank.

- The Yosemite bonds should be received by the marketplace as the equivalent of a synthetic Enron bond and will receive a credit rating of BBB+/Baa2 (equivalent to Enron).
Transaction Memorandum
Enron: Project Yosemite
$500MM - $1,500MM Default Swap and Credit Linked Note
DAC Meeting: April 6, 1999

Purpose:
This purpose of this memorandum is to obtain preliminary approval to seek a mandate
to provide Enron’s top tier banks with $500MM to $1,500MM of Enron default
protection. Enron has asked Citibank/SGB to design a program that Enron can use to
relieve credit capacity with their top tier banking relationships. Citigroup has
proposed a solution whereby Citibank will either provide default protection to Enron’s
banks or effectively purchase their assets and in turn purchase protection from a fully
capitalized SPV. Of specific interest for this meeting is our ability to assume some
amount of basis risk between purchased and sold default protection and the treatment
of the transaction on Enron’s CA.

Client Need:
Enron puts a high degree of value on the innovative transaction brought to them by
Enron top tier banks. These transactions have historically provided Enron with
various forms of off balance sheet financing, tax efficient financing or cost effective
equity-like financing. Recently Enron has been finding restriction in the capacity of
the bank market to absorb Enron credit risk in these transactions. Enron is
therefore seeking innovative solutions to increase bank credit capacity for their name
while preserving the value added components of these deals.

Enron has outlined the following objectives for a transaction:
1. Increase bank credit capacity;
2. Maintenance of existing balance sheet treatment of transactions;
3. Expand investor base beyond commercial bank/top tier institutional investors;
4. Cost-efficient funding source;
5. Target size of facility $1BN;
6. Minimize rating agency disclosure;
7. Have the ability to substitute facilities;
8. Minimize income losses to banks that would result if banks sold their holdings at
current discounted market prices;
9. Maintain bank group in existing deals. Ideally, banks who are not top tier
participants in deals will be unaware of the "true" of the existing positions of top
tier banks;

Enron has identified several liabilities that vary in credit seniority for potential
inclusion in a credit derivative structure. Citibank has chosen, from those several that
we believe to be the equivalent to senior unsecured obligations of Enron on which
develop a solution.

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Page 1 of 9

Permanent Subcommittee on Investigations
EXHIBIT #189c

CMI-SPSII 0033704
Proposed Structure: (Default Swap Structure)

Citibank has proposed two transactions that meet Enron's objectives. The first we provide default swaps to Enron's top tier banks on specific Enron liabilities. Citibank will purchase default protection from an SPV collateralized with AAA rated asset-backed securities. To purchase the securities, the SPV will issue notes or certificates whose repayment is conditional on certain Enron Credit Events and the market value of Enron senior unsecured debt obligations.

Protection sold by Citibank will have as Reference Obligations either Enron 5-year revolving credit facilities, the A-Notes of synthetic lease transactions, or other Enron senior unsecured obligations. Protection purchased by Citibank will have as Reference Obligations senior unsecured debt of Enron. These are likely to be bonds and loans of Enron. There is clearly a small amount of basis risk in the transaction. Enron views our ability to understand and assume this basis risk as important to the transaction. This will be discussed later in this document.

Execution of default swaps provides the banks with credit protection that:

1. Provides RAP relief;
2. Defers risk without recognition of a gain/loss as the assets are not sold;
3. Enables the bank to hedge existing deals without selling the exposure and disrupting the bank group.

Investors and rating agencies see a simple Enron Credit Linked Notes with repayment similar to an investment in a direct Enron obligation. The investors will receive a premium over a direct Enron obligation but pricing will be relatively tight, as there is little structural complexity in the transaction.

GAAP and RAP Assets:

The proposed transaction should not be consolidated for accounting purposes and will not result in GAAP assets for the bank. This still has to be confirmed by the control and accounting policy.

The ideal RAP treatment for the transaction will be for Citibank to only have counterparty risk capital for the purchased protection from the SPV. Even FAS 114 is evaluating a transaction with similar “basis risk” to determine if and what amount of specific credit risk capital must be retained by Citibank. If only counterparty capital is included, Citibank would recognize a 4% risk adjusted asset.

Credit Risk Exposure:

Credit Risk Exposure will be to an SPV collateralized with AAA/AA rated asset-backed securities. The CRE will be a function of the tenor of the transaction but could be as high as 100% in most circumstances.

No exposure will be shown on Enron's CA for this transaction.
Booking:
The default swap transactions will be booked as standard default swaps in GK. Pricing for both sides of the transaction will be determined by obtaining market bond price data for Enron.

Legal:
Certain Enron liabilities will require legal review of the underlying documentation and opinions to determine their credit seniority.

Outside counsel will be retained and will work with Don Bendernagel if a mandate is awarded.

"Basis Risk":
It is our intention to assume basis risk where we are reasonably certain that the dollar amount of such risk is minimal. We believe that will be the case where we purchase default protection on Enron bonds and sell default protection on senior unsecured loans. Citibank's experience has generally been that in the event of default, the recovery rates on unsecured loans exceed that of unsecured bonds.

Highly specialized assets will require more scrutiny. We have undertaken a preliminary investigation of synthetic lease transaction (ADP - Asset Defeasance Product). Based conversations with outside counsel and Eli Sasson (see attached email), we are reasonably comfortable that A-Notes of these transactions will trade the same or better than senior unsecured loans:

1. The A-Notes are in no worse a position than that of a general creditor
2. The notes have a third mortgage interest in the underlying building behind the B-Note and C-Note holders. Combined, these claims are only 15% of the original building value.
3. These facilities when syndicated usually command spreads similar to that of the lessor's senior unsecured loans.
4. $5BLN to $10BLN of transaction volume is executed per year

Profitability:
Citibank/SSB has shown the client the following pricing:

<table>
<thead>
<tr>
<th>Item</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up front Structuring and Placement Fees</td>
<td>1%</td>
</tr>
<tr>
<td>Ongoing swap spread</td>
<td>150 bps</td>
</tr>
<tr>
<td>Basis Risk Cost</td>
<td>TBD</td>
</tr>
</tbody>
</table>

EV revenues for the firm will be as much as 1.8% of the notional amount placed.
**Alternative Structure: (Hybrid Structure)**

In a variation on the above structure the SPV purchases assets directly from the banks and purchases a default swap wrap from Citibank:

**At Inception:**
1. Investors put cash into the Trust in exchange for Trust Certificates.
2. The trust purchases assets from the banks (e.g. Synthetic Lease Transactions).
3. Trust enters into a Knock-Out Total Return Swap with Citibank.

**During term of Transaction:**
1. Under the Knock-out Total Return Swap, Trust pays cash flows received on Trust assets to Citibank in exchange for floating payments (e.g. LIBOR+50bp).
2. Trust exchanges floating payments received from Citibank for fixed payments under interest rate swap with Erexo.

**At maturity (no Enron default):**
1. Synthetic Lease A-Notes mature with principal payments by Enron to the Trust.
2. Under the Knock-out TRS, Trust pays total return on Trust assets (payment received from Enron) to Citibank and Citibank pays amounts equal to the face amount of Trust Certificates to Trust.
3. Trust distributes payment received from Citibank to Trust investors in exchange for Trust Certificates.
4. Credit Basis Swap terminates without any action taken thereunder.

**Upon an Enron default:**
1. Knock-out Total Return Swap terminates.
2. Trust physically delivers Trust assets to Citibank in exchange for a payment equal to the value of a Reference Obligation of Enron (a publicly traded, senior, unsecured obligation).
3. Citibank’s payment obligation may be satisfied by a payment in cash or, if so elected, delivery of Reference Obligations with a face amount equal to the face amount of the Trust assets.

In our original proposal Enron would provide Citibank with a hedge on the basis risk by way of a collateralized swap. Enron has asked that we indicate our ability to execute this transaction without the basis risk hedge. At such, several issues remain outstanding in this structure:

**Booking:**
1. The trading desk is writing an “unhedged” contingent total return swap for up to 5 to 7 years. This would likely require an MRPC exception.
2. Can the transaction be booked in a fashion similar to the proposed transaction that would not result in any P&L swings.
Banks:

1. Will the banks be comfortable taking a hit to their P&L if they have to sell the asset at current market prices

Accounting:

1. Can the SPV remain unconsolidated with Citibank
Brooke:

To bring you up to date I am attaching the correspondence we have sent so far to Moody's and S&P. The memo below went to Gerry Gluck at Moody's and the Summary went to both Moody's and S&P.

Jim

Gerry:

As we discussed yesterday, we believe that in assessing our proposed credit linked note structure the likelihood that the Company fails to pay on an obligation in the trust is a key point. However, we believe that the proposed transaction is structured to ensure that investors bear identical risks to bondholders.

Likelihood of default

- Each obligation in the trust will be of material size. Therefore, a default will be a material event to the Company. We believe that it is unlikely that the Company would choose to selectively default on a material obligation.

- All obligations in the trust will be bank financings.

- All obligations can be characterised as general claims on the Company. We are prepared to have a reputable law firm opinion that the obligations in the trust are payment obligations of the Company not contingent on the performance of other parties and would in a bankruptcy of the Company rank pari passu with other general unsecured claims of the Company.

- You raised the question of the probability of default on trust assets versus other claims. It is not clear whether any company would sooner default on bank financings versus public debt. Intuitively it seems the reverse should be true. To take the argument to an extreme one could argue that one series of public bonds is more susceptible to default than another based on issue size, coupon, or maturity. To the best of our knowledge analysts do not differentiate among bonds based on these factors. Thus, we believe general claims are general claims and it is impossible to distinguish any difference in the probability of default among them.

- The Company's bond indenture does not have a cross default provision across series. Therefore, the Company may default on one series without regard to any other series. However, all of the Company's serial bonds are rated the same.

Failure to pay without bankruptcy
Although we consider it unlikely that the Company would default on an obligation in the trust without causing the Company to be forced into bankruptcy, we have taken steps to protect investors from this risk. Specifically, Citibank will sue on behalf of the trust for payment of the trust's claim. Generally, Citibank will pay to the trust any difference between the value of any nonappealable final judgment rendered by a competent court and the face amount of the Company obligation held by the trust. In the extreme case, should a court hold that the value of the Company obligation is zero, Citibank would be obligated to pay 100 cents on the dollar to the trust.

**Bankruptcy**

If the Company were to go into bankruptcy and the bankruptcy court determined that the obligations held by the trust are worth less than certain publicly traded reference bonds of the Company, Citibank would again make up the difference between the value of the Company obligation held by the trust and the value of the reference bonds. We may settle in cash or remove the trust obligation and replace it with a reference bond.

In summary, SSB believes that the proposed credit linked note structure creates a security that has risks identical to the risks borne by holders of the Company's public bonds, and therefore should have the same rating as the Company.

We look forward to continuing this discussion. Again, thanks for your time in working through the issues on this proposed structure.
Confidential Transaction

Transaction Memorandum
Project Yosemite
5.1 Billion Credit Default Swap Structure Referencing Enron Corp.

Client Need:

Enron Corp. ("Enron"), a Target Market customer, engages on a regular basis in highly structured financings ("Enron Structured Debt") with a select group of banks. These transactions provide significant value to Enron in that it can finance capital needs while maintaining favorable accounting and rating agency treatment. In planning its capital needs, Enron has become increasingly sensitive that its ability to continue entering these transactions is constrained by limited bank credit capacity. The purpose of the Yosemite transaction is to enable Enron to increase additional credit capacity for itself in the bank market by shifting Enron credit risk from the bank market to the capital markets without affecting existing rating agency and accounting treatment of the Enron Structured Debt.

Citigroup Solution:

The Yosemite structure is designed to free up Enron credit capacity at Enron’s key banks (the "Enron Banks"). Yosemite is a trust structure that raises funds in the capital markets to:

(i) purchase Enron Structured Debt from the Enron Banks; and

(ii) purchase certain AAA investments that will act as the collateral for the benefit of Citibank under default swaps referencing Enron written by Yosemite to Citibank (Citibank will, in turn, offer default protection to selected Enron Banks).
Yosemite will raise approximately $800 million to $1 billion of funds by issuing (a) $525 million Notes and (b) $75 million of Certificates. The Notes will mature in 5 and 7 years. The Certificates will be subordinate in right of payment to the Notes.

The proceeds from the issuance of the Notes and the Certificates will be used to purchase permitted investments, consisting of AAA investments and Enron Structured Debt. Enron Structured Debt will include payment obligations supported, in whole or in part, directly or indirectly, by Enron.

The permitted investments may be changed over time provided that both Enron and Citibank agree to any substitution. Citibank will select all AAA investments.

Citibank and the Trust will enter into the “Citibank Swap” which will provide the following (as long as an Enron bankruptcy has not occurred): (a) all interest on permitted investments received by the Trust will be paid to Citibank; and (b) Citibank will pay to the Trust the coupon payment on the Notes and yield payment on the Certificates on each interest payment date.

The Citibank Swap will also function as a credit default swap in which Citibank will protect the Trust if, in an Enron bankruptcy, the Enron Structured Debt recovers less than Enron Bonds.
Enron and Citibank will enter into the "Enron Agreement," which will govern asset substitutions and will contain certain periodic payments which have the effect of converting any fixed cashflows to floating. The Enron Agreement requires that both Enron and Citibank approve any asset substitutions (i.e., Enron is unable to place assets in the Trust without Citibank's prior consent).

Risks to Citibank under the Citibank Swap:

The Citibank Swap is designed to insulate the Noteholders from any risk that Enron Structured Debt held by the Trust results in greater exposure to Enron than would an Enron Bond. Essentially, in the event of a Bankruptcy of Enron, the Citibank Swap will protect Noteholders from any diminution in value of the Enron Structured Debt held by the Trust that would not be present if the Trust were holding an equivalent principal amount of Enron Bonds. (Any excess value would be paid by the Trust to Citibank under the Citibank Swap.)

Accordingly, Citibank is exposed to a risk that the recovery on Enron Structured Debt is less than that on Enron Bonds (i.e., Citibank takes basis risk on recoveries in the event of an Enron bankruptcy). Under the Enron Agreement, Citibank and Enron must jointly approve any asset substitution and the price Citibank receives for assuming any basis risk between the new Enron Structured Debt and Enron Bonds. Derivatives will maintain, as part of the Credit Derivatives Product Program, a process for evaluating and approving any basis risk on Enron Structured Debt. Such process will be completed prior to any proposed substitution.

In addition, if Citibank has written default swaps to Enron Bankst, the hedge provided by the Yosemite Trust will be secured only to the extent of the value of the AAB investments held by the Trust. Any losses on the AAB investments will result in a diminution in the value of Citibank's collateral. However, this risk is viewed as remote.

Upon a bankruptcy of Enron, Citibank will satisfy its obligation under the swap by either: (a) delivering to the Trust senior unsecured obligations of Enron in exchange for a like face amount of Permitted Investments; or (b) paying to the Trust any deficiency between the recovery value of such senior unsecured obligations of Enron and the recovery value of the Enron Structured Debt, both determined at the conclusion of the bankruptcy proceedings.

Initial Enron Structured Debt:

It is expected that the Enron Structured Debt will consist of a (1) $100 million prepaid oil derivatives transaction (the "Prepaid"), (ii) an adjustable note (the "Negative Carry Note") designed to pick up any negative carry between (a) the Note coupons and Certificate yield and (b) the yield on the Trust's assets.

Prepaid: Please see attached Yosemite Fianled Prepaid Description for a diagram of the structure. Basis risk between derivative claims under the Prepaid and senior unsecured claims have been analyzed both by internal counsel and by Milbank. Both internal and external counsel believe that the risk of a difference in the recovery rates of the $800MM prepaid and $800MM of bonds is remote.
Adjustable Note: Enron has agreed to include among the Permitted Investments an adjustable note. The adjustable note will be designed to pay any negative carry that exists between the other Permitted Investments and the Note Interest and Certificate Yield. Under the Enron Agreement between Citibank and Enron, Enron agrees to reimburse Citibank for any negative carry. The adjustable note is also designed to insulate Citibank from Enron Failure in Pay mix and by its terms will protect the Trust from defaults under other Enron investments by adjusting its payment streams so that it picks up any missed payments (essentially, the note acts as first loss cushion).

Equity Investment:

Please see attached Yosemite Equity Investment memo.

Credit Exposure:

The transaction will create approximately $37.5 million of additional credit exposure comprised of the $37.5 million due to the indirect purchase of the Trust Certificates. This exposure will not be equivalent to a loan exposure of Citigroup will not have a direct claim to Enron; however, this exposure will be hedged by the operation of the Citibank Swap as described above.

Please note that execution of this transaction will enable Enron to repay approximately $400 million of prepaids currently on the Citibank CA.

Expected Revenues:

Although pieces of the transaction are continuing to evolve, expected revenues equal approximately the following:

<table>
<thead>
<tr>
<th>Deal Size</th>
<th>$1.0 billion</th>
<th>$800 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>Prepaid, AAA Investments</td>
<td>Prepaid</td>
</tr>
<tr>
<td>Note Issuance</td>
<td>$462.5 million each of 5 and 7 year maturities</td>
<td>$302.5 million each of 5 and 7 year maturities</td>
</tr>
<tr>
<td>SSF Bond Fees</td>
<td>55.0 MM</td>
<td>3.7 MM</td>
</tr>
<tr>
<td>Prepaid Fees</td>
<td>11.3 MM</td>
<td>11.3 MM</td>
</tr>
<tr>
<td>Yosemite Equity</td>
<td>4.6 MM</td>
<td>4.4 MM</td>
</tr>
<tr>
<td>Default Swap Fees / LIBOR</td>
<td>3.1 MM</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>$230.0 MM</td>
<td>$19.4 MM</td>
</tr>
</tbody>
</table>

Accounting Implications:

Accounting Policy has indicated that the Trust will not be consolidated with Citibank as Enron will own 50% of the Trust equity and is the primary beneficiary of the Trust. Citibank does not have a direct, funded ownership interest in the Trust and Citibank will not have decision making authority with respect to the Trust. In addition, for risk based capital purposes, the Citibank Swap will function as offsetting purchased and sold default protection on Enron.
Yosemite Equity Investment

Overview
Project Yosemite's Trust requires $75 MM of equity. It is contemplated that Enron will provide $37.5 MM directly to the Trust, and that Citigroup, through Salomon, will synthetically provide $37.5 MM. For Citigroup's portion, a balance sheet provider will invest $37.5 MM and enter into a total return swap on the equity with Salomon. Consequently, the balance sheet provider is exposed to Salomon risk only, and Salomon assumes the equity exposure.

The equity in Yosemite absorbs any losses in the Trust before the Notes; accordingly, the recovery on the equity is zero if recovery in bankruptcy on Enron bonds is below 20 cents per dollar, a likely occurrence. Citigroup hedges its exposure to the equity through the Yosemite Swaps that Citibank buys and sells to the vehicle. The Yosemite Swaps are structured so that the net of swap payments and equity loss in the event of an Enron bankruptcy has recovery characteristics superior to those of a standard plain vanilla loan for Citigroup as an institution.

Calculations
Assumptions
Notes
Total Equity $75
Swap Notional Citibank Payments $925
Swap Notional Trust Payments $1,000
Cit Equity Investment $37.5

Recovery Rates
Enron Investments
20% 30% 50% 65% 75%
Bonds
20% 30% 50% 65% 75%

Funds Flow at Bankruptcy
Swap Payment by Citibank $185.00 $277.50 $462.50 $601.25 $693.75
Swap Payment by Trust $220.00 $320.00 $500.00 $650.00 $750.00
Net Swap Payment to Citibank from Cit $15.00 $22.50 $37.50 $48.75 $56.25
Loss on Equity ($37.50) ($37.50) ($37.50) ($37.50) ($37.50)

Windfall/Loss on Swap and Equity ($22.50) ($19.00) $0.00 $11.25 $18.75

Note that Citigroup's exposure is superior to that of a standard loan, as the institution only experiences a
loss if recovery is below 50 cents/dollar; if recovery is greater than 50 cents/dollar, the institution receives a windfall payment from the Trust.

**Blocking Mechanics**

It is contemplated that Citibank GRB will book the equity exposure as $37.5MM of 7-year Company Yosemite exposure, and that Citibank GRB and Citibank Credit Derivatives will enter into a "Recovery Rate Swap" in order to modify the GRB’s equity recovery value to achieve the favorable economics outlined above. Under the swap, GRB will pay Derivatives a fixed recovery rate of 50 cents/dollar in exchange for receiving the actual recovery rate/dollar on a $75MM notional amount. The swap will be settled at the earlier of the end of Enron’s bankruptcy proceedings or 7 years.

**Returns**

Citigroup will receive approximately LIBOR + 5.00% on its $37.5MM exposure.

**Summary of Position**

Salomon has total return swap on $37.5MM of equity. Citibank GRB and Citibank Derivatives execute the Recovery Rate Swap. In combination, Citibank GRB takes $37.5MM of credit exposure to Company Yosemite, with a superior return and recovery position to straight Enron debt. This superior return is possible because of an overcollateralization; i.e. payments made by Citibank will relate to the Nynex/Enron’s 92.5% interest in the Yosemite Trust Assets, whereas Citibank will receive a payment on 100% of the Yosemite Trust Assets.
Interoffice Memo

DATE: October 26, 1999
TO: Fred Chapey, Eleanor Wagner
FROM: Lynn Peintech, Adam Kulick, Rick Caplan
RE: Follow-up to Yosemite CMAC meeting

The purpose of this memo is to inform you of the completion of the follow-up items that the CMAC requested at the September 22 meeting. Below are excerpts from the meeting’s minutes that describe the follow-up items and the actions that have been taken to complete them.

1. Define procedures for performing due diligence on proposed asset additions/substitutions to Permitted Investments held in the Trust. Procedures should include: ensuring that the underlying documents on the asset are in order, securing all necessary approvals internally (Credit Derivatives, Capital Markets Credit, Market Risk Management, Legal) and obtaining memos/opinions from outside counsel for each proposed asset.
   (Tom Francois, Rick Caplan, Adam Kulick)

Basis risk associated with any additional Enron-related assets to be purchased by Yosemite will be analyzed by the Credit Derivatives Business in conjunction with the Risk Management and Legal groups. Such analysis will focus on the structural aspects of the proposed asset, especially the nature of the Enron support. The ultimate purpose of the analysis will be to assess the chances that a claim related to the asset could be treated differently than a claim on a generic senior-unsecured Enron debt obligation in a Bankruptcy proceeding related to Enron. External legal counsel will be retained to assist in this analysis and a legal opinion or memorandum from such counsel will be obtained on any asset.

Approvals for any new asset will be required from:
- The Head of Credit Derivatives Trading (currently Doug Warren)
- The Head of Credit Trading (currently Geoff Coley)
- The Head of Derivatives Client Risk Management (currently Eleanor Wagner)
- The Head of Market Risk Management (currently David Bushnell)
- The Head of Capital Markets Legal (currently Marcy Engel)
- The Head of Global Energy (currently Bill Fox)

2. Quantify additional credit risk to Company Yosemite that may arise from differences in cash flows, e.g., fixed vs. floating, and mismatches in timing.
between the cash flows received by Citibank from Permitted Investments and Citibank's cash flow obligations on the Notes and Certificates. Secure the necessary Credit approvals. (Tom Francois, Rick Caplan, Adam Kulick)

There is no incremental risk and therefore no need for credit approval. The Trust will hold as an asset an Enron note with a variable coupon that will be designed to cover the negative carry in the transaction.

3. Finalize with client the terms of the Yosemite agreement in the event that Company Yosemite fails to pay on Yosemite investments outside of bankruptcy (Rick Caplan, Adam Kulick)

Failure to pay risk is mitigated by the existence of an adjustable rate note that Yosemite will purchase directly from Enron. This note is designed to pay interest at a rate that makes up for any deficiency between the scheduled interest receipts on Yosemite's assets and the coupons on the notes and certificates Yosemite is issuing. This note would pick up any "negative carry" between the yield on Yosemite's assets/liabilities. This note would not, however, pick up any failure by a debtor of Yosemite to make any normally scheduled interest payments.

Under the Citibank/Yosemite swap, Yosemite pays Citi its actual interest receipts and Citi pays Yosemite the coupons due on Yosemite's notes and certificates. Following a publicly noticed Enron Failure to Pay, Citi can reduce the amount of its periodic swap payments by the amount of any unpaid interest Yosemite was to receive directly from Enron. Citi can also deliver to Yosemite direct Enron obligations in exchange for indirect Enron obligations following an Enron Failure to Pay. In the event of a failure to pay on the Prepaid, the swap receivable that the vehicle that issued the Prepaid would hold (a direct Enron Obligation arising out of termination of the prepaid oil forward) would be assigned to Yosemite in exchange for the note the Prepaid vehicle had originally issued to Yosemite. The swap receivable would bear a contractual interest rate. Hence, there would be interest amounts directly owing to Yosemite by Enron which, if not paid, would serve to reduce Citibank's obligation to pay Yosemite's required coupons. The interest on the swap receivable would be set at a level to ensure that Citibank would not have any net payment obligation to Yosemite with respect to ongoing interest on Yosemite's obligations.

4. Present the deal to the Committee Committee for review and approval. In preparation, describe the functions and risks of each swap (Rick Caplan, Adam Kulick)
The Commitment Committee meeting is scheduled for Monday, October 25th. The memo describing the functions and risks of each swap will be included in the Commitment Committee memo.

5. Present the “Firefly” transaction, including proposed modifications, to CMAC for review and approval (Rick Caplan, Adam Kulick)

The Trust will not hold Firefly as an asset at closing.

6. Secure approval from the GRB Control Unit and Relationship Manager for Company Yosemite for the Equity piece of the transaction (Rick Caplan, Adam Kulick)

Breach presentations have been made to the GRB credit approval chain. Actual credit approval is currently being sought.

7. Address and resolve remaining issues on documentation pertaining to the Citibank swap. Yosemite agreement and the Equity piece (Don Bendernagel, Rick Caplan, Adam Kulick)

Swap and equity have been agreed to in principle. Documentation revisions will continue until closing.

8. Address and resolve outstanding regulatory and accounting issues with respect to the structure and Equity investment (Saul Bernstein, Don Bendernagel, Rick Caplan, Adam Kulick)

Accounting Policy and Regulatory has approved the transaction and Salomon Smith Barney’s synthetic investment in the equity of the Yosemite Trust.

9. Ensure Operations has current capability to book and process all the legs of this complex transaction (Rich Tantone, Rick Caplan, Adam Kulick).

Subsequent to the CMAC meeting, Rich Tantone met with Rick Caplan, who will prepare a list and explanation of all components of the deal that need to be booked.

Operations has been provided with all listings of all transactions to be booked. Operations has indicated that they will be able to book each leg of the transaction.

10. Analyze additional ongoing maintenance costs (e.g., Legal Department, outside counsel, Operations) associated with this deal (Rick Caplan, Adam Kulick in conjunction with appropriate functions).
Enron will pay costs of outside counsel for any review of new assets.
Yosemite Securities Trust I
Linked Euron Obligations (LEOs™)

Frequently Asked Questions

Q: What is the basic idea behind Yosemite?
A: The broad theme is to find the best home for different risks. As noted in The Wall Street Journal on 10/27/99, banks are increasingly reluctant to take on long dated credit risk (i.e. generally a 3-year loan), although they maintain a competitive advantage in structured finance. Yosemite allows Euron to take advantage of the flexibility provided by banks in structuring complex financings while placing pure long dated credit risk in the capital markets.

Q: Why does Yosemite make economic sense?
A: Structuring risk is most efficiently priced in the bank market. Pure credit risk is most efficiently priced in the capital markets. The Yosemite structure allows Citigroup to place pure Euron credit risk in the bond market while keeping the structural risks in the bank market.

Q: Why is Euron doing this?
A: To take advantage of banks' structuring expertise while broadening Euron's sources of capital. Banks are willing to do structured financings for limited tenors (typically three years); Yosemite will allow Euron to continue to execute structured financings with banks while extending the tenors of the deals by placing the credit risk in the capital markets. Euron believes that, as its capital structure is diverse and complex, strategic value is added by being able to syndicate a variety of risks through structured financings.

Q: Is Euron running out of bank lines?
A: Euron has substantially reduced its dependence on bank financing over the last year (over $4 billion in freed up capacity). Euron believes that it has excellent liquidity in and access to the bank market. Yosemite provides Euron with another avenue through which to source funds and expand its sources of capital.

Q: How does this transaction affect Euron's financial statements?
A: All assets of the Trust are already reflected in Euron's financials or will be at the time they are created. Examples of potential Euron investments include bank loans, credit facilities, contingent guarantees, financing leases and structured commodity swaps.
Q: What is Citigroup’s interest?
A: Enron is an important customer of Citigroup. Citigroup wants to continue to strengthen this relationship, and Yosemite allows Citigroup to continue executing sophisticated financings with Enron while managing its credit exposure. In addition, Yosemite provides Citigroup a vehicle through which it can expand its penetration in the credit derivatives market.

Q: What are the benefits to investors?
A: Investors receive a premium for taking Enron credit in a structured form. The size of the offering and SSB’s market-making commitment should combine to ensure adequate liquidity.

Q: What kind of assets can Yosemite hold?
A: Yosemite is a black box, but assets are limited to direct or indirect obligations of Enron and certain high-quality investments (U.S. governments, AAA/Aaa or A1+/F1 CP).

Q: What are investors’ risks to Enron?
A: LEOs are designed to mimic the risk profile of Enron senior unsecured obligations that rank the same as Enron bonds. In an Enron bankruptcy, the structure is designed to give Yosemite investors the same recovery as senior bondholders. Following any other payment failure, the structure is designed to give investors risk to Enron senior unsecured obligations that rank the same as borrowed money. Therefore, in all cases, investors bear general credit risk to Enron senior unsecured obligations.

Q: What are investors’ risks to Citibank?
A: Investors have performance and credit risk to Citibank (Aa2/AA-). Through a swap, Citibank receives all payments from Yosemite assets and is obligated to make each Yosemite coupon payment. In addition, Citibank is obligated to ensure that in any default situation involving Enron or the Enron assets held by Yosemite that investors take risk only to senior unsecured obligations of Enron.

Q: Do investors have other risks?
A: Yosemite may invest in AAA/Aaa term assets or A1+/F1 CP (provided the CP issuer’s long-term rating is AA-/Aa3 or better). Investors bear default risk of but not price risk to these securities.

Q: Can Yosemite be replicated?

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CITI-SPSI 0040488
A: Yosemite I is the beginning of a program of trades for Enron. Citigroup believes the technology will be beneficial to other capital users.

Q: Who will own the Certificates?

A: Each of Enron and Citigroup will, directly or indirectly, own 50% of the Certificates. Neither will be able to modify the structure without Nonholder consent.
November 18, 1999

Yosemite Securities Trust 1 (the "Issuer")

600 Wilmington Trust Company
Rodway Square North
1100 North Market Street
Wilmington, Delaware 19899

Re: $750,000,000 8.25% Series 1999-A Linked Euro Obligations due 2004 (the "Linked Euro Obligations")

Ladies and Gentlemen:

At your request, Moody's Investors Service has reviewed for rating purposes the information submitted in connection with the above-captioned issuance. We understand that this information was submitted in substantially final form.

Based on the information submitted, Moody's Corporate Rating Committee has assigned a rating of Baa3 to the Linked Euro Obligations. The rating reflects the credit quality of the Enron Corporation ("Enron"), as well as the effectiveness of the documentation and of the structure in conveying this credit quality to investors. In addition, the rating incorporates the financial strength and additional risk presented by the swap agreement with Citibank, N.A. ("Citibank"). The rating of the Linked Euro Obligations will change with the rating of the Enron and Citibank.

The rating will be monitored and is subject to reconsideration at Moody's sole discretion. The ratings are contingent upon receipt of all executed documents in form satisfactory to Moody's within thirty (30) days of this letter. Please send all documentation and notices to Moody's Investors Service, 99 Church Street, New York, New York 10007, Attn: Structured Derivative Products.

Thank you for your interest in our services.

Sincerely,

[Signature]

Isaac Efrat
Vice President

[Signature]

Silva Walker
Vice President
November 18, 1999

Mr. Richard Caplan
Salomon Smith Barney Inc.
390 Greenwich Street
New York, NY 10013

Re: Yosemite Securities Trust I
$ 750,000,000 8.25% Series 1999-A Linked Escrow Obligations (LEOs) due November 15, 2004

Dear Mr. Caplan:

Pursuant to your request for a rating on the above issue, we have reviewed the information presented to us and have assigned the rating of “BBB+” to the notes. If you have any questions relative to this rating, we will be pleased to answer them.

We will maintain continuous rating surveillance until the above-named notes mature or are otherwise retired. In order to maintain our rating surveillance, we must receive all reports submitted to the fiscal agent in regard to the above-captioned issue, the absence of which may result in the withdrawal of our rating. Standard & Poor’s relies on the issuer and its counsel, accountants and other experts for the accuracy and completeness of the information submitted in connection with the rating. Please address all reports to: Standard & Poor’s Ratings Group, 33 Water Street, New York, New York 10041-0003, Attn: Asset-Backed Surveillance Group.

This letter constitutes Standard & Poor’s permission to you to disseminate the above-assigned rating to interested parties. You understand that Standard & Poor’s has not consented to, and will not consent to, being named an “expert” under the federal securities laws, including without limitation, Section 17 of the Securities Act of 1933. In addition, it should be understood that the rating is not a “market” rating nor a recommendation to buy, hold, or sell the notes.
Standard & Poor's reserves the right to advise its own clients, subscribers, and the public of the rating.

We are pleased to have had the opportunity of being of service to you. Our bill for the analytical work performed on these securities will be sent to you within one month. If we can be of further help, please do not hesitate to call upon us.

Very truly yours,

[Signature]
Joseph F. Sheridan
Managing Director
Rick/Adam, I spoke with Fred and stated that I believe the client understands the accounting risk and that it is their argument to lose. That Enron would argue that they do not control on a risk reward basis, and that Citibank would argue the same. Yosemite Trust would be another orphan SPV. Fred understands that the transaction is presently being priced in the market. We agreed that the transaction can proceed.

Regards, Saul

--- Original Message ---
From: Bernstein, Saul
To: Bernstein, Saul
Cc: Barger, Linda; Mackey, William J.; Bozarth, William T.; Langer, John O. SSB;
Battline, Frederick; Battline, Frederick; Mackey, William J.; Barger, Linda; Langer, John O. SSB; Bozarth, William T. SSB
Subject: RE: Project Yosemite

Saul,

You and the others have spent more time on this than I have, but if we have structured a transaction to help a client avoid consolidation, how can we turn around and take the position that they should be consolidating?

I'm not suggesting that we are responsible for their accounting, but I am afraid that if we ever had to defend this we would either (a) embarrass the client or (b) lose the accounting argument.

Regards,
Fred

--- Forward Header ---
Subject: RE: Project Yosemite
Author: Saul Bernstein at 208 NYC
Date: 11/331999 10:55 AM

Fred, the initial form of this transaction had Citibank as a 50% funded equity partner with Enron. My understanding is that Enron was taking the position that they would therefore not have control and be able to avoid consolidation. I advised the business that we should not have a funded equity position. Per D-14, real equity are those investments which are funded and at risk for the full life of the SPV. Also, it is unusual to consolidate an SPV solely on the basis of writing a derivative.

Further, the business committed to have Enron holding an equity interest of at least three to five percent (with the total equity of Yosemite Trust being in

Permanent Subcommittee on Investigations
EXHIBIT #189

CITI-SPSI 0040631
1530

the range of six to ten percent. It is our view that Enron should consolidate
the Trust (implied by the accounting rationale documented in my memorandum which
supports non-consolidation by Citibank, but GGB Accounting Advisory not the
Enron does not advise a customer regarding its accounting. We tell them to
consult their internal accounting folks or external auditors. This is the
client's accounting risk to accept or reject.
It has not been my experience that we assure ourselves that the client accepts
our view regarding what we believe their accounting should be. This would be
a new operating standard and business requirement, the competitive-impact of
which must be carefully considered. Please note the all transactions are
approved from an appropriateness and suitability aspect.

Please also note, regarding our own accounting, this transaction was reviewed
by Bill Bazart, John Langer and Linda Bergen. We all got comfortable with not
consolidating the Yosemite Trust, although we all share your concern.

Regards, Saul

---Original Message---
From: Battine, Frederick
Sent: Wednesday, November 03, 1999 9:49 AM
To: Bernstein, Saul
Cc: Bergen, Linda; Mackey, William J.
Subject: Project Yosemite

Saul,

I have reviewed the memo, and I am concerned with the consolidation of
the Yosemite Trust in view of the way that the equity ownership is
structured.

EITF Topic 0-14 says that one of the conditions to avoid consolidation is that the majority owner of the trust must be an independent third
party who has made a substantive capital investment, I don't see how
this condition is being met in the current structure. The client is
not independent, and the third party investor is protected by the
total return swap provided by SSF (who as part of Citigroup is also
not independent from the rest of the transaction).

If it is our view that the client should be consolidating the trust,
we need to be sure that the client accepts this view. We are not
responsible for the client's accounting, but once we are advising on
the transaction it could be rather embarrassing if Citigroup's
accounting position relies on a view that is contrary to our client's
interest. In this transaction the client may be indifferent to
consolidating the trust, since the obligations are on its balance
sheet in one form or another. But if this is the case, why not have
the client provide (a) all of the equity in the trust or (b) the total
return swap?

Regards,
Fred

---Forward Header---
Rick, Adam, as you know, I have sent my approval to the GMAC. The attached file documents the approval. Good luck on the marketing. I understand the closing is expected prior to November month-end. Please keep Eric and Alan in the loop.

Regards, Saul

<< File: MAP-1 Distribution List.TXT >>
<< File: errordoc.DOC >>
<< File: MAP-1 Distribution List.TXT >>
Turo<span>**ell-Winter, Aracy [CRRM]**

From: Joseph Mackiewicz
Sent: Monday, November 08, 1999 1:44 PM
To: Joseph Fanning
Cc: James Murray, Aracy Troxell, Stefan Lund, Brian Raskin, Joseph Mackiewicz
Subject: Enron - Various

Here’s the latest:

1. New Deals:
   a. Yosemite: Capital markets deal signed last week ($750 million, or about $1) with funding expected in or about Lili. A portion of the proceeds will be used to repay our current lines. Roosevelt & Co. have arranged to sell the remaining of the capital structure to Enron and Steve Baillie at Citi Houston to make sure Roosevelt is repaid before the existing approval expires.
   b. Metro: New $100MM Convertible-Funded Capital Structure deal. We’re working to close the deal this time in December. Enron is handling the securitization leg of this one.
   c. JED-LL: Citi Houston has advised Enron that they cannot approve the necessary exposure on this $100MM year-end deal, mainly because of Nabors, and have taken a pass.

2. Old Deals:
   a. Roosevelt: Joe F---please liaise with your Enron contacts and Steve Baillie at Citi Houston to make sure Roosevelt is repaid before our credit approval expires. Please also liaise with Bryan in Enron regarding the cash inflow.
   b. JT Holdings: The remaining Conduit line of credit for this deal will be repaid soon. Joe F---please liaise with Enron, Steve and Bryan regarding timing.
   c. Coal Capital: Citi Houston has told Enron that the syndicate banks want a CF of 30 bps p.a. for the next 34 days. The client is considering and will be back to us this week, possibly this afternoon.

Regards, Joe
Ruding, H.Ceno

From: Ruding, H.Ceno
Sent: Wednesday, November 10, 1999 6:17 PM
To: Bailey, Steve; Stott, Thomas
CC: Rhodes, William; Carpenter, Peter; MacDonald, Alan; Fox, William
Subject: Eron Credit

Reference the attached CM. I approved today the requested $50 million hold position for the new $275 million backstop facility. As we all know, our overall exposure (both total equity and total OIS and UC) is Enron in a hope. As you note has outlined, the efforts to reduce our exposure to "normal" are well on track particularly through the Yosemite bond financing, the funds of which we expect to come in on November 18. Until the moment that we have received the debt repayment resulting from the Yosemite transaction, I am not willing to approve any incremental exposure on Enron this exposure should apply to the extent that we have received the pay down of our facilities to a level of about $200 million in debt. I think that we can look at any incremental exposure in a more flexible way.

--Original Message--

From: Bailey, Steve
Sent: Monday, November 8, 1999 3:50 PM
To: Ruding, H.Ceno; Kennedy, John
CC: Stott, Thomas; Fox, William; Bailey, Steve; Mathai, Sumit
Subject: Enron Credit

- We have delivered an appropriate package to you this afternoon. Enron Funding Corp. ("EFC"). a subsidiary of Enron Corp., is establishing a $373MM, 364-day RC to back the new $500MM CP program. All EFC obligations will be guaranteed by Enron Corp. The EFC program will be rated AA1/P1 on the strength of a credit "wrap" provided by two insurance companies, AXA and Winterthur, each rated AA (we will carry this exposure as Enron credit, not the insurance companies, given the reluctance of Global Insurance to sign up on deals of this type). We will also have an improved CP program with a much more stable AA1/P1 CP market. The purpose of the new program is to expand availability and liquidity for Enron Corp. We are requesting approval for a $50MM counterparty position. In addition, we expect that $20MM will be posted as a dealer in both new program as well as the established $258 AA2/P2 program of Enron Corp.

The CAA will show Total Facilities of $1.136MM and an Obligor Exception of $335MM. These numbers do not reflect the anticipated unwind of exposure following the completion of the Yosemite bond financing. Last Thursday, Yosemite priced, raising nearly $500MM in bond and $75MM in equity which will be channeled to retire our Tatum (exposure of $400MM) and Roosevelt (exposure of $130MM) recent oil transactions. The Yosemite funds will be delivered on 1/18 - payoff of our facilities will come simultaneously or shortly thereafter. As a result, the current total facility exposure will decrease by 7575MM, the Obligor Exception will be eliminated. Beyond these paydowns, we have the insurance "wrap" on the deal, $175MM of credit derivatives, and roughly $335MM of LCA in our favor (as margin for commodity hedging transactions), which further reduce our effective Enron exposure.

We apologize for the timing. We are seeking your approval by close of business Wednesday, 11/10. The run arises as we held up the package until after the Yosemite real-time pricing of last week.
ENRON DEBT SECURITY
[Series 1999-A]

U.S. $25,000,000.00
November 18, 1999

Reference is made to that certain Collateral Security Agreement, of even date herewith, among Yosemite Securities Trust I, a Delaware statutory business trust, Citibank, N.A., as swap counterparty, and United States Trust Company of New York, in their respective capacities as agent trustee, collateral agent, and bank trust (hereinafter inter alia the Agent Trustee hereinafter amended, restated or otherwise modified, the "Collateral Security Agreement"). Each term used in this instrument (this "Debt Security") shall have the meaning ascribed to it in Appendix A to the Collateral Security Agreement and the Principles of Interpretation set forth in Appendix A to the Collateral Security Agreement shall apply to the terms defined herein and in such Appendix A. This Debt Security evidences a secure unsecured obligation of the borrower named herein, Enron, in an instrument designated $25,000,000.00 in principal amount, being issued by Enron to the Trustee from the date hereof until the maturity date hereof, an Eurown Investment related to the Series 1999-A Notes. Enron acknowledges that the Trustee intends to grant a Security Interest in the Trustee's rights hereunder to the Collateral Agent, pursuant to the Collateral Security Agreement and consents to the Granting of such Security Interest and the provisions of the Collateral Security Agreement relating thereto.

For value received, Enron hereby promises to pay to the order of the Trustee in principal sum of TWENTY-FIVE MILLION U.S. DOLLARS (U.S. $25,000,000.00) as provided herein, and to pay interest on this Debt Security from the date hereof until the principal amount of this Debt Security is paid in full, at the interest payment date specified below, in an amount equal to the amount, if any, by which (i) the aggregate Citibank Fixed Payments in respect of the Series 1999-A Notes payable for any particular Calculation Period that ends during the Relevant Period (as defined below) exceed (ii) the aggregate Scheduled Interest Receipts from the Series 1999-A Trust Investments (other than this Debt Security) for such Calculation Period, subject to the further payment at maturity of this Debt Security as described below. The "Relevant Period" for any particular interest payment date hereunder means the period (a) commencing on or after such interest payment date, and (b) ending on or prior to the date immediately preceding the next succeeding interest payment date hereunder.

Interest is due and payable semi-annually at 1:00 p.m. New York City time, on each April 20 and October 20 of each year, commencing April 20, 2000, provided that if and such April 20 or October 20 is not a Business Day, the interest payment date hereunder shall be the Business Day immediately preceding such April 20 or October 20, as applicable.

Except as otherwise provided below, the payment of the principal of this Debt Security shall be made by Enron on, but not before November 8, 2004.

If this Debt Security has not been repaid prior to the maturity date hereof, then on the maturity date, in addition to the payment of principal and interest otherwise payable hereunder, Enron shall also pay an amount equal to the product of (x) the then outstanding principal balance of the Series 1999-A Notes, multiplied by (y) the Citibank Fixed Rate for the Series 1999-A Notes.
multiplied by (2) the Day Count Fraction for the period from and including the maturity date hereof to but excluding the scheduled Maturity Date of the Series 1999-A Notes.

Until otherwise instructed by the Collateral Agent in writing, amounts payable on account of interest under this Debt Security shall be paid to the Interest Proceeds Account-Series 1999-A, and amounts payable on account of principal under this Debt Security shall be payable to the Principal Proceeds Account-Series 1999-A.

This Debt Security and the indebtedness evidenced thereby shall be binding upon and against Enron without regard to the validity or enforceability of any Transaction Document or any other Trust Investment Container hereunder, and Enron hereby waives any defense relating to the enforceability of any Transaction Document or any Trust Investment hereunder, or any provision contained therein. Enron unconditionally waives the validity, legality, enforceability, or enforceability of the Transaction Documents and the other Trust Investments and transactions thereunder and any other circumstance whatsoever (except without notice to or knowledge of the obligations hereunder or Enron) that Enron wishes or might be claimed or available, at any time, in any other instance, except any defense based on full payment of all amounts due hereunder.

The obligations of Enron set forth in this Debt Security shall not be subject to any requirement for the making of any demand or the prior taking of any action against any obligor under any Transaction Document or any other Trust Investment or any other Person before the obligations hereunder may be enforced against Enron and such obligations shall remain in full force and effect without regard to, and shall not be released, discharged, or in any way affected by, any circumstance or condition whatsoever (whether or not Enron shall have knowledge or notice thereof or shall have assented thereto and notwithstanding the fact that no rights were reserved against Enron in connection therewith).

If Enron shall fail to pay any amount due and payable hereunder (and, if such failure is on account of the payment of interest hereunder, such failure shall remain uncured for five (5) days), the Collateral Agent, on behalf of the Trust, shall be entitled to declare the entire unpaid principal amount of this Debt Security, together with all accrued, unpaid interest thereon, immediately due and payable upon occurrence in Enron of an Event of Default. Enforcement of the obligations of Enron hereunder shall not impair the rights of the Collateral Agent, or any other Person, to enforce any other obligations of Enron and shall not affect or impair the Collateral Agent's right to enforce any of the provisions of this Debt Security or to collect any payments due and payable hereunder.

After acceleration of this Debt Security, all amounts paid hereunder shall be applied first to any past due amounts hereunder, next to any due and unpaid interest hereon, and the balance to the outstanding principal amount hereof.

Enron shall have no obligation or liability with respect to the application by the Collateral Agent of any amounts paid by Enron hereunder.
Upon Enron's payment in full, and in accordance with the terms hereof, of all due and unpaid interest and other amounts due under this Debt Security and the entire principal amount hereof, Enron's obligations hereunder shall cease.

THE RIGHTS AND OBLIGATIONS OF ENRON AND THE TRUST IN RESPECT OF THIS DEBT SECURITY SHALL, PURSUANT TO NEW YORK GENERAL OBLIGATIONS LAW SECTION 5-1401, BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

ENRON AND THE TRUST EACH HEREBY IRREVOCABLY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY PROCEEDING ARISING OUT OF OR RELATING DIRECTLY OR INDIRECTLY TO THIS DEBT SECURITY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). ENRON AND THE TRUST EACH HEREBY CERTIFY THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE OTHER PARTY HAS REPRESENTED EXPRESSLY OR OTHERWISE THAT SUCH PARTY WOULD NOT IN THE EVENT OF LITIGATION SEEK TO ENFORCE THE FOREGOING WAIVER. EACH ACKNOWLEDGES THAT IT AND THE OTHER PARTY HAVE BEEN INDUCED TO ISSUE AND ACCEPT THIS DEBT SECURITY BY AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS PARAGRAPH.

This Debt Security may not be amended except by an instrument in writing signed by each of Enron and the Trust. This Debt Security shall be binding upon and inure to the benefit of Enron and the Trust and their respective successors and permitted assigns. Enron shall not assign or otherwise transfer any of its rights or obligations under this Debt Security without the prior consent of the Trust. The Trust may, at any time and from time to time, without the consent of Enron, assign all or any portion of its rights under this Debt Security to one or more Persons and, upon the Trust giving notice of such assignment to Enron specifying the interest hereunder being assigned and the Person to which such interest is being assigned, each reference herein to the Trust shall (solely in respect of the interest so assigned) constitute a reference to such assignee (as if such assignee were named herein) rather than the Trust. The Trust shall be entitled to have this Debt Security subdivided by exchange of this Debt Security for debt securities of lesser denominations ("Successor Debt Securities") in the amount necessary to reflect any such assignment.

In connection with any partial assignment of this Debt Security, the parties agree to amend this Debt Security and any Successor Debt Securities to accommodate reasonably requested by the parties in order to address intercreditor, voting and other issues.

ENRON CORP.

By: [Signature]
Name: [Name]
Title: [Title]

CONFIDENTIAL
Pay to the Order of United States Trust Company of New York, as Collateral Agent, under that certain Collateral Security Agreement dated as of November 18, 1999, among Yosemite Securities Trust I, Citibank, N.A. and United States Trust Company of New York, as Indenture Trustee, Collateral Agent, Account Bank and Securities Intermediary.

Date: November 18, 1999

By: Wilmington Trust Company,
not in its individual capacity but solely as Trustee.

By: [Signature]
Name: [Name]
Title: [Title]
SIDE AGREEMENT

August 25, 2000

By our signatures below, we acknowledge and agree that, for purposes of the Confirmation dated November 18, 1999 under the Master Agreement between Enron North America Corp. and Delta Energy Corporation dated November 18, 1999, and the Transaction THEREUNDER, each reference to "Defaulting Party" and "Non-defaulting Party" thereto shall, in connection with any Termination Event, be deemed a reference to the "Affected Party" and the party which is not the Affected Party, respectively.
1540

ENRON NORTH AMERICA CORP.
By: ____________________________
Name: __________________________
Title: __________________________

DELTA ENERGY CORPORATION
By: ____________________________
Name: __________________________
Title: __________________________

SIDE AGREEMENT

CONFIDENTIAL
Cheers,

Adam Kulick and Rick Caplan

To: Kulick, Adam; Caplan, Rick; Wagner, Dena [CITI]; Gupta, Ramash; Bushnell, David C; Kelly, James [CITI]; Fox, William; Stott, Thomas [CITI]; Pennock, Lynne; Warren, Doug; Engl; Marcy; Caplan, Rick

Subject: Citi - Enron - Yosemile II

Eleanor asked me to summarize my conclusions a little differently:

In Yosemite I, purchasing the Certificates put us in a position where we can lose money even if no basis risk exists between Enron Bonds and the Enron investments held in the Trust. If Enron defaults and Yosemite’s Enron Investments are worth less than 50% of face we will lose money no matter where Enron Bonds are Trading. Hence, it was appropriate to have the Certificate investment approved on a CA.

With Yosemite II, in purchasing the Certificates, we can ONLY lose money because of Basis Risk. Since the Derivatives business approved and takes the basis risk on Yosemite I, and since the only risk associated with the Certificate investment in Yosemite II is basis risk, it strikes me that Control Unit CA approval of this investment is not needed.

I attach a short spreadsheet which allows one to play around with the arithmetic. Inputs are in Yellow. Adam should be circulating a Transaction memo shortly.

Since we have a CMAC scheduled for today at 4:30, I suggest the folks that need to approve additional Yosemite assets (Bushnell, Singel, Wagner, Warren) stick around to hash this out. Jim, Bill and Tom, we can try to patch you in as well. I will be in touch.

Regards,

Tom

To: Kulick, Adam; Caplan, Rick; Wagner, Dena [CITI]; Gupta, Ramash; Bushnell, David C; Kelly, James [CITI]; Fox, William; Stott, Thomas [CITI]; Pennock, Lynne; Warren, Doug; Engl; Marcy

Subject: Citi - Enron - Yosemite II

For those of you who are not yet up to speed, Yosemite II will involve the issuance of up to $150m of TWENTY YEAR Bonds and "equity certificates" by Yosemite. The main asset will be a 20 year prepaid oil transaction, structured along the lines of that purchased with the issuance proceeds from Yosemite I.

As with the first series, Citigroup and Enron will each purchase 50% of the certificates and the
benefit of 100% of the Enron investment underlying the certificates would flow to Citi via the mechanics of the swap. Additionally, it is proposed with Yosemite II that Citi further hedge itself by purchasing default protection from Yosemite on a notional amount of Enron reference obligations (bonds) equal to the amount of our equity investment (Yosemite would then re-invest this notional amount in AAA securities). The question is whether, as was the case for Yosemite I, we have to approve and carry the amount of our investment in the certificates on the Enron CA given the additional hedge.

With Yosemite I, we concluded that the recovery characteristics on our investment in the certificates were superior to those associated with a similarly sized investment in Enron bonds, but, since we could sustain a loss if the recovery rate on the vehicles’ Enron investments was less than 50%, we put the full amount of our certificate investment on the Enron CA.

In the case of Yosemite II, I think there is a good argument that this is not necessary. Under the swap with Yosemite II, we would receive the Recovery Rate on the Enron investments held by the Trust (the present) on a notional amount equal to half our certificate investment. Without the addition of the purchased default protection, we would also receive the LED on Enron bonds on a notional amount equal to our certificate investment. If one assumes potential basis risk between the Enron investments and Enron bonds, we can only win since LED plus Recovery Rate equals 100% and we would be collecting 2% Recovery Rate plus 1% LED. Factoring basis risk into the equation, the break even point would be where the Recovery Rate on the Enron investments turns out to be less than half the recovery rate on Enron bonds. As far as I can see, we are actually taking less basis risk by investing in the certificates and hedging in this fashion than we would take if we did not have any investment in the certificates at all. The only asset in the vehicle was the precard.

Once Again prepares a transaction memo, we will begin more formal discussions to obtain the approvals outlined by CMAC for additional substitutions of assets. In the meantime, you can start thinking about some of the issues.

Regards,
Tom
Unknown

From: Caplan, Rick
Sent: Wednesday, December 15, 1999 4:03 PM
To: Francois, Tom, Kulick, Adam
Subject: Enron Failure to Pay on Prepaid

Revision as requested...

Original Message:

From: Francois, Tom
Sent: Tuesday, October 26, 1999 6:03 PM
To: Caplan, Rick, Sullivan, William A.
Subject: Enron Failure to Pay on Prepaid

As discussed, Jim Reiley wants something for his TIA to verify that we will not be at risk if Enron fails to pay interest on the Prepaid. This is what I propose to send him. Please take a close look. I think I have taken some liberties with respect to things that are not yet in documentation, but need to be.

You asked for an explanation of the mechanics behind an Enron failure to pay on the Prepaid. Particularly, what makes us comfortable that we will not have to pay to Yosemite any amounts that Enron fails to pay in a non-bankruptcy situation with respect to interest on the Prepaid.

Under the Yosemite swap if Enron defaults under the Prepaid, we will be obligated to replace the Prepaid with senior unsecured Enron obligations ("Deliverable Obligations"). The Deliverable Obligations we deliver can be non-performing if the default on the Prepaid rises to the level of an "Enron Failure to Pay." An Enron Failure to Pay is established through publicly available information in a similar manner to standard credit default swaps. In addition, the Deliverable Obligations do not have to be obligations for borrowed money; a receivable related to termination of a swap agreement can be delivered.

If Enron does not make its interest payment on the Prepaid, the Prepaid would be terminated and Delta (the issuing vehicle for the Prepaid) would have a claim on Enron for all or a portion of the principal amount. Failure by Enron to pay interest and any termination payment would also render Delta incapable of paying the coupons on the note it has issued to Yosemite, thereby resulting in a default on the structured Enron paper Yosemite holds. Publicly available information will assist with respect to a default on the Prepaid through the following mechanisms: 1) ensuring Enron to make all payments to a segregated account at the Fiscal Agent (U.S. Trust Co.), 2) contractually obligating the Fiscal Agent to notify the parties of the default and 3) waiting the requisite time periods under the Yosemite swap.

Once the above occurs, Citibank would be able to cause Delta to deliver the receivables to Enron in exchange for the Delta Note that Yosemite holds. The swap receivables will be structured such that they will bear interest at a rate at least equal to the coupon on Yosemite's notes. Under the Yosemite swap, Citibank can reduce the amount of its periodic payments by any amount Yosemite has not received on a non-performing Deliverable Obligation that has been substituted for a piece of structured Enron paper. In other words, the penalty interest will cover any going forward interest that accrues prior to the disposition of the Deliverable Obligation by the Trust.

* If all prices have declined, a portion of the Prepaid principal will be due to Delta from Citibank under the Delta Citibank floor in the prepay structure and, in turn, to Citibank from Enron under the Enron/Citibank floor. The default by Enron on its swap with Delta will give rise to a termination right under Citibank's swap agreement with Enron. Citibank would be able to satisfy its obligations under its floor with Delta by delivering a claim to Delta against Enron. Delta, in turn, would be able to satisfy its obligations under the note issued by it to Yosemite by delivering to Yosemite the claim delivered to it by Citibank and the claim it already holds under its swap with Enron. If Citibank's claim after termination of its swap agreement with Enron is less than the amount it owes to Delta on the floor (due to netting of other outstanding transactions), Citibank should be able to purchase Deliverable Obligations (pursuant to a discount), or put in AAA investments (and sell default protection on Enron - presumably at a big premium). In either event, the economic consequences of having a net swap claim on Enron which is less than the amount payable to Delta on the floor would always be positive.

Permanent Subcommittee on Investigations

EXHIBIT #1890

CITI-SPS1 0056615
Regards,
Tom
Memorandum

Date: March 29, 2000

To: Jack Kaplan, Adam Kundick

CC: Alan Enghardt, Eric Pina, Bill Mackey, Linda Berger, Jim Concho, John Langer, William Brown, Fred Basile, Jim Concho,

Subject: Yusumie - Yusumie Co. Structured Credit Derivative Transactions

Transaction Objective: To free-up financing capacity for Yusumie Co. with its Banks

Purposes and Benefits to Citibank: Citibank receives various service based fees, and takes basis risk or benefit related to the difference between loss recovery rates on Yusumie Co. Investments held by the Trust, and Citibank has written protections for the loss recovery rate on Yusumie Co. bonds (i.e., senior unsecured payment obligations of Yusumie Co on which Citibank has purchased protection). Citibank also netted a total return swap on $177.5M of equity risk in the Trust (full exposure to Yusumie Co. defaults). The chart illustrates Citibank's direct and indirect exposure on the differences in recovery rates.

<table>
<thead>
<tr>
<th>Difference in Recovery Rates</th>
<th>Citibank to short bonds</th>
<th>Citibank to long Yusumie investments held by the Trust</th>
<th>Credit gain (premium)</th>
<th>Trust gain (premium)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Price Investments price</td>
<td>Citibank loss/gain</td>
<td>Citibank loss/gain</td>
<td>Trust gain (premium)</td>
<td>Trust gain (premium)</td>
</tr>
</tbody>
</table>

The steps of the transaction structure are described below (all dollar amounts and perempted investments are estimates):

Trust Balance Sheet

A Trust will be set-up and will hold $1.6B in assets, referred to as permitted investments, $1.25B to yield 4.125% (to yield 4.125% in payment obligations supported on whole or part, directly or indirectly, by Yusumie Co. (referred to as Yusumie investments), and $1.25B in 4.25% investments (to yield LIBOR). The Trust will purchase existing Yusumie Co. Investments owned by Yusumie Co. lead banks and certain newly created Yusumie Co. Investments. AAA investments will be ABS, but not securities issued by Citibank managed credit card securitization Trusts or other Citibank managed securitization vehicles.

The Trust will issue $1.4B of senior credit linked Notes (with maturities of five and seven years) in multiple series which bear an overall coupon, to be determined at pricing, and will issue certificates, subordinated in right of payment to the Notes, in the amount of $177.5M (yielding approximately 100 bps above the Notes coupon) with $145M (LIBOR) to Yusumie Co. and to a non-participating third-party (balance sheet provider). A Goldman ownership-claim-entry plan to a 25% interest will write a total return swap on the third-party, 50% of profits in such total return swap will go to the balance sheet provider, and 50% will be used to reduce existing Yusumie Co. obligations. All permitted investments must mature on or prior to the maturity date of the related Notes. The permitted investments will be illustrative and may be remitted up to the Notes when due. In the event of default of Yusumie Co. investments, note holders will receive the same amount as a holder of a bond (i.e., senior, unsecured debt obligations) of Yusumie Co. That is, assuming that Citibank fulfills its obligations.

CITI-SPSI 0034946 EXHIBIT #189q
under its default swap, the Noteholders will have Yosemite Co. credit risk as if they held Yosemite bonds with a principal amount equal to the principal amount of the Notes.

The Noteholders also take the credit risk of AAA investments after the equity investors (and the Salomon entity, as total return swap counterparty with the third party, collateral provider) lose their $73MM investment.

Transactions between Citibank and Trust

The effects of the swap between Citibank and the Trust are as follows:

If a Yosemite Co. bankruptcy occurs, Citibank will settle the swap by (i) delivering Yosemite Co. senior, unsecured obligations in exchange for the permitted investments, or (ii) paying to the Trust the amount of any difference between the recovery rate on Yosemite Co investments held by the Trust and the recovery rate on Yosemite Co. bonds, the referenced obligations, multiplied by the outstanding Notes (but not certificates), or a combination of (i) and (ii). Referenced obligations are publicly traded senior unsecured corporate debt obligations (i.e., bonds of Yosemite Co.). This swap is referred to as a basis swap and will be in the notional amount of Yosemite Co. investments held by the Trust (i.e., not including any AAA investments held by the Trust). Thus, Citibank has the risk that the recovery rate on Yosemite Co. investments held by the Trust will be less than the recovery rate on Yosemite Co. bonds.

Under the terms of the basis swap, the Trust will pay to Citibank any excess of the recovery rate on referenced Yosemite Co. investments held by the Trust (expected to have the recovery value of senior unsecured Yosemite Co. obligations or Yosemite Co. bonds) over the recovery rate of Yosemite Co. bonds. This potential payment by the Trust will be based on a swap notional in an amount equal to Yosemite Co. investments held by the Trust plus $73MM (amount of equity). Thus Citibank has a long position in the recovery rate on the Yosemite Co. investments held by the Trust. If the recovery rates were equal, Citibank would still receive a swap payment from the Trust in the amount of the recovery rate on Yosemite Co. investments held by the Trust times $73MM. The basis swap may either be physically settled (by delivering senior unsecured debt obligations of Yosemite Co. in exchange for the Yosemite Co. investments held by the Trust) or cash settled, or any combination thereof.

The Yosemite Co. investments and AAA investments will serve as security in favor of Citibank. The AAA investments will be delivered to Citibank related to the settlement of any default swap written by Citibank to the lead banks of Yosemite Co. (see below). Citibank, as secured party, has the right to control the disposition of any asset in the Trust.

Also, as part of the basis swap, Citibank will make periodic payments to the Trust in the amount necessary to service the Note coupons and Certificates yield and Citibank will receive any cash flow from the assets in the Trust. If Yosemite Co. goes into bankruptcy, such payments cease immediately, as the swap is settled as described above.

Substitution Obligations

A separate agreement between Citibank and Yosemite Co. governs asset substitutions. The permitted investments may be changed over time provided that both Yosemite Co. and Citibank agree to any substitution. Yosemite Co. will select the initial Yosemite Co. investments, with Citibank’s agreement, to place in the Trust. Citibank will select all AAA investments.

If a third party default event (a default on a Yosemite Co. investment by a party other than Yosemite Co.) occurs with respect to a Yosemite Co. investment held by the Trust, Citibank is obligated to deliver to the Trust new permitted investments in substitution of the relevant Yosemite Co. investment. The new permitted investments will be sold to redeem the related Notes. Citibank will continue to make the fixed payments under the swap as if such 3rd party default event had not occurred. If there is a credit event...
Transactions between Citibank and Yosemite Co. Lead Banks

To the extent the Trust holds AAA investments, Citibank will also sell default protection, upon instruction from Yosemite Co., to Yosemite Co. lead banks with Yosemite Co. bonds or Yosemite Company senior unsecured debt as the referenced assets. The AAA investments will serve as security in favor of Citibank. In the event of bankruptcy by Yosemite Co., the lead banks will deliver the referenced assets to Citibank and Citibank will in exchange make the lead banks whole for all losses. Citibank in turn will deliver the referenced assets to the Trust and receive AAA investments, i.e., payments-in-kind. This transaction is not a basic credit derivative swap, but is more similar to a standard credit derivative swap.

Transactions between Citibank and Yosemite Company

Under a separate agreement between Yosemite Co. and Citibank, Yosemite Co. will make periodic payments to Citibank for the difference, if any, between the Note coupon and certificate yield and cash flow on Yosemite Co. investments. As long as AAA investments minimally return a yield of LIBOR, Yosemite Co. is responsible for any cash shortfall in the Trust. It is expected that one of the Trust’s assets (i.e., Yosemite Co. obligations) will have an adjustable coupon that will be designed to pick-up any negative carry.

If AAA investments yield less than LIBOR, then Citibank makes up the difference to LIBOR, and if AAA investments yield more than LIBOR, then Citibank receives such excess (assuming Yosemite Co. meets its payment obligations as described above).

If cash flow on Yosemite Company investments exceed Note coupon and certificate yield (highly remote), then Citibank must pay Yosemite Co. such excess.

Termination Provisions

Yosemite Co. can terminate its payments in whole or in part to Citibank at any time by making a termination payment. This termination payment will cause Citibank to terminate its payment obligations in the Trust or in part, which, in turn, will cause an early redemption of an equal portion of the Notes (and in certain instances, the issued certificates). In summary, Yosemite Co. can terminate as well, but Citibank cannot.

Example of Basis Risk (Yosemite Co. Investments comprise all Trust assets, i.e., $1,500MM)

Assume that Yosemite Co. Bonds’ recovery rate is 50% and assume swap notional are equal (i.e. disregard the $756MM difference in notional amounts):

1. Assume that upon default, Yosemite Co. Investments’ recovery rate is 50%, meaning Citibank reimburses the Trust the 19% difference in recovery rates, or in this case Citibank net settlements to Trust $1,500MM (10% as $1,500MM)

2. Assume that upon default, Yosemite Co. Investments’ recovery rate is 70%, meaning Citibank receives from the Trust the 10% difference in recovery rates, or in this case Trust net settlements to Citibank $1,500MM
Summary of Risks/Benefits (other than fees) to Citigroup

<table>
<thead>
<tr>
<th>Structural Features</th>
<th>Citigroup Risks</th>
<th>Citigroup Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recovery rate of bonds &gt; Recovery rate of Trust Investment</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Recovery rate of bonds &gt; Recovery rate of Trust Investment</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>AAA investments yield &gt; LIBOR</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>AAA investments yield &gt; LIBOR</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Third Party (other than Yosemite Co) default or non-payment event with respect to a Yosemite Co. investment held by Trust; Citibank obligated to deliver substitute Yosemite Co. investments which meet pertinent investment criteria (new investment will be sold to redeem portion of Notes)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Ownership of equity certificate exposure to Yosemite Co. as holder of Yosemite Co. bonds and to AAA investment</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Yield on equity certificate (subordinated to coupon on Notes)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Payment to lead banks &gt; value of AAA investments</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

Accounting Considerations

The major issue relates to the accounting consolidation of the Trust. Consolidation by Citibank is not viewed as appropriate for the following reasons:

Yosemite Co. owns 50% of the Trust equity certificates, fully funding its equity investment, is at full risk over the entire life of the transaction (SEC requirement per D-14). Further, per the SEC (12/97) speech, although certificates may be accounted for as debt instruments, certificates satisfy the SEC requirement that the owner’s investment be equity legal form. Yosemite Co. certificate ownership will satisfy the minimum 5% of SPV assets SEC requirement over the full life of the transaction. The business advises that Yosemite Co.’s certificate will be 3% or greater with total Trust certificates likely aggregating from six to ten percent.

Because the balance sheet provider’s investment is not at risk, the b/c provider’s investment is not considered the real equity in the SPV. Since the b/c provider is not considered a real equity investor per the SEC guidelines, Citibank should not be viewed as a real equity investor by having written a total return swap (TRS) to the b/c provider. It is also unconventional in today’s accounting literature and practice to have an entity consolidate another entity on the basis of having risk/reward via a derivative instrument. It should be noted that Citibank, in accordance with its internal credit risk limitations, may not hedge its basis risk with a third party.

Per EITF 99-11 and D-14, the SEC requires equity to be fully funded and at risk for the full life of the SPV. Citibank does not have a direct, nor funded, ownership in the other 50% of the Trust certificates.

The business has also pointed out, given certain recovery rates on Yosemite Co. bonds, that Citibank, as the TRS writer, would lose less under the TRS than Yosemite Co. would lose of its equity investment.

Yosemite Co. is the primary beneficiary of the Trust’s assets and overall deal structure. The Trust assets are comprised of Yosemite Co. obligations and the structure is intended to free up financing capacity for Yosemite Co. and improve or preserve its credit rating with rating agencies. The basis swap is effectively Citibank’s mechanism to earn fees from its expertise in managing credit risk. That is, Citibank’s interest...
on the Trust is in substance and in form a credit derivative, not an equity ownership interest (i.e., directly owned shares or certificates) through which Citibank controls the operating activities of an entity.

Both Yosemite Co. and Citibank share the ability to select Yosemite Co. investments held by the Trust - neither controls.

The business advised that a non-consolidated SPV used by SSB entities in prior structured derivative transactions will serve the role of depositor. This role only serves to sponsor or set-up the Trust by making the appropriate filing with authorities. It does not involve any investment nor the performance of any function other than the initial filing - it is a one time event. The accounting analysis and conclusions reached herein, consequently, are not materially affected.

Citibank will not have any voting rights or have any control position with respect to the Trust, nor have any decision making ability regarding the operating policies and activities of the Trust (other than contractually limiting the Trust’s ability to sell Citibank’s security held by the Trust). As mentioned earlier, Yosemite Co. can terminate the structure at will, Citibank cannot.

RBC Treatment in Trading Book

Based on the above, Citibank will have the following credit derivatives:

1. Basis swap: a swap notional of $1,350M to $1.5B whereby Citibank will pay the recovery rate on Trust with Yosemite Co. Bonds as referenced assets
2. A swap notional of $1,350M to $1.5B (but $750M greater) whereby Citibank will receive from the Trust the recovery rate on referenced Yosemite Co. Investments held by the Trust.
3. A swap with Yosemite Co. Bonds on an amount of Aaa investments held by Trust.
4. A swap with Yosemite Co. Bonds or senior unsecured Yosemite Co. Obligations as referenced assets.
5. A swap with Citibank to make bonds whole and receive the Aaa investments from the Trust.

The TRS should be booked by the SSB entity entering such derivative contract. Implications on the capital of such SSB entity have been reviewed with the responsible SSB personnel.

I believe all of the above derivatives are credit derivatives and should be viewed as trading book transactions (as opposed to hedges and transactions).
In November, 1999 a U.S. dollar-denominated Project Yosemite transaction closed (an UK Sterling based transaction closed in February, 2000). At the time of closing last quarter, comparable interest rates were not available to facilitate the accounting for revenue recognition. What was known at the time, and has been confirmed, is that Enron has the unilateral right to change the transaction structure and be released from its obligation to pay remaining fees, 12.50% p.a. of the notional value of permitted investments in the Yosemite Trust. The fee, as specified in a Fee Letter dated Nov. 18, between Citibank and Enron, is payable up to the earlier of an early termination date or the maturity date (November 2004) of certain Enron (directly or indirectly backed) promissory notes, having a notional value of $500MM, held by Yosemite Trust. This fee is in connection with the basis swap between Citibank (Citi Derivatives Trading) and Yosemite Trust. The 12.50% will be applied to any additional Enron debt purchased by the Trust at a later date (i.e., the deal size increases). In view of the contingent nature of the fee, income recognition was deferred. (Enron paid an up-front non-refundable fee of $1.6MM which was recognized.)

Business Financial Control has now analyzed the facts and circumstances, including related hedges, and believes that there is basis for additional income recognition related to the November. The accounting proposed herein would also be followed for the February transaction. The purpose of this memorandum is to document whether and to what extent income recognition is appropriate. Some transaction background follows:

Yosemite Trust purchased $155MM of permitted investments, Enron senior unsecured debt instruments, funded by issuing Credit Linked Notes (CLN) coupon) to third party investors in the amount of $750MM, and by issuing equity like subordinated certificates (11% yield) in the amount of $75MM. (Please note that $225MM of permitted investments held by the Trust is adjustable rate; Enron debt instruments intended to ensure sufficient cash flow to service the issued Notes and Certificates.) Enron invested 50% of the certificates, $37.5MM, and Salomon Brothers International (SBI) arranged for a balance sheet provider (Bank of Boston) to fund the other 50%. SBI also enters a Total Return Swap (TRS) in which SBI pays a fixed rate to BOB and receives the ownership economics related to $75.0MM of certificates. (Please note that SBI iseffecting the above TRS via SBI’s Credit Derivatives Desk, which in turn enters a Pay-Fixed Interest Rate Swap with SBI’s Credit Derivatives Desk, looking to spread the 11% yield on certificates.)

Citibank (Citi) and Yosemite Trust entered a credit basis swap (Fee Letter Agreement) with Yosemite Trust, in which Citibank promises to pay the Trust in the event of an Enron default (decline) the recovery rate on senior unsecured debt of Enron. Citibank pays the recovery rate on a notional amount equal to the amount of permitted investments less the amount of certificates, or $750MM. (Therefore, the Note-holders are exposed to and receive the recovery rate of senior unsecured Enron debt.) Citibank would receive the actual recovery rate on the $225MM of permitted investments held by the Trust. Additionally, GRB Portfolio (Energy Group) entered a swap with Citibank Trading to pay the difference between a 50% recovery rate and the actual recovery on the permitted investments on a notional value of certificates, $75MM. For RBC purposes, the maximum obligation of GRB portfolio of $37.5MM (a full recovery rate shortfall of 50% against the $75MM notional amount of certificates) is reported as a
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credit substitute.

This can be illustrated if we assume that the actual recovery rate on permitted
investments is 60% and the recovery rate on senior unsecured Enron debt, as
ordered by a Court of Law, is 50%.

Citibank Trading receives from the Trust ($255 @ .49)
$404.25
Citibank Trading pays Trust ($755 @ .50)
(375.00)

Residual
29.25
Residual to B/S provider
(37.50)

Loss to Citigroup (.01 @ $255MM)
.05
Reimbursement from Citibank GDB Portfolio (.01 @ $755MM) (a)
.75
Loss to Credit Derivatives Trading Business
(7.50)

(a) GDB Loan Portfolio would have to accrue its loss when probable and
estimable which timing may not exactly coincide with MTM gain/reimbursement
recognition by Trading Desk.

Summary of Derivatives/Contracts and Parties involved in the Structure (see
attached flow-chart)

1. The basis swap between Citibank Trading and Yosemite Trust described above,
leaves Citibank with recoveries basis risk on $755MM and is long the recovery
value on $755MM as Citibank sells basis risk protection on $755MM of senior
unsecured debt and purchase recovery value on permitted investments of $255MM.
For example, if the recovery rates were both 50%, then Citibank would receive
$37.50MM or $37.50MM. This would be returned to the balance sheet provider.
Citigroup would incur any loss on the basis risk, and would also NOT
collect the 12.5bps fees from Enron nor the after-hedge return on the TRS,
35bps, from the date of default. The uncollected fees for the period after
the default/termination would be foregone, resulting in a negative P&L
impact to the extent already recognized. It should be noted that Enron loses
its entire $37.50MM investment in the certificates.

16. Citibank [Credit Derivatives Trading] purchases a recovery-rate swap
from the Citibank GDB Loan Portfolio, which provides the Trading Desk with
protection in the event that the recovery rate on $755MM notional amount of
permitted investments is below 50%.

2. There is a Fee Letter Agreement between Enron and Citibank Trading, whereby
Enron pays 12.5bps constant fee on $600MM (outstanding permitted investments
less $255MM) per annum as long as the transaction is in place but not beyond
November 2004. The actual fees depend upon whether the deal size changes.
Enron can unilaterally terminate but this is considered remote - see Business
analysis of this point discussed below. If Citibank “walks” away, the fees are
also lost (as well as being responsible for a non-whole payment to note
investors).

3. There is an Interest Rate Swap between the Trust and Citibank Trading,
whereby Citibank receives the actual interest on all permitted investments in
the Trust, and pays the Trust the necessary interest to service all outstanding
Notes and Certificates. Upon a bankruptcy, the interest payments immediately
cease.

4. As mentioned above, there is a TRS between SSL (Credit Derivatives Trading
Desk) and Bank of Boston, the balance sheet provider. The trade SSL has with

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Bank of Boston is backed-to-back with SBHC (Salomon Brothers Holding Co. - Credit Derivatives Trading, a nonbank vehicle). SBHC pays six-month LIBOR + 320bps and receives the 11.0% (10.849% when converted to actual/360) fixed rate on the certificates, $37.5MM notional value, and pays BML (via SBHL) $57.5MM in the event of an Enron default. This results in SBHL having a synthetic $37.5MM long position in the Trust certificates. SBHL hedges the interest rate risk in (1) below, and the default risk in (6) below. Under the TRS, SBHL is obligated to pay BML $37.5MM if Enron defaults regardless of the recovery rate on Enron's secured senior debt.

5. There is also an IRR between SBHC - Credit Derivatives Trading and SBHC - Debt Derivatives Desk. SBHC pays 6.65% (5.574% when converted to actual/360) fixed and receives six-month LIBOR. (It is not known whether SBHC - Debt Derivatives Desk hedges this IRR with an outside party.)

Note: As a result of 4 and 5, SBHC - Credit Derivatives receives a structured not rate of 3.33% (10.849% less 7.516% less 6.574% or 3.55% on $37.5MM notional). In addition to the 12.5bps which Enron pays over the expected life of the transaction, the 393 bps is viewed as additional fees to SBHC Credit Derivatives Trading Desk for taking default and total return risk.

6. SBHL sells default swap protection to SBHC (Credit Derivatives Trading), and EBL purchases default swap protection from Citibank Credit Derivatives Trading Desk, whereby if Enron defaults, Citibank will pay $37.5MM to the balance sheet provider. Citibank Trading Desk, in consideration for providing default protection to SBHL, (as-was to SBHC), will receive the above-mentioned net premium of 393bps. Citibank’s Trading Desk sold protection is hedged with a combination of: (a) the long $75MM certificate recovery value position (1 above), and (b) the recovery-rate swap executed with the Citibank GRS Loan portfolio (1 above). GRS Portfolio is providing protection in the event and to the extent the recovery rate on the $75MM long recovery value position is below 50%.

Possible Scenarios

Best Case: If recovery rates are equal and the recovery rate on permitted investments is at least 50%.

No losses to Citibank Trading since no basis risk and no loss to GRS Loan Portfolio as recovery on permitted investments is 50%. The MTM gains (NPV of unpaid fees) at the time of default, however, would need to be reversed.

49% recovery on Sr. Unsecured debt/50% recovery on permitted investments

In this scenario, Citibank Trading would gain $11,850MM permitted investments, $8,250MM, and Citibank Portfolio would not make any payment - a total Citibank gain of $8,250MM. Unaffected fees (NPV) are forgiven and to extent recognized via MTM process, would be reversed via MTM.

Citibank (Credit Derivatives Trading Unit) Earnings Components

Based on an analysis by Business Financial Control, the MTM of all derivatives/contracts results in a NPV of $10,550MM. The MTM can be viewed as representing the following components of the transaction:

- MTM of A"Letter Contract entitling Citibank 12.5bps on specified debt (for period outstanding) held by Trust in connection with having entered the basis swap (an $75MM netional) with Trust, $4,350MM.
- MTM of Default/Recovery with Trust related to receipt of actual recovery rate on a $75MM notional position in permitted investments, $2,550MM.
- MTM of Default/Recovery with Bank of Boston (via SBHL and SBHC Credit Derivatives) effectively representing the after-hedged (via IRR with SBHC Debt Derivatives Desk) locked spread of 11% on certificates ($27.5MM notional) less pay-fixed leg of 7.37%, or 393bps over contract rate, $4,050MM.

The total is $16,850MM before a MVA liquidity component of $3,350MM, or a net of 3

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Note: For the January transaction executed in London, equivalent numbers are $3.5MM for 12.5bps in earnings, and $2.3MM in MTM for other components. Also, an up-front fee of $0.3MM was paid, or $3.2MM in total below a MVA liquidity component of $4.45MM, or a net of $7.7MM.

Remoteeness of Enron Terminating the Transaction

Both Enron and Citibank have the legal right to collapse the structure. Both would have to pay a "make-whole" payment to compensate the note-holders and certificate holder (Citibank via the TRS with JBP), using a discount rate of 10% and LIBOR + 2, respectively, to calculate the payments. Citibank would also have to settle the basis swap with the Trust at market. If Enron collapses the structure, the future cash flows underlying the 12.5bps and 393bps earnings component would not be made. The business believes that the make-whole payment would be sufficient to cover the 393bps earnings component, but would not cover any of the 12.5bps.

The business believes that it would not be in Enron's economic interest to terminate the transaction unless Enron is at least upgraded (from BBB today) to AA. Since the life of the transaction is five years, the business estimated the dollar gain or loss to Enron in an early termination (resale of Notes) given a five year Treasury yield, Enron note maturity and Enron credit spread. For the five year maturity scenario, the break-even Enron spread to Treasuries was 30bps. That is, the spread of Enron debt to Treasuries would have to be no greater than 20bps for Enron not to incur a loss in an early termination. The business expects swap spreads over the last five years between five year Treasuries and Corporate five year term loans, and the minimal spread was 20bps (the average was 40bps). Assuming a 20bps swap spread, Enron would need to trade at LIBOR + 10 basis points in order to not incur a loss. A 10bps spread to LIBOR, for a five year maturity, would approach an AA-rated credit. Enron is currently rated BBB, and borrows at LIBOR + 5 to 75. The business considers an Enron positive credit migration to AA only as a remote possibility, and therefore believes that the 12.5bps fee is probable of full collection and should be recognized up-front, i.e., MTM accounting should apply.

Accounting Issues/Recommendations

1. Is there an accounting basis for recognizing up-front the portion of the transaction earnings, 393bps, embedded in the transaction structure using a MTM methodology despite the collection of related cash flows being subject to the remote contingency of Enron early terminating the transaction? (Same question with regard to the MTA of the synthetic $75MM long position. In researching this question, the recently published SEC SAB on Revenue Recognition was considered.)

Usually, contingent fees or earnings are not recognized until the contingency has been satisfied or removed, even if all other potential services have been delivered/traded to the satisfaction of the customer. In this circumstance, where the seller is a Trading business which accounts for its derivatives on a MTM basis, such contingency or optimality is addressed in the valuation models used to perform MTM accounting. Given that the 393bps are embedded in derivative financial instruments, the business must perform MTM accounting. It is expected that the valuation model would be sufficiently sensitive to changes in market factors affecting this contingency, so that the MTM would be appropriately adjusted on a timely basis. As noted above, Enron's "make-whole" payment is expected to cover the 393bps. Also, see comments below on MVA adjustments for credit and liquidity components.

2. Based on the Fee Letter Agreement, is there an accounting basis for recognizing up-front 12.5bps of $600MM (Delta 2004 Notes held by Yosemite Trust) despite the payment of these fees being contingent on the transaction not being terminated by Enron? Enron does not need Citibank's consent to terminate, it also should be noted that if Enron terminates, the "make-whole" payment from Enron is not expected to be sufficient to cover the earnings component.

4
The accounting concepts stated in 1. above also apply here. Additionally, a basis swap or the Letter Agreement (contract) states that the Letter Agreement in connection with Citibank having executed the basis swap with the Trust. The Letter states that the 12.5bps is in consideration of the mutual exchange of agreements in connection with the basis swap related to the permitted investments (Delta Notes) held by the Trust. Although the Letter is not in the legal form of an ISDA contract, the economic substance of the Letter, in the context of the transaction structure, is that of a basis swap/credit derivative. The scope and mission of activities of the Citibank Unit is to enter credit derivative trading positions, to be reported and accounted for on a MTM basis. Therefore, to a large extent, the decision to MTM the rights and obligations underlying the Letter is based on the economic substance of the Letter and the fact that this business accounts for its activities on a MTM basis. Some comment as to whether this sensitivity of the valuation model. As evidenced above, Citibank has completed the transaction, and there are no future service/asset agreements to be delivered or obligations to be incurred as a result of assets or future assets to be sacrificed. Income recognition for the 12.5bps on a MTM basis appears to be appropriate.

3. If MTM accounting is to be performed, is a market valuation adjustment required?
As agreed with Business Financial Control, a MVA for a credit component (expected to be less via GRR) and a liquidity component should be considered. The appropriate amount of liquidity/termination component, as detailed above, was determined in an amount of $190MM, and is intended cover any termination related loss or "halo" to be incurred in attempting to sell Citibank's MTM receivable into the marketplace.

Regards,
Saul
Kirk, Niels

From: Kuklick, Adam
Sent: 13 April 2000 17:00
To: Kirk, Niels; Rally, James F [CITI]
Cc: Bailey, Steve [CITI]
Subject: RE: Enron

Niels,

Good seeing you the other day. Who's working on the stylised credit basket? I've put a couple of calls into Freese and she hasn't been very responsive...

All the best, Adam

---Original Message-----
From: Kirk, Niels
Sent: Thursday, April 13, 2000 11:55 AM
To: Rally, James F [CITI]
Cc: Kuklick, Adam; Bailey, Steve [CITI]
Subject: RE: Enron

I suspect that the Eastern contract was sold as part of the Sutton Bridge sale to ESIP (2 weeks ago). There could be some residual credit risk associated with Eastern that Enron are trying to bundle into the Y2 deal however.

Niels

---Original Message-----
From: James.Rally@bolkorp.com [mailto:James.Rally@bolkorp.com]
Sent: 13 April 2000 16:28
To: niels.kirk@cit.com
Cc: adam.kuklick@ssmb.com; Steve.Bailey@bolkorp.com
Subject: Re: Enron

Niels. Thanks for the update. Adam asked me a question that I could not answer (not mine). What has happened to the "Eastern deal" - ie, the contract initially suggested as the basis for Yosemite II?

---Reply Separator---

Subject: Enron
Author: Niels Kirk CCL (niels.kirk@cit.com) at INTERNET/Internet-User@internetprovider.org
Date: 04/13/2000 10:25 AM

Jim,

You may be already aware of this but there seems to be 3 guys in the running for Jeff McManus's job: Ray Bowen, Bill Brown and Paul Chivers. Chivers feels that his chances are slim. Chivers did not rule out the possibility that Fastow could go external.

Otherwise in Europe we're working on:

A follow-up deal to Yosemite II which involves a basket of UK utility credits designed to manage credit risk and create fund of:

Size: £600m

---

Exhibit #189a
Amos, which is a 120 MW CCGT in Spain. Project cost is 
$650 MM and off-take a 45% contracted (incl 33% to Enron). 
An equity investor that will bring the gas. Enron are favouring a 
bank loan but I suspect that bank is (not happy) will be the likely 
outcome. They want to have their bank group 
maintained by end June. Project Finance are following this. 

Chivers mentioned that they have established enroncredit.com 
which provides bankruptcy protection on a t-b-b basis. They 
are still in, "getting established" mode and there are a few 
minor issues. Seems that Marvin Lynch has to sell one day and 
tried to buy some protection but the guy at enroncredit shouldn't 
execute. Perhaps we should visit the site and lay off some risk... 

Niel

Kirk, Niels

From: Kirk.Niels
Date: 13 April 2001 15:55
To: Niels.Kirk@citcorp.com
CC: Adam.Ballie@citcorp.com
Subject: RE: Enron

I suspect that the Eastern contract was sold/ 
monetised as part of the Sutton Bridge sale to 
EDF (2 weeks ago). There could be some residual 
credit risk associated with Eastern that Enron 
are trying to bundle into the Y2 deal however.

Niel

---Original Message---
From: james.reilly@citcorp.com [mailto:james.reilly@citcorp.com]
Date: 13 April 2001 16:28
To: niels.kirk@citcorp.com
CC: adam.kuhn@citcorp.com; steve.ballie@citcorp.com
Subject: Re: Enron

Hi Neil, Thanks for the update. Adam asked me a question that I could 
not answer (not rare): What has happened to the "Eastern deal" i.e., 
the contract initially suggested as the basis for Yosemite 2?

---Reply Separator---
Subject: Enron
Author: Niels.Kirk@Citcorp
INTERNET:alf/niels.kirk@citcorp
Date: 04132001 10:25 AM

Jim,

You may be already aware of this but there seems to be 
3 guys in the running for Jeff McManis's job: Ray Bowen, 
Bill Brown and Paul O'Hara. Chivers feels that his chances 
are slim. Chivers did not rule out the possibility that Pastow 
could go external.

Otherwise in Europe we're working on: 
A follow-up deal to Yosemite 2 which involves a basket of UK 
utility credits designed to manage credit risk and create funds 
flow. Size: GBP 100/200 MM.
Area, which is a 1200 MW CCOT in Spain. Project cost is $550 MM and offshore is fully contracted (incl 33% in Enron). An equity investor that will bring in the gas. Enron are pursuing a bank solution but I suspect that bankriff (Fidex Lafin) will be the likely outcome. They want to have their bank group mandated by mid-June. Project Finance are following this.

Chivers mentioned that they have established envirocredit.com which provides bankruptcy protection on a b to b basis. They are still in "getting established" mode and there are a few financing issues. Seems that Merrill Lynch are the ones to try and bring a solution but they are not interested in offering protection but the guy at enroncredit.com shouldn’t execute. Perhaps we should visit the site and lay off some risk.

Nils

Kirk, Niels

From: jamek.reilly@ctcorp.com
Sent: 12 April 2000 16:38
To: niels.kirk@ct.com
Cc: adam.kulick@ctcorp.com; steve.bailie@ctcorp.com
Subject: Re: Enron

Nils: Thanks for the update. Adam asked me a question that I could not answer (not sure). What has happened to the "Eastern deal" - i.e., the contract initially suggested as the basis for Yorkshire?

Jim,

You may be already aware of this but there seems to be 2 guys in the running for Jeff McDonnell's job. Ray Brown and Paul Chivers. Chivers feels that his chances are slim. Chivers did not rule out the possibility that Fidex might go internal.

Otherwise in Europe we're working on:

A follow-up deal to Yorkshire II which involves a basket of UK utility credits designed to manage credit risk and create funda
low. Size: GBP 100,000,000.

Area, which is a 1200 MW CCOT in Spain. Project cost is $550 MM and offshore is fully contracted (incl 33% in Enron). An equity investor that will bring in the gas. Enron are pursuing a bank solution but I suspect that bankriff (Fidex Lafin) will be the likely outcome. They want to have their bank group mandated by mid-June. Project Finance are following this.

Chivers mentioned that they have established envirocredit.com which provides bankruptcy protection on a b to b basis. They are still in "getting established" mode and there are a few financing issues. Seems that Merrill Lynch are the ones to try and bring a solution but they are not interested in offering protection but the guy at enroncredit.com shouldn’t execute. Perhaps we should visit the site and lay off some risk.....

Nils
Kirk, Niels

From: Kirk, Niels
Sent: 15 April 2000 15:05
To: Rally, James P [CIT]
Subject: Enron
Importance: High

Jim,

You may be already aware of this but there seems to be 3 guys in the running for JAF McElhaney's ppl: Ray Bower, Bill Brown and Paul Chivers. Chivers looks like his chances are slim. Chivers did not rule out the possibility that fastlow could go external.

Otherwise in Europe we're working on:

A follow-up deal to Yosemite II which involves a basket of UK utility credits designed to manage credit risk and please funds flow. Size: GBP 100/200 MM.

Andro, which is a 1200 MW CCGT in Spain. Project cost is $500 MM and offtake is fully contracted (90% to Enron). An equity investor that will bring the gas. Enron are favouring a bond solution but I suspect that bank/bond (Ras Lulaan will be the likely outcome). They want to have their bank group mandated by end-June. Project finance are following this.

Chivers mentioned that they have established arnoret.com which provides bankruptcy protection on a to-to-basis. They are still in "getting established" mode and there are a few teething issues. Seems that Merrill Lynch hit their site one day and tried to buy some protection but the guy at arnoret.com shouldnt execute. Perhaps we should visit the site and lay-off same risk....

Nels

Kirk, Niels

From: Kirk, Niels
Sent: 15 April 2000 11:29
To: Thiel, Rita
Subject: RE: Enron - Pipeline Discussion with Paul Chivers

I'll meet Rita at SSb Victoria reception (stairs by the coffee shop) at 8:30. Hope this works. My mobile number is 0802 203 931.

Nels

---Original Message---
From: Wragg, Claire On Behalf Of Thiel, Rita
Sent: 12 April 2000 11:17
To: Thiel, Rita
Subject: RE: Enron - Pipeline Discussion with Paul Chivers

Rita will be getting into Gatwick at 07:15 and will be coming back on the Gatwick Express into Victoria. Regards,
Claudia

---Original Message---
From: Kirk, Niels
Sent: Tuesday, April 11, 2000 6:57 PM
To: Thiel, Rita
Subject: RE: Enron - Pipeline Discussion with Paul Chivers

CITI-SPSI 0034955

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INTERNAL USE ONLY - NOT FOR DISTRIBUTION OUTSIDE THE FIRM

The securities described in this memorandum may not be offered or sold to anyone except non-U.S. persons as defined in Regulation S under the Act. Further information about the issuer and the securities may be obtained from the offering memorandum relating to this offering prepared by the issuer. Under no circumstances should this sales memorandum be provided to anyone outside Salomon Smith Barney. The contents of this memorandum should not be disclosed to anyone outside Salomon Smith Barney (including the press) other than customers of the firm that are non-U.S. persons as defined in Regulation S, syndicate members, or the issuer.

Financing Summary dated August 10, 2000
Enron Credit Linked Notes Trust ("Enron CLN")
$500 million
(the "Notes")

Frequently Asked Questions

Q: How does the Enron CLN transaction differ from the Yosemite transaction?
A: The Enron CLN structure is a simplified version of the Yosemite transaction. The simplification of the structure should increase the liquidity of the Notes. The primary differences between the two structures are:
   i. Citibank will make all interest payments regardless of defaults on Trust investments, but absent an Enron default;
   ii. Trust investments are limited to highly rated short-term obligations (U.S. Governments, AAA insurance companies, and A-1/P-1 money center banks); there are no Enron obligations in the Trust prior to an Enron default;
   iii. Citibank's rights to settle have been limited to a short time period; and
   iv. Much of the flexibility to alter the structure has been removed in the Enron CLN structure.

Q: What is the basic idea behind the Enron Credit Linked Notes?
A: The Notes are primarily designed so that the payments made on the Notes are expected to mirror payments that would be made if the Notes were senior unsecured obligations of Enron. However, the inclusion of Citibank credit risk slightly alters the risk profile in that the interest component of the cash flows is in part dependent upon Citibank's fulfillment of its obligations under the Credit Swap.

A: The broad theme is to find the best home for different risks. As noted in The Wall Street Journal on 10/27/99, banks are increasingly reluctant to take on long dated credit risk (i.e. generally a 3-year time horizon), although they maintain a competitive advantage in structured finance. As with Yosemite, the Enron CLN structure allows Enron to take advantage of the flexibility provided by banks in structuring complex financings while placing pure long dated credit risk in the capital markets.

Q: Why do the Enron CLNs make economic sense?
A: Structuring risk is most efficiently priced in the bank market, while pure credit risk is most efficiently priced in the capital markets. The Enron CLN structure allows Citigroup to place pure Enron credit risk in the bond market while keeping the structural risks in the bank market.
Q: Why is Enron doing another structured financing?
A: To take advantage of banks' structuring expertise while broadening Enron's sources of capital.
   Banks are willing to do structured financings for limited tenors (typically three years); the Enron CLN transaction will allow Enron to continue to execute structured financings with banks while extending the tenors of the deals by placing the credit risk in the capital markets. Enron believes that, as its capital structure is diverse and complex, strategic value is added by being able to syndicate a variety of risks through structured financings. Examples include: contract monetization transactions, financing of $2 billion of inventory Enron has taken on through Enron Network's acquisition earlier this year.

Q: Does Enron intend to issue plain vanilla corporate debt this year?
A: Enron has stated that it is not intending to issue plain vanilla corporate debt through year-end. Therefore, the Enron CLNs are likely to be the one security to most closely approximate Enron senior unsecured debt issued for the remainder of this year.

Q: How does the investor risk in this transaction differ from that in plain corporate debt?
A: There are three risks to analyze: Enron, Citibank and the Trust Investments.

Q: Is Enron running out of bank lines?
A: Enron has substantially reduced its dependence on bank financing over the last year (over $4 billion in freed up capacity). Enron believes that it has excellent liquidity in and access to the bank market. The Enron CLN issuance provides Enron with another avenue through which to source funds and expand its sources of capital.

Q: How does this transaction affect Enron financial statements?
A: The issuance of these notes will have no impact on Enron's balance sheet. The transaction is designed to allow Enron to restructure and lengthen existing structured financings that are already referenced in its financial statements.

Q: What is Citigroup's interest?
A: Enron is an important customer of Citigroup. Citigroup wants to continue to strengthen this
relationship, and the Enron CLN transaction allows Citigroup to continue executing sophisticated financings with Enron while managing its credit exposure. In addition, the Enron CLN Trust is a great follow up to Yosemite that provides Citigroup a vehicle through which it can continue expanding its penetration into the credit derivatives market.

Q: What are the benefits to investors?
A: Investors receive a premium for taking Enron credit in a lightly structured form.

Q: What kind of assets can the Enron CLN Trust hold?
A: The Trust Investment are limited to certain high credit quality investments (time deposits, promissory notes or commercial paper of U.S. money center banks with short term ratings of A-1/P-1 and long term ratings of AA-/Aa3 that mature within 365 days of issuance, obligations for borrowed money or GICs of AAA/Aaa insurance companies that mature within 365 days of issuance, and direct U.S. government obligations). Trust Investments must bear a stated rate of interest and must mature prior to the maturity of the Notes. If the Notes are not in default, Noteholders will not know the Trust Investments but such information will be provided to the Rating Agencies.

Q: What is investors’ exposure to Enron?
A: The Notes are designed to mimic the risk profile of Enron senior unsecured obligations. Following any payment failure, the structure is designed to give investors risk to Enron senior unsecured obligations that rank the same as borrowed money. Therefore, in all cases, investors bear general credit risk to Enron senior unsecured obligations.

Q: What is investors’ exposure to Citibank?
A: Investors have performance and credit risk to Citibank (Aa2/Aa-). Through a swap, Citibank receives all payments from Trust investments and is obligated to deliver to the Trust sufficient funds to make each coupon payment on the Notes.

Q: Do investors have other risks?
A: The Enron CLN Trust will invest in certain high credit quality investments of different obligors meeting the eligibility criteria. Investors bear default risk of but not price risk to these securities. This risk is in part mitigated by the presence of $30 million of certificates, which are subordinated.

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CITI-SPS1 0051383
Q: Can the Enron CLN structure be replicated?
A: The Enron CLN structure is the result of Citibank's effort to simplify the unsecured financing programs which Enron has previously placed in the market. Citigroup believes this simplicity will be favorably accepted by the market. This structure can be replicated and used to the benefit of other capital users.

Q: Who will own the Certificates?
A: The certificates will be privately placed on an undisclosed basis.

The foregoing memorandum is based on the issuer's offering memorandum. This memorandum may not be distributed to anyone outside Salomon Smith Barney. The contents of this memorandum should not be discussed with anyone outside Salomon Smith Barney (including the press) other than customers of the firm that are non-U.S. persons as defined in Regulation S and outside Salomon Smith Barney (including the press) other than customers of the firm that are non-U.S. persons as defined in Regulation S under the Act.
CLN Swaps

Enron/Citibank N.A. swap

On each January 14 and July 14 beginning January 14, 2001 and ending July 14, 2005, EnA agrees to pay Citibank N.A. an amount equal to 2,670,004 bbls at the December 2005 Oil-WTI NYMEX futures contract, priced at closing 3 Commodity Business Days prior to the payment date. The first payment on January 14, 2001 will be prorated by the actual number of days elapsed since closing, for an amount equal to 33,312 bbls.

On July 14, 2005, which the parties agree to be the final payment date of the transaction, EnA agrees to pay Citibank N.A. the lesser of $475,000,000 and the amount equal to 23,238,748 bbls at the December 2005 Oil-WTI NYMEX futures contract, priced at closing 3 Commodity Business Days prior to the final payment date.

Enron/Delta swap

On each January 14 and July 14 beginning January 14, 2001 and ending July 14, 2005, Delta agrees to pay EnA an amount equal to 568,024 bbls at the December 2005 Oil-WTI NYMEX futures contract, priced at closing 3 Commodity Business Days prior to the payment date. The first payment on January 14, 2001 will be prorated by the actual number of days elapsed since closing, for an amount equal to 533,312 bbls.

On each January 14 and July 14 beginning January 14, 2001 and ending July 14, 2005, EnA agrees to pay Delta $17,750,750. The first payment on January 14, 2001 will be prorated by the actual number of days elapsed since closing, for an amount equal to $16,665,982.

On July 14, 2005, which the parties agree to be the final payment date of the transaction, EnA agrees to pay Delta the greater of $50 and the amount equal to $475,000,000 minus 23,238,748 bbls at the December 2005 Oil-WTI NYMEX futures contract, priced at closing 3 Commodity Business Days prior to the final payment date.

Delta/Citibank N.A. swap

On each January 14 and July 14 beginning January 14, 2001 and ending July 14, 2005, Citibank N.A. agrees to pay Delta an amount equal to 568,024 bbls at the December 2005 Oil-WTI NYMEX futures contract, priced at closing 3 Commodity Business Days prior to the payment date. The first payment on January 14, 2001 will be prorated by the actual number of days elapsed since closing, for an amount equal to 533,312 bbls.

On each January 14 and July 14 beginning January 14, 2001 and ending July 14, 2005, Delta agrees to pay Citibank N.A. $17,750,750. The first payment on January 14, 2001 will be prorated by the actual number of days elapsed since closing, for an amount equal to $16,665,982.

On July 14, 2005, which the parties agree to be the final payment date of the transaction, Delta agrees to pay Citibank N.A. the greater of $50 and the amount equal to $475,000,000 minus 23,238,748 bbls at
the December WTI NYMEX futures contract, priced at closing 3 Commodity Business Days prior to the final payment date.
Lee, Andrew P [FIN]

From: Bernsten, Saul [CTI]
Sent: Wednesday, October 18, 2000 12:45 PM
To: Lee, Andrew P [FIN]
Cc: Cougle, Foster [FIN]
Subject: RE: Enron Follow-up

Andy, our discussion the situation is as follows: The Trust issued $175M of CLN to 100% risk-weighted investors, and a first loss $220M CLN to RBC, against which Cibank wrote a Total Return Swap. Cibank, consequently, consolidated the Trust. The Trust deposited the CLN proceeds as a deposit with Cibank, which in turn extended credit to Enron in the form of a prepaid swap. For GAAP purposes, the financing of Enron is reported to a prepaid swap derivative (MTM) and the CLN as bifurcated borrowings. The prepaid swap for RBC purposes is reported as a loan. For RBC purposes, the business would like to apply cash collateralization rules to achieve a zero-risk weight. The borrowing is made Cibank, not out-of-pocket cash and that if Enron defaulted on the prepaid swap, Cibank could deliver such swap (or other similar Enron debt) to the CLN investors in return for forgiveness in repaying the CLNs. We would need to have the business conduct these trade collateralization rules to achieve a zero-risk weight. The agreement is that Cibank has not cash collateral rules in all circumstances, such that Cibank has effectively transferred the credit risk related to the prepaid swap to the CLN investors. In addition to the internal legal evaluation, Financial Control should review the CLN documents. It is essential that the CLN be directly linked to (i.e., referenced in in the CLN documentation) the prepaid swap. Only in these circumstances would it then be appropriate to report the prepaid swap (here) at zero-risk weight for RBC purposes.

Let me know what you learn.

Regards,
Saul

-----Original Message-----
From: andrew a lee [SMTP: andrew.a.lee@hp.com]
Sent: Tuesday, October 17, 2000 6:18 PM
To: Saul Bernsten
Cc: andrew.a.lee, foster.cougle
Subject: RE: Enron Follow-up

Hi Saul,

I have a follow-up question regarding the RBC treatment for the Enron transaction if you don't mind. Per the guidance below, we did treat the prepaid swap as a bank's direct credit substitute (100% risk weighted) for 9/30. A question I have though is that since the deal has a hedge for the credit exposure of the loan by essentially purchasing credit protection from the trust note holders, is there a way to get some reduction in the risk weighting?

As always, thanks for you help.

Regards,
Andy

-----Original Message-----
From: Bernsten, Saul [CTI]
Sent: Wednesday, October 04, 2000 1:28 PM
To: Lee, Andrew P [FIN]
Cc: Cougle, Foster [FIN], Mackey, William J [CTI]; Waters, Marly [CTI]; Williams, Ja-Anne [FIN]
Subject: FW: Enron Follow-up

Andy, please see forwarded response. Hope all is well.
Regards, Saul

---Original Message---
From: Mackey, William J.
Sent: Wednesday, October 04, 2000 12:31 PM
To: Benson, Saul
Subject: Enron Follow-up

Andy, I just completed a second review of the structure to ensure the appropriateness of consolidating the Trust. Since the Royal Bank of Canada (RBC) is the holder of the 500WM CLN Credit Linked Notes, transfers the risk of holding these Notes to CIBank via the Total Return Swap, RBC is not at risk and can be viewed as the equity owner of the Trust. CIBank should consolidate the Trust, eliminating the double count (for CIBank Credit Derivatives Trading Unit) of assets - requiring the removal of the CIBank EM Treasury Desk from the transaction. Regardless of the feasibility of the below options, your books as of 4/30 should reflect the consolidation of the Trust.

Some options to consider follow:

- Have the Trust (an apparent third party opposite Enron since CIBank is consolidating it) place the funds and enter a prepaid swap directly with Enron. Enron would have to pay one year LIBOR to the Trust to keep the pricing intact. What would be the loss to the Trust? Must the Trust’s placement of funds be in a deposit form as required by its Charter provisions regarding investment activities? Is the Trust authorized per its Charter to enter a prepaid swap?

- A second option is for the Trust to place the funds directly with CIBank Credit Derivatives Desk (CD), as an intra (not inter-company) company receivable/payable (which would be eliminated within the Combined CD financials). Can CIBank - CD borrow from an external source (netting a position) that we are consolidating the Trust for accounting purposes, the Trust is an otherwise separate legal entity not within the ownership chain of the CIBank family. Since we are consolidating the Trust’s desk (presumably raised from third-party investors), this may be a moot point. I’m copying M. Waters of OCP for informational purposes.

- A last option is to replace the EM Treasury Unit with a third party bank. This is a cost/benefit decision by the business. For RBC purposes, I would treat the prepaid swap as a loan, a 100% risk weighted asset. Some RBC treatment given to a direct credit substitute. Per GAAP, the prepaid derivative should be off-balance sheet. Regards, Saul

---Forward Header---
Sub: Enron Follow-up
Author: andrew.p.lee@jpmchase.com at INTERNET
Date: 09/25/2000 10:44 AM

Hi Bill,

Good seeing you on Friday and hope the camping trip went well! I just wanted to follow-up regarding the Enron deal. We ended up discussing the trade for a few minutes with Saul on Friday and off the top of his head, he seems to believe that consolidation of the trust is clearly necessary.
However, he wasn't sure if it made sense that the trade is then basically double-counted on the balance sheet for the Credit Derivatives desk (once as a prepaid oil swap and again as a noncompany deposit) resulting in this trade adding approximately a billion dollars of assets. Overall from a consolidated point of view, only the prepaid oil swaps and the credit linked notes would appear on the balance sheet but the balance sheet from the Credit Derivatives desk point of view (and Emerging Markets Desk gets grossed-up).

Assuming we have to consolidate the trust, any suggestions on how we can avoid this? Also, should we go ahead and treat the prepaid oil swap as a direct credit substitute with a 100% conversion factor for RBC? Thanks for your help.

-Judy
-----Original Message-----
From: andrew.p.lee@SNTP.andrew.p.lee@snb.com
Sent: Tuesday, October 17, 2000 8:19 PM
To: Saul Bernstein
Cc: andrew.p.lee; foster.coogle
Subject: RE: Enron Follow-up

Hi Saul,

I have a follow-up question regarding the RBC treatment for the Enron transaction if you don't mind. Per the guidance below, we did treat the prepaid oil swap as a loan/direct credit substitute (100% risk weighted) for 9/30. A question I have though is that since the hedge has a hedge for the credit exposure of the 'loan' by essentially purchasing credit protection from the trust/noteholders, is there a way to get some reduction in the risk weighting?

As always, thanks for your help.

Regards,
Andy

-----Original Message-----
From: Bernstein, Saul [CITI]
Sent: Wednesday, October 04, 2000 1:14 PM
To: Lee, Andrew P (FIN)
Cc: Coogle, Foster [FIN]; Mackey, William J [CITI]; Waters, Marty [CITI]; Williams, Jo-Anne [FIN]
Subject: FW: Enron Follow-up

Andy, please see forwarded response. Hope all is well.

Regards, Saul

-----Original Message-----
From: Mackey, William J.
Sent: Wednesday, October 04, 2000 11:01 PM
To: Bernstein, Saul
Subject: Enron Follow-up

Andy, I just completed a second review of the structure to ensure the appropriateness of consolidating the Trust. Since the Royal Bank of Canada (RBC), the holder of the $200MM CLN, Credit Linked Notes, transfers the risk of holding the notes to Citibank via the Total Return Swap, RBC is not at risk and can not be viewed as the equity owner of the Trust. Citibank should consolidate the Trust. Eliminating the double count (for Citibank - Credit Derivatives Trading Unit) of assets requires the removal of the Citibank EM Treasury Desk from the transaction. Regardless of the feasibility of the below options, your book as of 9/30 should reflect the consolidation of the Trust. Some options to consider follow:

Have the Trust (an apparent third party opposite Enron since Citibank is consolidating it) place the funds and enter a prepaid swap directly with Enron. Enron would have to pay one year LIBOR to the Trust to keep the pricing intact. What purpose does Citibank EM Treasury play? Must the Trust's placement of funds be in deposit form as required by its Charter provisions regarding investment activities? Is the Trust authorized per its Charter to enter a prepaid swap?

A second option is for the Trust to place the funds directly with the Citibank Credit Derivatives Desk (CD), as an intra (not inter-company) company receivable/payable (which would be eliminated within the Combined CD financials). Can Citibank - CD borrow from an external source (notwithstanding that we are consolidating the Trust for accounting purposes, the Trust is an

Permanent Subordinated Indebtedness

EXHIBIT #189w

CITI-SPSI 0081540
Hi Bill,

Good seeing you on Friday and hope the camping trip went well! I just wanted to follow-up regarding the Enron deal. We ended up discussing the trade for a few minutes with Saul on Friday and off the top of his head, he seems to believe that consolidation of the trust is clearly necessary. However, he wasn't sure if it made sense that this trade is that basically double-counted on the balance sheet for the Credit Derivatives desk (once as a prepaid oil swap and again as a intra-company deposit) resulting in this trade adding approximately a billion dollars of assets. Overall from a consolidated firm point of view, only the prepaid oil swaps and the credit linked notes would appear on the balance sheet but the balance sheet from the Credit Derivatives desk point of view (Emerging Markets Desk) gets grossed-up.

Assuming we have to consolidate the trust, any suggestions on how we can avoid this? Also, should we go ahead and treat the prepaid oil swap as a direct credit substitute with a 100% conversion factor for RBC?

Thanks for your help.

-Andy
Andy, I had a chance to speak with Rick this morning. He clarified that in an Enron default event, Citibank has the right to deliver $500MM of deliverable Enron obligations (DEO) to the Trust, and to receive $150 of Trust investments (i.e., all of the assets of the Trust). Citibank would therefore take back all of its $500MM deposit liability. Citibank would be ahead by $500M. The note-holders would solely look to the recovery value of the DEO to have its $500M of Notes repaid. It is intended that the note-holders ultimately have exposure to Enron senior unsecured default risk. Nothing would remain for the certificate holder (RBOC), which entity would lose its entire $500MM investment. Citibank would then pay the certificate holder (RBOC) $500M to settle the Trust. Thus, in the Enron default scenario, Citibank, not the certificate holder, would not sustain a loss. In view of the above, I believe it is appropriate for Citibank to report the benefits of the effective cash collateralization arrangement for RBC purposes. That is, there should not be a risk asset. Rick stated that this was the understanding when the deal was structured.

As a last point, Rick also mentioned that there is a Milbank Tweed memorandum which clarifies that the prepaid swap meets the definition of a deliverable Enron obligation (DEO). We need this letter (please fax me a copy) plus confirmation from Don on this point. We could then revise the RBC reporting.

Regards, Saul

-----Original Message-----
From: andrew.p.lee [SMTP:andrew.p.lee@mgz.com]
Sent: Thursday, October 19, 2000 8:45 AM
To: saul.bernstein
Cc: andrew.p.lee; foster@coupe
Subject: RE: RE: RE: Enron Follow-up

Hi Saul,

Thanks for your comments.

One thing to note though is that the certificate holders actually do not sustain the loss if a credit event occurs. Though the certificate holders retain the first loss exposure in regards to the performance of the Trust Assets, if an Enron Credit Event were to occur, the certificate holders are actually redeemed. Under the terms of the settlement following an Enron Credit Event, in return for Citibank delivering Enron Deliverable Obligations to the Trust, the Trust will deliver an amount of Trust Investments to Citibank equal to the amount of Enron Deliverable Obligations that Citibank delivered plus an amount equal to the Base Amount of the Certificates.

Thus, following a credit event we would not have any exposure to the certificates and would no longer consolidate the trust. The assets of the Trust at that point (the Enron assets that Citibank delivered) would solely belong to the noteholders.

Please let me know how this affects your thoughts.

Thanks,

Andy

-----Original Message-----
From: Bernstein, Saul [CITI]
Sent: Wednesday, October 18, 2000 7:42 PM
To: Lee, Andrew P [FDM]
Cc: Cougle, Foster [FDM]
Subject: RE: RE: RE: Enron Follow-up

Andy, I agree it is wise to wait for Don's input. I have, however, some second thoughts.

I believe that relative to the prepaid swap asset, Citibank is providing first loss protection to the certificate holders by writing the total return swap (TRS) against the certificates (considered the equity in the structure) issued by the Trust. The deposit is, in an amount equal to the Note and Certificate issuance proceeds, so the certificate holder would also sustain losses under the terms of the credit swap. The note-holders and certificate holder, in a worse case scenario, would lose their entire investment if the prepaid swap had a zero recovery value and the Trust had no other sources of repayment. Under the TRS, Citibank would make the certificate holder whole. In all credit derivative structures in which Citibank purchased protection to obtain ECB relief, the first loss retention was limited to 1%. Here the first loss is about ten percent ($20/$228). This maximum loss exposure is greater than the $8 capital we currently would reserve for the prepaid swap (loss).

Accordingly, taking any ECB relief would seem inappropriate. If I'm not correctly understanding our loss exposure, please advise.

Also, for the record, I'm not sure if we are correctly characterizing the instrument we are trying to report for ECB purposes. The asset swap is pursuant to the terms of the Credit Swap between Citibank and the Trust. Assuming Citibank has the right to deliver the prepaid swap in return for the Trust's investment (i.e., its deposit with Citibank), in equal principal amounts, this asset swap is occurring within the Citicorp consolidated entity (since we are consolidating the Trust). We are not dealing with either a default swap or a credit linked note - two conventional types of credit derivatives. The note-holders are not obligated (per the credit swap) to reimburse Citibank for default losses on the prepaid swap nor is there principal debt forgiveness in the amount of any default loss on the prepaid swap. Instead, we have a combination of a credit swap agreement (lender-company on a practical reporting level) and note issuance terms which effectively permits Citibank to transfer specific risk to the note-holders and certificate holder (the investors). The investor can be limited, in an Enron credit event, to solely look to the recovery value of non-performing Enron deliverables (delivered to the Trust) obligations for repayment. If not for the first loss exposure, I believe we would have some form of cash collateralization arrangement (not a credit derivative) which is legally enforceable and economically effective - otherwise worthy of seeking an opinion from counsel and from Corporate Regulatory Advisory.

Regards, Saul

-----Original Message-----
From: andrew.p.lee [SMTP:andrew.p.lee@am.com]
Sent: Wednesday, October 18, 2000 3:30 PM
To: saul.bernstein
Cc: andrew.p.lee; foster.cougle
Subject: RE: Enron Follow-up
Importance: High

Hi Saul,

Here's what we found out. Amanda Angelini (one of the structurers) confirmed that upon a credit event we can legally deliver the prepaid
swap to be used to pay the noteholders. I left a
message with Don Roderheg to call me to confirm
this but Amanda also assured me that he agreed
with this view.

The terms found in the offering memo do appear to
support this. According to the terms, if a credit
event occurs, Citibank can deliver to the trust
Enron Deliverable Obligations which would include
any senior obligation of Enron (including swaps)
that would rank at least equal in priority
to claims against Enron for senior unsecured
indebtedness that is not a participation interest
and which is considered "actively traded" by IRS
standards (which Amanda believes is satisfied by
the prepaid swap). In return, Citibank would receive
the trust assets (the Citibank CD) which would make us
whole on the prepaid and on the equity certificates.

Thus, though the prepaid swap is not specifically
mentioned in the offering memo, it does appear to
meet the criteria that is stated in the memo.

As a result, it does appear we have effectively
transferred the credit exposure to the noteholders.

Please let me know if you think this is sufficient
to go ahead and reduce the risk-weighting to 0%.
I may still be able to revise the 9/30 reporting
if we act quickly.

Thanks.

Andy

-----Original Message-----
From: Bernstein, Saul [CITI]
Sent: Wednesday, October 18, 2000 12:45 PM
To: Lee, Andrew P [FIN]
Cc: Cougle, Foster [FIN]
Subject: RE: RE: Enron Follow-up

Andy, per our discussion, the situation is as follows: The Trust issued $675MM
of CLM to 104 risk weight investors, and a first loss $95MM CLM to HBOC,
against which Citibank wrote a Pool Return Swap. Citibank, consequently,
consolidated the Trust. The Trust deposited the CLM proceeds as a deposit with
Citibank, which in turn extended credit to Enron in the form of a prepaid swap.
For GAAP purposes, the financing of Enron is reported as a prepaid swap
derivative (MTR) and the CLM as third party borrowings. The prepaid swap for
HBOC purposes is reported as a loan. For HBOC purposes, the business would like
to apply cash collateralization rules to achieve a zero risk weight. The
thinking is that Citibank is not out-of-pocket cash and that if Enron defaulted
on the prepaid swap, Citibank could deliver such swap (for other similar Enron
debt) to the CLM investors in return for forgiveness in repaying the CLMs. We
would need to have business counsel advice that Citibank has the aforementioned
legal rights, enforceable in all circumstances, such that Citibank has
effectively transferred the credit risk related to the prepaid swap to the CLM
investors. In addition to the internal legal evaluation, Financial Control
should review the CLM documents. It is essential that the CLM be directly
linked to the referenced in the CLM documentation the prepaid swap.

Only in these circumstances, would it then be appropriate to report the prepaid
swap (loans) at zero risk weight for HBOC purposes.

Let me know what you learn.

Regards, Saul

CONFIDENTIAL
CITI-SPS 0081539
From: Angelini, Amanda (FIN)
Sent: Wednesday, October 18, 2000 4:32 PM
To: Lee, Andrew P [FIN]
Cc: Capron, Rick [FIN]
Subject: Re: Enron

If the question is whether the prepaid is a deliverable obligation then the answer is yes. The activity traded reference is a tax definition. We are comfortable that there is a market for prepay.

Please call if you want to discuss further.

Amanda

--- Original Message ---
From: Lee, Andrew P [FIN] <aa13274@eimail.smb.com>
To: Angelini, Amanda [FIN] <aa13274@eimail.smb.com>
Subject: Simon

Hi Amanda,

Yes, believe it or not, we are still working out some issues on the Enron trade.

After receiving guidance from accounting policy, we ended up consolidating the trust (we have the Emerging Markets CD and the CLN's on our books) and we treated the prepaid swap as a loan (100% risk weight) for RBC purposes.

What I'm trying to work on is to get the risk weight reduced on the prepaid swap. Per accounting policy we need to prove that we have legally transferred all credit risk. From their point of view they would like to see that the CLN is directly linked to the prepaid swap.

In the offering memo, the definition of Enron Deliverable Obligation includes "actively traded" Obligations (including swaps). Do we have the documentation in place to allow us to deliver the prepaid swap under this definition?

Thanks,
Andy
Andy,

We are indifferent as to whether it is booked separately. As for Delta's benefit - Delta does receive a small fee for entering into these transactions.

Amanda

---- Original Message ----
From: Lee, Andrew P [FIN]
Sent: Monday, November 26, 2000 4:29 PM
To: Angelini, Amanda [FIN]
Cc: Cougle, Foster [FIN]
Subject: FW RE: Enron CLN Transaction - SFAS 133 Accounting for Prepaid Swaps

Andy

Hi Amanda,

Thanks for getting back to me.

The Citibank Swap Fee I'm referring to is the 30bps on the 500mm notional. It is currently booked as part of the promissory note coupon and I'm wondering whether or not it should be booked separately.

If I'm interpreting your response properly, does it mean that Delta entered into an offsetting trade with Enron to hedge the trade that they have with us? How does Delta benefit from this transaction?

Thanks,

Andy

---- Original Message ----
From: Angelini, Amanda [FIN]
Sent: Thursday, November 16, 2000 3:33 PM
To: Lee, Andrew P [FIN]; Caplan, Rick [FIN]
Cc: Cougle, Foster [FIN]
Subject: RE: RE: Enron CLN Transaction - SFAS 133 Accounting for Prepaid Swaps

Andy - I would answer your questions as follows -

There is a limited secondary market for the prepaid as other banks are doing them in the market.

Tigre was a promissory note issued by Enron at closing. What Citibank Swap fee are you talking about?

This is a third party independent relationship - Enron and Delta have entered into a market swap and put option with Delta.

Rick is out. Let me know if you need more information.

Amanda

---- Original Message ----
From: Lee, Andrew P [FIN]
Sent: Thursday, November 16, 2000 2:56 PM
To: Caplan, Rick [FIN]; Angelini, Amanda [FIN]
Cc: Cougle, Foster [FIN]
Subject: FW RE: Enron CLN Transaction - SFAS 133 Accounting for Prepaid Swaps

Hi Rick/Amanda,
We have been going back and forth a bit with Saul on a couple of SFAS 133 issues that he has brought up on the prepaid swap and the CLNs in the Enron transaction and I was wondering if you could help us on a few more questions.

In summary, under SFAS 133 Saul states that we would no longer be able to mark to market the prepaid swap because it fails to qualify as a derivative. As a result, we would have to apply straight-line accounting for the prepaid. Additionally, since the Trust is consolidated into our books (due to us effectively owning the certificates) the CLN are our liability which need to have the unamortized prepaid swap bifurcated from the notes.

There is still some question on how all this would exactly be done but it may potentially lead to volatility in the P&L. Thus, we are still debating some points with Saul.

The information that we are looking for that could help us in our discussions/analysis is:

- If necessary, could we make an argument that there is a secondary market for the prepaid swap?

- Will there be an actual $25m promissory note issued by Enron (I currently is booked by the desk as a swap) and will the Citibank Swap fee be included in the upfront payment or if it (Know the Basis Swap fee is covered under a separate letter but I'm not clear about the Citibank Swap fee.)

- What exactly is the relationship between Enron and Delta? (I know Delta is independently managed but what is Enron's relationship with it).

Please let me know also if you have any thoughts on this issue and thanks for your help.

- Andy

-----Original Message-----
From: Bernstein, Saul [CIT]
Sent: Friday, November 10, 2000 7:26 PM
To: Lee, Andrew F [FIN]
CC: Couple, Fraser [FIN]; Efranger, Joseph [FIN]; Mackey, William J [CIT]; Williams, Jo-Anne [FIN]
Subject: RE: RE: Enron CLN Transaction - SFAS 133 Accounting for Prepaid Swap

Andy, my comments follow:

- The CLN does not make direct reference to the prepaid swap, but rather to deliverable obligations of Enron - but business counsel indicates the prepaid swap would satisfy the definition of a Deliverable Enron Obligation (DEO). This protection is against the whole prepaid swap (less) or other DEOs, not against a single default swap position embedded in the prepaid swap. The bank has a funded exposure, not a direct credit derivative, or a synthetic long position, I would not encourage bifurcating a single BS from the loan. If not for SFAS 133, I would not bifurcate the default swap from the CLN, because I believe it makes more sense to follow the current banking book accounting treatment today when they purchase protection - i.e., accrue accounting. We're kind of stuck until the FASB revisits this illegal rule.

- Because this prepaid swap is part of a structured transaction, my impression is that we are not holding this loan for a short-term profit opportunity. Also, my impression is that there would not be much of a secondary loan trading market for this customized prepaid swap when it is protected by the CLN. If this loan was purchased in the secondary market, maybe we could then view it as a trading asset. Overall facts and circumstances would need to be considered.

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Regards, Saul

Original Message:
From: andrew.p.lee (SMTP:andrew.p.lee@ssnb.com)
Sent: Thursday, November 09, 2000 7:58 PM
To: saul.brazdil
Cc: andrew.p.lee; joseph.raffinger; foster.coullie
Subject: RE: Enron CLN Transaction - SFAS 133 Accounting for Prepaid Swaps

Hi Saul,

We had a couple of thoughts/questions regarding the treatment of the Enron CLN transaction under SFAS 133 that we wanted to run by you.

One thought is that since we are marking to market the credit default swap that is embedded in the credit linked note, shouldn't we be able to separate and also mark the credit default component of the loan that hedges it?

Also, even if the prepaid swap is viewed as a loan instead of a derivative, why can't we mark-to-market the loan since it is held in a MTM trading portfolio? (Is it because we "originated" it instead of purchasing it?)

From a hedging/hedging point of view, it would seem that this loan is not too different from other corporate debt which we MTM.

Thanks for your help.

Andy

Original Message:
From: Bamissan, Saba [CIT]
Sent: Thursday, October 05, 2000 2:05 PM
To: Lee, Andrew P [FIN]; Williams, Jo-Ann [FIN]
Cc: Kalyvas, Elena [FIN]; Mackey, William J [CIT]; Steinberg, David [FIN]
Subject: AT&T Canada and Enron CLN Transactions - SFAS 133 Accounting for Prepaid Swaps

For both of the above referenced transactions, the prepaid swap component of the structured transaction would not qualify as a derivative per CIG A-9, Definition of a Derivative: Prepaid Interest Rate Swaps. The FASB definitional requirements apply to all derivative types — interest rates, commodities, equities, etc. Qualifying derivatives may not involve an initial investment which is not smaller than the notional value or an economically equivalent (concept applies when leverage is used) notional value of the derivative contract.

This means that the contracts in the referenced transactions are non-derivative contracts. As a result, we need to determine the nature of the contract, and determine whether there are any embedded derivatives. In the AT&T transaction, I believe the host contract is a loan, and there is an embedded call option which would be separated and MTM. The call option provides some upside to the customer, above which a certain price, the appreciation revert to CITibank. Any deprivation of the shares below the AT&T guaranteed floor price, which CITibank pre-funded (margined) exposes CITibank to credit default risk to AT&T. The same analysis for embedded derivatives needs to be performed for the Enron CLN transaction.

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Please note that this (GAAP) accounting is mandatory when we adopt SFAS 133 next year. It is possible to continue with past accounting practices up through year-end on the basis of consistency. The RNC (loan) treatment already recommended is appropriate. Assuming we continue with current accounting practice, I have illustrated (using the AT&T transaction) below an approach to dimensioning the transition adjustment upon adoption of SFAS 133 on 1/1/01.

Please call if you want to discuss.

Regards, Saul
Frequently Asked Questions

Q: How does the Enron CLN II transaction differ from the ECLN and Yosemite transactions?

A: The Enron CLN II structure is substantially similar to the ECLN transaction completed last August and is a simplified version of the Yosemite transaction. The simplification of the structure was designed to help the liquidity of the Notes. The primary differences between the Yosemite and ECLN II structures are:

1. Absent an Enron default, Citibank will make all interest payments regardless of defaults on Trust Investments;
2. Trust Investments are limited to high credit quality, short-term obligations (Governments, AAA insurance companies, and A-/P/1-1 and A+/A1 US, UK and E-11 banks); there are no Enron obligations in the Trust prior to an Enron default;
3. Citibank’s rights to settle have been limited to a short time period and the optionality has been restricted; and
4. Much of the flexibility to alter the structure present in Yosemite has been removed in the Enron CLN II structure.

Q: What is the basic idea behind the Enron Credit Linked Notes II?

A: The Notes are primarily designed so that the payments made on the Notes are expected to mirror payments that would be made if the Notes were senior uninsured obligations of Enron. However, the inclusion of Citibank credit risk slightly alters the risk profile in that the interest component of the cash flows is in part dependent upon Citibank’s fulfillment of its obligations under the Credit Swap.

Q: Why does the Enron CLN II make economic sense?

A: Structuring risk is most efficiently priced in the bond market, while pure credit risk is most efficiently priced in the capital markets. The Enron CLN II structure allows Citigroup to place pure credit risk in the bond market while keeping the structural risk in the capital market. In addition, the structure allows Enron to extend the tenors of certain structured financings.
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CONFIDENTIAL CITI-SPSI 0048928
financing summary dated may 2, 2001
enron credit linked notes trust ii senior notes offering ("enron cln ii")

$q\$ million
("notes")

the underlying transaction will not be affected by the notes.

q: what is citigroup's interest?

a: enron is an important customer of citigroup. citigroup wants to continue to strengthen this global relationship, and the enron cln ii transaction allows citigroup to continue executing sophisticated financings with enron in europe and the us while managing its credit exposure. in addition, the enron cln ii trust is a great follow up to ecln that provides citigroup a vehicle through which it can continue expanding its penetration into the credit derivatives market.

q: what are the benefits to investors?

a: investors receive a premium for taking enron credit in a lightly structured form.

q: what kind of assets can the enron cln ii trust hold?

a: the trust investments are limited to certain high credit quality investments. for enron cln ii, the trust investments consist of:
   i) time deposits, promissory notes or commercial paper of u.s. money center banks with short term ratings of a-1/p-1 and long term ratings of a+/a1 that mature within 90 days of issuance,
   ii) promissory notes or gics from aaa/aa insurance companies that mature within 365 days of issuance or
   iii) direct u.s. government obligations.

trust investments must bear a stated rate of interest and must mature prior to the maturity of the notes. the trust investments held by the collateral agent will not at any time represent obligations of more than nine separate obligors. if the notes are not in default, noteholders will not know the trust investments but such information will be provided to the rating agencies.

q: does each trust have separate trust investments?

a: yes. the assets of each trust will be solely for the benefit of the related investors.

q: what happens if any of the trusts goes into default?

a: the offerings are not cross-defeated or cross-collateralized. the credit events are identical for each offering. therefore, it is likely that all notes will be in default at the same time. the
Financing Summary dated May 2, 2001
Enron Credit Linked Notes Trust II Senior Notes Offering ("Enron CLN II")
[Table]

Q: What is investors' exposure to Enron?
A: The Notes are designed to mimic the risk profile of Enron senior unsecured obligations. Following any payment failure, the structure is designed to give investors risk to Enron senior unsecured obligations that rank the same as borrowed money. Therefore, in all cases, investors bear general credit risk to Enron senior unsecured obligations.

Q: What is investors' exposure to Citibank?
A: Investors have performance and credit risk to Citibank (Aa2/AA-). Through a swap, Citibank receives all payments from Trust investments and is obligated to deliver to the Trust sufficient funds to make each coupon payment on the Notes.

Q: Do investors have other risks?
A: The Enron CLN II Trust will invest in certain high credit quality investments of different obligors meeting the eligibility criteria. Investors bear default risk of but not price risk to these securities. This risk is mitigated in part by the presence of Certificates (approximately 10% of the issue size) which are subordinated to the Notes.

Q: Can the Enron CLN II structure be replicated?
A: Other than the multiple currencies, the Enron CLN II is substantially the same as the ECLN transaction from last August. This structure is the result of Citibank’s effort to simplify the structured finance programs which Enron has previously placed in the market. Citigroup believes this simplicity will be favorably accepted by the market. This structure can be replicated and used to the benefit of other capital users.

Q: Who will own the Certificates?
A: The Certificates will be privately placed on an undisclosed basis.

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Frequently Asked Questions

Q: How does the Enron CLN II transaction differ from the ECLN and Yosemite transaction?
A: The Enron CLN II structure is substantially similar to the ECLN transaction completed last August and is a simplified version of the Yosemite transaction. The simplification of the structure was designed to help the liquidity of the Notes. The primary differences between the Yosemite and Enron CLN II structures are:

(i) Absent an Enron default, Citibank will make all interest payments regardless of defaults on Trust Investments;
(ii) Trust Investments are limited to high credit quality, short-term obligations (Government, AAA insured companies, and A+/A1 US, UK and E-11 banks); there are no Enron obligations in the Trust prior to an Enron default;
(iii) Citibank’s rights to settle have been limited to a short time period and the optionality has been restricted; and
(iv) Much of the flexibility to alter the structure present in Yosemite has been removed in the Enron CLN II structure.

Q: What is the basic idea behind the Enron Credit Linked Notes III?
A: The Notes are primarily designed so that the payments made on the Notes are expected to mirror payments that would be made if the Notes were senior uninsured obligations of Enron. However, the inclusion of Citibank credit risk slightly alters the risk profile so that the interest component of the cash flows is in part dependent upon Citibank’s fulfillment of its obligations under the Credit Swap.

Q: Why does the Enron CLN II make economic sense?
A: Structuring risk is most efficiently priced in the capital markets, while pure credit risk is most efficiently priced in the capital markets. The Enron CLN II structure allows Citigroup to price pure Enron credit risk in the capital market while keeping the structural risks in the bank market. In addition, the structure allows Enron to extend the tenors of certain structured financings.
FINANCING SUMMARY DATED MAY 8, 2001
Enron Euro Credit Linked Notes Trust Senior Notes Offering ("Enron CLN II")
Euro 1 million

Q: Why does it make sense to do a Euro ECLN?
A: The simplicity of the ECLN structure facilitates a wide distribution of a structured note. To achieve the same economic benefit of bifurcating risks in the US market and broaden its financing sources globally, Enron CLN II is being marketed to Euro, Sterling and US investors.

Q: Why is Enron doing another structured financing?
A: Enron is doing another structured financing to take advantage of banks' structuring expertise while broadening Enron's sources of capital. Banks are willing to do structured financings for limited tenors (typically three years), so the Enron CLN II transaction will allow Enron to continue to execute structured financings with banks while extending the tenors of the deals by placing the credit risk in the capital markets. Enron believes that, as its capital structure is diverse and complex, strategic value is added by being able to syndicate a variety of risks through structured financings in selected currencies. Examples include counterparty transactions, synthetic leases, commodity transactions, minority interest structures.

A: Enron is undergoing many changes and as it expands its business, it has consistently developed new ways to finance its business in a manner that maximizes the value of the structure for Enron and its investors.

Q: Why is Enron leaving the ECLN II in multi-currency?
A: The simplicity of the Enron CLN structure was a strong factor in the successful issuance of the first Enron CLN. To achieve the same economic benefit of bifurcating risks in the US market and broaden its financing sources globally, Enron CLN II is being marketed to Euro, Sterling and US investors.

Q: How does the investor risk in this transaction differ from that in plain corporate debt?
A: There are three risks to analyze: Enron, Citibank and the Trust Investments.

Q: Is Enron running out of bank lines?
A: Enron believes that it has an excellent liquidity in and access to the bank market. The Enron CLN II issuance provides Enron with another avenue through which to source funds and expand its...
Financing Summary dated May 2, 2001

Enron Euro Credit Linked Notes Trust Senior Notes Offering ("Enron CLN II")

Sources of capital.

Q: How does this transaction affect Enron financial statements?
A: The issuance of the Notes will have no impact on Enron's balance sheet. The transaction is designed to allow Enron to restructure and lengthen structured financings. The reporting of any underlying transaction will not be affected by the Notes.

Q: What is Citigroup's interest?
A: Enron is an important customer of Citigroup. Citigroup wants to continue to strengthen its global relationship and the Enron CLN II transaction allows Citigroup to continue executing sophisticated financings with Enron in Europe and the US while managing its credit exposure. In addition, the Enron CLN II Trust is a great follow up to ECLN that provides Citigroup a vehicle through which it can continue expanding its penetration into the credit derivatives market.

Q: What are the benefits to investors?
A: Investors receive a premium for taking Enron credit in a lightly structured form.

Q: What kind of assets does the Enron CLN II Trust hold?
A: The Trust investments are limited to certain high credit quality investments. For Enron Euro CLN, the Trust investments consist of:

1) Euro-denominated fixed period deposits, promissory notes or commercial paper of U.S., money center banks or EU Member State commercial banks with short term ratings of AA+/F1 and long term ratings of A+ or A1 that mature within 90 days of issuance,
2) Euro-denominated promissory notes of or GICs from AAA/Aaa insurance companies that mature within 365 days of issuance or
3) Any domestically issued debt security issued by an EU Member State rated AAA/Aaa, or any sovereign jurisdiction with a foreign currency issuer credit rating of AAA/Aaa, in each case denominated in Euros.

Trust investments must be payable in Euros, bear a stated rate of interest and must mature prior to the maturity of the Notes. Each Trust investment will not be subject to withholding tax as of its acquisition date unless the issuer is required to fully gross-up the Trust for such withholding tax. The Trust investments held by the Collateral Agent will not at any time represent obligations of...
more than nine separate obligors. If the Notes are not in default, Noteholders will not know the
Trust investments but each information will be provided to the Rating Agencies.

Q: Does each Trust have separate Trust investments?
A: Yes. The assets of each Trust will be solely for the benefit of the related investors.

Q: What happens if any of the Trusts goes into default?
A: The offerings are not cross-defaulted or cross-collateralized. The Credit Events are identical for
each offering. Therefore, it is likely that all Notes will be in default at the same time. The
collateral for each Trust remains separate.

Q: What is investors' exposure to Enron?
A: The Notes are designed to mimic the risk profile of Enron's senior unsecured obligations.
Following any payment failure, the structure is designed to give investors risk to Enron senior
unsecured obligations that rank the same as its senior unsecured obligations. Therefore, in all cases, investors
bear general credit risk to Enron senior unsecured obligations.

Q: What is investors' exposure to Citibank?
A: Investors have performance and credit risk to Citibank (Aa2/AA-). Through a swap, Citibank
receives all payments from Trust investments and is obligated to deliver to the Trust sufficient
funds to make each coupon payment on the Notes.

Q: Do investors have other risks?
A: The Enron CLN II Trust will invest in certain high credit quality investments of different obligors
meeting the eligibility criteria. Investors bear default risk of but not price risk to these securities.
This risk is mitigated in part by the presence of Certificates (approximately 10% of the issue size)
which are subordinated to the Notes.

Q: Can the Enron CLN II structure be replicated?
A: Other than the multiple currencies, the Enron CLN II is substantially the same as the ECLN
transaction from last August. This structure is the result of Citibank's effort to simplify the
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Financing Summary dated May 3, 2001
Enron Euro Credit Linked Notes Trust Senior Notes Offering ("Enron CLN II")
Euro million
(Note)

structured financing programs which Enron has previously placed in the market. Citigroup believes this simplicity will be favorably accepted by the market. This structure can be replicated and used to the benefit of other capital users.

Q: Who will own the Certificates?
A: The Certificates will be privately placed on an undisclosed basis.

The foregoing memorandum is based on the issuer's offering memorandum. This memorandum may not be distributed to anyone outside Schroder Salomon Smith Barney. The securities described in this memorandum may not be purchased or sold by anyone outside the Firm including the purchaser other than customers of the Firm that are QIBs or certain non-US persons who would be permitted to purchase securities in reliance on Regulation S, syndicate members of the issuer. The securities that are the subject of this offering may not be offered or sold to anyone except QIBs pursuant to Rule 144A or non-US persons who would be permitted to purchase securities in reliance on Regulation S.

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Frequently Asked Questions

Q: How does the Enron CLN II transaction differ from the ECLN and Yosemite transaction?

A: The Enron CLN II structure is substantially similar to the ECLN transaction completed last August and is a simplified version of the Yosemite transaction. The simplification of the structure was designed to help the liquidity of the Notes. The primary differences between the Yosemite and ECLN II structures are:

i. Absent an Enron default, Citibank will make all interest payments regardless of defaults on Trust Investments;

ii. Trust Investments are limited to high credit quality, short-term obligations (Governments, AAA insurance companies, and A+/P-1 and A+ or A1 US, UK and E-11 basis); there are no Enron obligations in the Trust prior to an Enron default;

iii. Citibank’s rights to settle have been limited to a two-year period and the optionality has been removed; and

iv. Much of the flexibility to alter the structure present in Yosemite has been removed from the Enron CLN II structure.

Q: What is the basic idea behind the Enron Credit Linked Notes II?

A: The Notes are primarily designed so that the payments made on the Notes are expected to mirror payments that would be made if the Notes were senior unsecured obligations of Enron. However, the inclusion of Citibank credit risk slightly alters the risk profile in that the interest component of the cash flows is in part dependent upon Citibank’s fulfillment of its obligations under the Credit Swap.

Q: Why does the Enron CLN II make economic sense?

A: Structuring risk is most efficiently priced in the capital market, while pure credit risk is most efficiently priced in the capital markets. The Enron CLN II structure allows Citigroup to price pure Enron credit risk in the bond market while keeping the structural risks in the capital market. In addition, the structure allows Enron to extend the terms of certain structured financings.
1589

**Q: Why does it make sense to do a Sterling ECLN?**

A: The simplicity of the ECLN structure facilitates a wide distribution of a structured note. To achieve the same economic benefit of bifurcating risks in the US market and broaden its financing sources globally, Enron CLN II is being marketed to Euro, Sterling and US investors.

**Q: Why is Enron doing another structured financing?**

A: Enron is doing another structured financing to take advantage of banks' structuring expertise while broadening Enron's sources of capital. Banks are willing to do structured financings for limited tenors (typically three years); the Enron CLN II transaction will allow Enron to continue to execute structured financings with banks while extending the tenors of the deals by placing the credit risk in the capital markets. Enron believes that, as its capital structure is diverse and complex, strategic value is added by being able to syndicate a variety of risks through structured financings in selected currencies. Examples include: contract monetization transactions, synthetic leases, commodity transactions, minority interest structures.

A: Enron is undergoing many changes and as it expands its business, it has consistently developed new ways to finance its business in a manner that maximizes the value of the structure for Enron and its investors.

**Q: Why is Enron issuing the ECLN II in multi-currencies?**

A: The simplicity of the Enron CLN structure was a strong factor in the successful issuance of the first Enron CLN. To achieve the same economic benefit of bifurcating risks in the US market and broaden its financing sources globally, Enron CLN II is being marketed to Euro, Sterling and US investors.

**Q: How does the investor risk in this transaction differ from that in plain corporate debt?**

A: There are three risks to analyze: Enron, Citibank and the Trust Investments.

**Q: Is Enron running out of bank lines?**

A: Enron believes that it has excellent liquidity in and access to the bank market. The Enron CLN II issuance provides Enron with another avenue through which to source funds and expand its...
Financing Summary dated May 2, 2001

Enron Sterling Credit Linked Notes Trust Senior Notes Offering ("Enron CLN II")
Sterling [ ] million
(Notes)

sources of capital.

Q: How does this transaction affect Enron's financial statements?
A: The issuance of the Notes will have no impact on Enron's balance sheet. The transaction is designed to allow Enron to restructure and lengthen structured financings. The reporting of any underlying transaction will not be affected by the Notes.

Q: What is Citigroup's interest in this transaction?
A: Enron is an important customer of Citigroup. Citigroup wants to continue to strengthen this global relationship, and the Enron CLN II transaction allows Citigroup to continue executing sophisticated financings with Enron in Europe and the US while managing its credit exposure. In addition, the Enron CLN II Trust is a great follow up to ECLN that provides Citigroup a vehicle through which it can continue expanding its penetration into the credit derivatives market.

Q: What are the benefits to investors?
A: Investors receive a premium for taking Enron credit in a lightly structured form.

Q: What kind of assets can the Enron CLN II Trust hold?
A: The Trust investments are limited to certain high credit quality investments. For Enron Sterling CLN, the Trust investments consist of:

i) sterling-denominated fixed period deposits, promissory notes or commercial paper of U.S. money center banks, EU Member State commercial banks or any credit institution licensed to carry on a deposit-taking business in the UK that is a member of the Bankers' Clearing House with short term ratings of A-1/P-1 and long term ratings of A+/A1 that mature within 90 days of issuance,

ii) sterling-denominated promissory notes of or GICs from AAA/Aaa insurance companies that mature within 365 days of issuance or

iii) Gics.

Trust investments must be payable in sterling, bear a stated rate of interest and must mature prior to the maturity of the Notes. Each Trust investment will be subject to withholding tax as of its acquisition date unless the issuer is required to fully gross-up the Trust for such withholding tax. The Trust investments held by the Collateral Agent will not at any time represent obligations of

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more than nine separate obligors. If the Notes are not in default, Holders will not know the
Trust Investments but each information will be provided to the Rating Agencies.

Q: Does each Trust have separate Trust Investments?
A: Yes. The assets of each Trust will be solely for the benefit of the related investors.

Q: What happens if any of the Trusts goes into default?
A: The offerings are not cross-defaulted or cross-collateralized. The Credit Events are identical for
each offering. Therefore, it is likely that all Notes will be in default at the same time. The
collateral for each Trust remains separate.

Q: What is investors’ exposure to Enron?
A: The Notes are designed to mimic the risk profile of Enron senior unsecured obligations.
Following any payment failure, the structure is designed to give investors risk to Enron senior
unsecured obligations that rank the same as borrowed money. Therefore, in all cases, investors
bear general credit risk to Enron senior unsecured obligations.

Q: What is investors’ exposure to Citibank?
A: Investors have performance and credit risk to Citibank (AA+AA-). Through a swap, Citibank
receives all payments from Trust Investments and is obligated to deliver to the Trust sufficient
funds to make each coupon payment on the Notes.

Q: Do investors have other risks?
A: The Enron CLN II Trust will invest in certain high credit quality investments of different obligors
meeting the eligibility criteria. Investors bear default risk of but not price risk to these securities.
This risk is mitigated in part by the presence of Certificates (approximately 10% of the issue size)
which are subordinated to the Notes.

Q: Can the Enron CLN II structure be replicated?
A: Other than the multiple currencies, the Enron CLN II is substantially the same as the ECLN
transactions from last August. This structure is the result of Citibank’s effort to simplify the

Financing Summary dated May 2, 2001

Enron Sterling Credit Linked Notes Trust Senior Notes Offering ("Enron CLN II")

Sterling [__ million]

(Names)

structured financing programs which Enron has previously placed in the market. Citigroup
believes this simplicity will be favorably accepted by the market. This structure can be replicated
and used to the benefit of other capital users.

Q: Who will own the Certificates?

A: The Certificates will be privately placed on an undisclosed basis.
Unknown

From: Swanson, Timothy [R]
Sent: Wednesday, June 27, 2001 7:12 PM
To: François, Yvon [CRFM]
Subject: FW: Prepay Diagram

On Prepay Project schematic... more... the trial diagram...

----- Original Message ----- 
From: Michael.Garberding@enron.com [mailto:Michael.Garberding@enron.com] 
Sent: Wednesday, June 27, 2001 7:06 PM 
To: timothy.swanson@enron.com
Cc: timothy.swanson@enron.com
lisa.bill@enron.com, eric.hoold@enron.com, v.charles.weldon@enron.com

Subject: Prepay Diagram

Included is a schematic that details the structure of the prepay. The amounts including in the structure include the following items:

- The Hynek Kid for Jan. ‘97, contract was priced as of close today (6/27/01)
- The assumption that the deal began on 6/18/01 and settled on 10/27/01
- The assumption that six-month Libor rate plus spread would be used for the interest component

Please let me know if you have any questions or other comments. Thanks again for your help.

Michael
713-853-1464

(See attached file: Citi Prepay Project Schematic 6/27-01.ppt)
$250 Million Prepay

Assumptions:
- NYMEX 1 = $4.048 (Mid close on 6/27/01)
- NYMEX 2 = $4.362
- Fixed Price 1 = $4.048
- Fixed Price 2 = $4.362
- Gas Field will be a Jan 02 contract settled in Dec 01 (December 2001)
- Assumed Daily Volumes of 2,031,141
- Initial payment net of upfront fees
They confirmed there is an earnings impact, except that it is neutralized by offsetting trades (which don't of course require cash from Enron up-front).

-----Original Message-----
From: Wagman, Steve SSS. [SMTP:steve.wagman@hdb.com]  
Sent: Wednesday, June 27, 2002 8:32 PM  
To: Michael.neveux@wagman.com, Steve SSS.  
Cc: Wagman, Steve SSS.  
Subject: Re: Enron  
I don't think earnings impact  

-----Original Message-----
From: Neveux, Michael [CITI] <michael.neveux@citicorp.com>  
To: steve.wagman@citiCorp.com, steve.wagman@citiCorporation.com  
Subject: Enron  
How can this trade not have an earnings impact to Enron? The mark-to-market on the two transactions is the PV of negative $257.3MM. Doesn't this reduce second quarter earnings by that amount?
To: Dan O. Boyle  
From: Travis Winfrey  
Date: September 20, 2001  
Subject: Citibank / Delta Prepay Transactions

As you know, some concerns with respect to the structure of the prepay transactions associated with the Credit Linked Notes surfaced at the end of June.

To clarify the issues, we held a number of discussions, engaging representatives from Finnos, Legal, Accounting, Credit and EGM Risk Management. The team reached the following conclusions:

- All prepsys relating to the CLN transactions in August 2000 and May 2001 were booked as swaps. The embedded options were not booked.

- The methodology for booking the transactions in this fashion was based on EGM Risk Management's interpretation of the prepay swap confirmations. This interpretation viewed the prepay between ENA and Citi as a swap and a call, and the prepay between ENA and Delta as a put. EGM Risk Management recognized that booking the swap and the call (ENA and Citi) and the put (ENA and Delta), would result in P/L volatility due to the difference in intrinsic value between the put and call. Therefore, the embedded options were not booked. In addition, this methodology did not accurately reflect the credit exposure among the parties.

- The intent of the prepay transactions was to view each leg as a swap with an embedded call. In fact, the formulas in the confirmations are drafted as swaps with embedded call, however the formula representing the ENA / Delta leg can mathematically be distilled to a put.

- The economic result of the two methodologies is the same, however, if both legs of the prepsys are booked as swaps and calls, there is no adverse P/L effect and the credit exposure among the parties is represented accurately.

- EGM Risk Management agreed to rebook both the ENA / Delta leg and the ENA / Citi leg of the August 2000 and May 2001 transactions as a swap with an embedded call, at discipline concurred.

Cc: Ben Gilsen  
Barry Schnapper  
Joe Deffner  
Doug McDowell  
Scott Ernest  
Mark Fonden  
Mary Cook  
Gareth Bahnmann  
Clint Walden  
Ryan Sturak  
Tanya Roheuer  
Jaline Anoz
From: Wapman, Steve [F]
Sent: Tuesday, November 13, 2001 5:51 PM
To: Oenda, Paul [F]
Subject: One proposed update...!

Importance: High

The loan group has agreed to let Enron out of paying half of the libor breakage (about $50k) on the early termination of the prop. Enron successfully negotiated this with them—arguing that we are forcing them to unwind early. I had told enron that we could not do this as it was true economic loss.

This is not forgoing profit... this is true loss the desk will have to pay to Treasury for breaking $500k of 3.82% 45 days early when libor is 2%.

If we got the whole $50k—we would have been kept whole.

I will attempt to get loans to transfer money to the desk to cover this loss....

Thoughts??

Steven A. Wapman
Managing Director
SalomonSmithBarney

ph (212) 723-6448
dx (212) 723-8610

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From: Angelini, Amanda [FII]
Sent: Wednesday, December 05, 2001 7:07 AM
To: Dickey, John W [FII]; Caplan, Rick [FII]
Subject: Fw: AAA Enron Credit Linked Note

Fyi.

-----Original Message-----
From: Legnic, Jean [FII] <j1811628@socru.eu.samb.com>
To: Charles, Peter [FII] <p9529128@socru.eu.samb.com>
Cc: Angelini, Amanda [FII] <a91937@socru.eu.samb.com>; Aliases, Jeremy [FII] <j1561396@socru.eu.samb.com>; Collignon, John [FII] <c0204@socru.eu.samb.com>; Rekorder, Andreas [FII] <a1113911@socru.eu.samb.com>; Planquart, Muriel D [FII] <m192289@socru.eu.samb.com>
Date: Wed Dec 05 05:31:58 2001
Subject: AAA Enron Credit Linked Note

Jean-Pierre Leoni head of credit products in Europe called me about the Enron CLN in Euro issued at May, AAA in owns 20MM that they bought through AXA The Hedges. At the time AXA Paris did not buy the CLN, although they liked the credit they did not like the structures.

He compared the Enron CLN with CP Kelco a Euro KY bond issued by Lehman last year that published very bad results immediately after the launch. Lehman private equity fund had a big position on CP Kelco. They think that we have used privileged information. He wants to organise a conference call with our CC and structuring team to get more information on the conditions under which this transaction was done.

Jean-D. LEGNI
Citigroup - Schroder Salomon Smith Barney
02 77 72 67 57
http://direct.sdb.com
Hi Saul,

Great seeing you yesterday!

Enclosed are the documents for the Evans II trades that we have relied upon a while (they are almost identical to the Evans I documents). Please let us know if you have any questions or comments.

Thanks,

Asly

<<Evans II STAS 131 Dec - USD.doc>>  <<Evans II STAS 131 Dec - EUR.doc>>  
<<Evans II STAS 131 Dec - GBP.doc>>

<<evans II USD.ppt>>  <<evans II EUR.ppt>>  <<evans II GBP.ppt>>

Permanent Subcommittee on Investigations

EXHIBIT #189hh

CITI-SPSI 0049666
1601

EXXON STERLING CREDIT LINKED NOTES Trust Certificates
SFAS 133 Fair Value Hedge Documentation

Brief Overview of the Transaction:
As part of a structured transaction, 144 mm GBP of Exxnn Credit Linked Certificates
(“Certificates”) were issued by a trust (that is consolidated onto the books of Citibank NA) and
were purchased by ING Baring Capital Markets. The Certificates pay an 8.5% coupon and are
subject to redemption upon an Exxon credit event.

As a hedge to this fixed rate liability, Citibank NA entered into a total return swap (TRS)
whereby ING Baring Capital Markets pays the total return on the same Certificates back to
Citibank NA in return for 1 year GBP Libor plus 22 bps.

(See attached diagram)

Risk Management Objective and Strategy
The risk that we are hedging is the risk of overall changes in fair value of the Certificates
attributable to the benchmark interest rate of 1 year GBP Libor over the tenor of the TRS.

Derivative Hedging Instrument
The instrument used is a TRS with a notional of 144 mm GBP and a maturity date of May 24,
2006 (which matches the maturity of the Certificates). In this transaction, Citibank NA receives
the total return of the Certificates and pays 1 year GBP Libor + 22 bps to ING Baring Capital
Markets. The TRS is valued by GIK which is a system that has been validated by risk
management.

Hedged Item
The hedged item is the 144 mm GBP Certificates issued by the Exxnn Sterling Credit Linked Notes
Trust that is consolidated onto the books of Citibank NA. As a result, the Certificates are
effectively a liability of Citibank NA. The Certificates have an 8.5% coupon and a maturity date
of May 24, 2006. The Certificates are also valued by GIK.

Assessment of Hedge Effectiveness
The notional and the maturity date of the hedged item (the Certificates) match exactly to that of
the hedging instrument (the TRS). Additionally, the 8.5% coupons are matched in the two
instruments and would offset each other.

Any realized gains or losses on the Certificates would be offset by gains or losses on the TRS. In
the scenario of an Exxon credit event, assets deposited in the Exxnn Sterling Credit Linked Notes
Trust would be used to redeem the Certificates. Assuming no impairment in the value of these

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assets, the Certificates would be redeemed at par (14 million GBP) with no gain or loss and the TRS would also be settled without a gain or a loss.

In the scenario of no credit event occurring but if there is an impairment in the value of the trust assets, the gain that we would have in redeeming the Certificates at an amount below par would be offset by a loss on the TRS. For example, if the trust assets used in redeeming the Certificates at maturity were worth only 13 million GBP there would be a gain of 1 million GBP for us in extinguishing the liability at less than 14 million GBP. However, this gain would be offset by a 1 million GBP loss occurring in settling the TRS.

- Assessment of Prospective Effectiveness at Inception Date - Because the critical terms are marched for the full life of the Certificates, we have effectively swapped the floating rate of 1 year GBP Libor.

- Assessment of Ongoing Prospective Effectiveness - The relationship of the TRS and the Certificates being fully offsetting will be constant throughout the life of the transaction. We will periodically check to verify that the legal rights and obligations under the contracts for all parties are not changed.

- Retrospective Assessment of Effectiveness - Period to period dollar offset method will be used. We expect dollar offset to net to zero at all times.

- Measurement of Ineffectiveness - Period to period dollar offset method will be used. Actual measurements of ineffectiveness is based on the extent to which exact offset is not achieved. (Paragraph 23 of FAS 133 and DIO Issue E-7)

Operational and Accounting Controls
In analyzing P/L, trade support reviews the valuation of these two deals on a daily basis. Additionally, a more detailed review is performed each month-end.

Approvals

| Risk Manager | N/A – The models used have been reviewed by risk management | Signature | Date |
| Business Treasurer | N/A – Treasury unit is not involved in structuring the hedging relationship | | |
| Financial Control | Andy Lee | | |

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<table>
<thead>
<tr>
<th>Business Manager</th>
<th>Doug Warren</th>
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<tr>
<td>Business Accounting</td>
<td>Saul B. Morea</td>
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<td>Policy/Advisory</td>
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<td>Corporate Accounting</td>
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Euron Euro Credit Linked Notes Trust Certificates
STAS 133 Fair Value Hedge Documentation

Brief Overview of the Transaction:
As part of a structured transaction, 22.5mm EUR of Euron Credit Linked Certificates
("Certificates") were issued by a trust (that is consolidated onto the books of Citibank NA) and
were purchased by ING Baring Capital Markets. The Certificates pay a 7.5% coupon and are
subject to redemption upon an Euron credit event.

As a hedge to this fixed rate liability, Citibank NA entered into a total return swap (TRS)
whereby ING Baring Capital Markets pays the total return on the same Certificates back to
Citibank NA in return for 1 year Euribor plus 22 bps.

(See attached diagram)

Risk Management Objective and Strategy
The risk that we are hedging is the risk of overall changes in fair value of the Certificates
attributable to the benchmark interest rate of 1 year Euribor over the term of the TRS.

Derivative Hedging Instrument
The instrument used is a TRS with a notional of 22.5 million EUR and a maturity date of May
24, 2006 (which matches the maturity of the Certificates). In this transaction, Citibank NA
receives the total return of the Certificates and pays 1 year Euribor + 22bps to ING Baring
Capital Markets. The TRS is valued by GK, which is a system that has been validated by risk
management.

Hedged Item
The hedged item is the 22.5mm EUR Certificates issued by the Euron Euro Credit Linked Notes
Trust that is consolidated onto the books of Citibank NA. As a result, the Certificates are
effectively a liability of Citibank NA. The Certificates have a 7.5% coupon and a maturity date
of May 24, 2006. The Certificates are also valued by GK.

Assessment of Hedge Effectiveness
The notional and the maturity date of the hedged item (the Certificates) match exactly to that of
the hedging instrument (the TRS). Additionally, the 7.5% coupons are matched in the two
instruments and would offset each other.

Any realized gains or losses on the Certificates would be offset by gains or losses on the TRS. In
the scenario of an Euron credit event, assets deposited in the Euron Euro Credit Linked Notes
Trust would be used to redeem the Certificates. Assuming no impairment in the value of these
assets, the Certificates would be redeemed at par (22.5 million EUR) with no gain or loss and the
TRS would also be settled without any gain or loss.

In the scenario of no credit event occurring but if there is an impairment in the value of the trust
assets, the gain that we would have in redeeming the Certificates at an amount below par would
be offset by a loss on the TRS. For example, if the trust assets used in redeeming the Certificates
at maturity were worth only 21.5 million EUR there would be a gain of 1 million EUR for us in
extinguishing the liability at less than 22.5 million EUR. However, this gain would be offset by
a 1 million EUR loss incurred in settling the TRS.

- Assessment of Prospective Effectiveness at Inception Date – Because the notional terms are
  matched for the full life of the Certificates, we have effectively swapped to the floating rate
  of 1% for 1 year Eonia.

- Assessment of Ongoing Prospective Effectiveness – The relationship of the TRS and the
  Certificates being fully offsetting will be constant throughout the life of the transaction. We
  will periodically check to verify that the legal rights and obligations under the contracts for
  all parties are not changed.

- Retrospective Assessment of Effectiveness – Period to period dollar offset method will be
  used. We expect dollar offset to net to zero at all times.

- Measurement of Ineffectiveness – Period to period dollar offset method will be used. Actual
  measurements of ineffectiveness is based on the extent to which exact offset is not achieved.

(Paragraph 13 of FAS 133 and IAS Issue 8:7)

Operational and Accounting Controls
In analyzing P&L, trade support reviews the valuation of these two deals on a daily basis.
Additionally, a more detailed review is performed each month-end.

Approvals

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<tr>
<th>Risk Manager</th>
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<td>N/A – The models</td>
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<td>Business Treasurer</td>
<td>N/A – Treasury unit is not</td>
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<td></td>
<td>involved in structuring the</td>
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<td>hedging relationship.</td>
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<tr>
<td>Financial Control</td>
<td>Andy Lee</td>
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Euros Credit Linked Notes Trust II Certificates
SFAS 133 Fair Value Hedge Documentation

Brief Overview of the Transaction:
As part of a structured transaction, $50mm of Euros Credit Linked Certificates ("Certificates")
were issued by a trust (that is consolidated onto the books of Citibank NA) and were purchased
by ING Baring Capital Markets. The Certificates pay an 8.5% coupon and are subject to
redemption upon an Enron credit event.

As a hedge to this fixed rate liability, Citibank NA entered into a total return swap (TRS)
whereby ING Baring Capital Markets pays the total return on the same Certificates back to
Citibank NA in return for 6 month Libor plus 22 bps.
(See attached diagram)

Risk Management Objective and Strategy
The risk that we are hedging is the risk of overall changes in fair value of the Certificates
attributable to the benchmark interest rate of 6 month USD Libor over the tenor of the TRS.

Derivative Hedging Instrument
The instrument used is a TRS with a notional of $50 million and a maturity date of May 15, 2006
(which matches the maturity of the Certificates). In this transaction, Citibank NA receives the
total return of the Certificates and pays 6 month Libor + 22bps to ING Baring Capital Markets.
The TRS is valued by G.K. which is a system that has been validated by risk management.

Hedged Item
The hedged item is the $50mm Certificates issued by the Euros Credit Linked Notes Trust II that
is consolidated onto the books of Citibank NA. As a result, the Certificates are effectively a
liability of Citibank NA. The Certificates have an 8.5% coupon and a maturity date of May 15,
2006. The Certificates are also valued by G.K.

Assessment of Hedge Effectiveness
The notional and the maturity date of the hedged item (the Certificates) match exactly to that of
the hedging instrument (the TRS). Additionally, the 8.5% coupons are matched in the two
instruments and would offset each other.

Any realized gains or losses on the Certificates would be offset by gains or losses on the TRS. In
the scenario of an Enron credit event, assets deposited in the Euros Credit Linked Notes Trust II
would be used to redeem the Certificates. Assuming no impairment in the value of these assets,
the Certificates would be redeemed at par ($50 million) with no gain or loss and the TRS would
also be settled without a gain or a loss.

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In the scenario of no credit event occurring but if there is an impairment in the value of the trust assets, the gain that we would have in redeeming the Certificates at an amount below par would be offset by a loss on the TRS. For example, if the trust assets used in redeeming the Certificates at maturity were worth only $49 million there would be a gain of $1 million for us in extinguishing the liability at less than $50 million. However, this gain would be offset by a $1 million loss incurred in settling the TRS.

- Assessment of Prospective Effectiveness at Inception Date – Because the critical terms are matched for the full life of the Certificates, we have effectively swapped to the floating rate of 6 month USD Libor.

- Assessment of Ongoing Prospective Effectiveness – The relationship of the TRS and the Certificates being fully offsetting will be constant throughout the life of the transaction. We will periodically check to verify that the legal rights and obligations under the contracts for all parties are not changed.

- Retrospective Assessment of Effectiveness – Period to period dollar offset method will be used. We expect dollar offset to net to zero at all times.

- Measurement of Ineffectiveness – Period to period dollar offset method will be used. Actual measurements of ineffectiveness is based on the extent to which exact offset is not achieved.

(Paragraph 2 of PAS 133 and IAS Issue E-7)

Operational and Accounting Controls
In analyzing P&L, trade support reviews the valuation of these two deals on a daily basis.
Additionally, a more detailed review is performed each month-end.

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<td>Financial Control</td>
<td>Andy Lee</td>
<td></td>
</tr>
<tr>
<td>Business Manager</td>
<td>Doug Warren</td>
<td></td>
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</tbody>
</table>

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CITI-SPSI 0049677
Summary of Enron CLN Accounting Treatment

- The assets (Citibank CD) and liabilities (Credit Linked Notes and Credit Linked Certificates) of the trust are consolidated onto Citibank's books since we own the economics of the Credit Linked Notes/Credit Linked Certificates via a total return swap. Interest income on the trust assets and interest expense on the liabilities are accrued on the books of the Credit Derivatives desk.

- Accrual accounting is applied on the prepaid swap since it is essentially a loan and does not qualify for treatment as a derivative per FAS-133. The value of the prepaid swap is booked in a valuation gain account and includes the value of the accrued interest. The prepayment is treated similarly. Accrued interest is removed at face and the net of the cost of the swap is treated as a gain or loss.

- The embedded default swap in the CLN is bifurcated. However, given the terms of the transaction, no MTM is recognized on the bifurcated default swap since we do not recognize a gain or a loss on the prepaid swap or prepayment note in the event of an Enron default or MTM in the companion security.

- The total return swap with Royal Bank of Canada is treated as a Fair Value hedge to the Certificates. The effectiveness of this hedge is monitored by our support/financial control on an on-going basis.

- For risk purposes, the prepaid swap and prepayment note are given a zero risk weight due to application of cash collateralization rules. The CLN investor effectively takes all of the Enron credit risk since Citibank has the ability to deliver the prepaid swap and the prepayment note in exchange for the trust assets in the event of an Enron default.

(See also page for Summary & Notes)
Enron Credit Linked Notes Trust Certificates
SFAS 133 Fair Value Hedge Documentation

Brief Overview of the Transaction:
As part of a structured transaction, $200m of Enron Credit Linked Certificates ("Certificates")
were issued by a trust (that is consolidated onto the books of Cibank NA) and were purchased
by Royal Bank of Canada. The Certificates pay a 9% coupon and are subject to redemption upon
an Enron credit event.

As a hedge to this fixed rate liability, Cibank NA entered into a total return swap (TRS)
whereby Royal Bank of Canada pays the total return on the same Certificates back to Cibank
NA in return for 6 month Libor plus 18 bps. From a consolidated Cibank/Trust perspective, the
consolidated reporting entity (Cibank is viewed the owner of the Trust because it retains the
equity risk in the Trust by having written the TRS) will not be able to repay the certificate in the
event of an Enron default since all of the consolidated reporting entity's assets (prepay swap
asset and note receivable) represent credit extensions to Enron. (See attached diagram)

Risk Management Objective and Strategy:
The risk that we are hedging is the risk of overall changes in fair value of the Certificates over
the term of the TRS. In the event of an Enron default, the consolidated Cibank/Trust reporting
entity will not be able to repay the certificates. An Enron default, however, will also cause the
Trust to collapse and for the consolidated Cibank/Trust reporting entity to deliver its only
assets, the prepaid swap and, $475MM Not receivable, $24.3MM to the investors in the
Credit Linked Note (CLN) issued by the Trust. The remaining assets of the consolidated
Cibank/Trust reporting entity, $590MM of cash or cash equivalent, will be available to settle
the TRS with RBOC. Settlement of the TRS would extinguish the indebtedness under the Credit
Linked Certificate (CLC) as RBOC is both the holder of the CLC and the counter party in the
TRS. Therefore, the loss on the TRS settlement would be offset dollar for dollar by the gain
(extinguishment) on the CLC. (TRS also swaps 9% fixed to Libor + 18 bp)

Derivative Hedging Instrument
The instrument used in a TRS with a notional of $50 million and a maturity date of August 16,
2005 (which matches the maturity of the Certificates). In this transaction, Cibank NA receives
the total return of the Certificates and pays 6 month Libor + 18 bps to Royal Bank of Canada.
The TRS is valued by OK which is a system that has been validated by risk management.

Hedged Item
The hedged item is the $500m Certificates issued by the Enron Credit Linked Notes Trust that is
consolidated onto the books of Cibank NA. As a result, the Certificates are effectively a
liability of Cibank NA. The Certificates have a 9% coupon and a maturity date of August 16,
2005. The Certificates are also valued by OK.

Assessment of Hedge Effectiveness:
This is a true determinant of fair value. It is done by Cibank NA and is assessed by Enron. This is
measured by the change in value of the Certificates under an Enron credit event. Cibank NA has
the Certificates and sells them to Enron. The cost of Enron's credit event is matched against
the value of the Certificates to arrive at a hedge effectiveness number.
The notional and the maturity date of the hedged item (the Certificates) match exactly to that of the hedging instrument (the TRS). Additionally, the 9% coupons are matched in the two instruments and would offset each other.

Any realized gains or losses on the Certificates would be offset by gains or losses on the TRS. In the scenario of an Enron credit event, remaining assets ($10.5MM) in the consolidated Citibank/Trust reporting entity would be used to effect (via settlement of the TRS) the discharge of indebtedness under the Certificates. Assuming no decline in the value of these assets, the Certificates would be redeemed at par ($50 million) with no gain or loss and the TRS would also be settled without a gain or a loss.

At maturity of the transaction, in the scenario of no credit event occurring but there is a decrease in the value of the trust assets, the gain that Citibank/Trust would have in redeeming the Certificates at an amount below par would be offset by a loss on the TRS. (The decline in value is for the account of RBOC as RBOC is the owner-equity investor in the Trust, by virtue of investing in the certificates.) For example, if the trust assets used in redeeming the Certificates at maturity were worth only $49 million, there would be a gain of $1 million for us in extinguishing the liability at less than $50 million. However, this gain would be offset by a $1 million loss incurred in settling the TRS.

- Assessment of Prospective Effectiveness at Inception Date – Because the critical terms are matched for the full life of the Certificates, we have effectively swapped the floating rate of 6 month USD Libor. As explained, there is dollar for dollar offset between the settlement of the TRS and the extinguishing of indebtedness under the CLC.

- Assessment of Ongoing Prospective Effectiveness – The relationship of the TRS and the Certificates being fully offsetting will be constant throughout the life of the transaction. We will periodically check to verify that the legal rights and obligations under the contracts for all parties are not changed. The short-cut method may not be used because SFAS 133 only allows this method for interest rate swap hedge instruments. The change in period to period fair value of the TRS and the CLC (required to be MTM as the hedged item in fair value hedging relationship) will be the basis for ongoing assessment of effectiveness.

- Retrospective Assessment of Effectiveness – Period to period dollar offset method will be used. We expect dollar offset to net to zero at all times.

- Measurement of Ineffectiveness – Period to period dollar offset method will be used. Actual measurements of ineffectiveness is based on the extent to which exact offset is not achieved. (Paragraph 22 of FAS 133 and IAS 39 issues E-9)

Operational and Accounting Controls
In analyzing P&L, trade support reviews the valuation of these two deals on a daily basis. Additionally, a more detailed review is performed each month-end.
<table>
<thead>
<tr>
<th>Approvals</th>
<th>Signature</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Manager</td>
<td>N/A - The models used have been reviewed by risk management.</td>
<td></td>
</tr>
<tr>
<td>Business Treasurer</td>
<td>N/A - Treasury unit is not involved in structuring the hedging relationship.</td>
<td></td>
</tr>
<tr>
<td>Financial Control</td>
<td>Andy Lee</td>
<td></td>
</tr>
<tr>
<td>Business Manager</td>
<td>Doug Warras</td>
<td></td>
</tr>
<tr>
<td>Business Accounting Policy/Advisory</td>
<td>Saul Bernstein</td>
<td></td>
</tr>
<tr>
<td>Corporate Accounting Policy</td>
<td>[Handwritten note]</td>
<td></td>
</tr>
</tbody>
</table>
The total return swap with Royal Bank of Canada was terminated and replaced with a similar swap with ING Baring Capital Markets. The terms are identical except that Citibank NA pays 6 month Libor plus 20 bps to ING Baring Capital Markets (instead of 18 bps).
As we discussed on the phone this afternoon, our clients Solomon Smith Barney and Citibank, N.A., have proposed that Delta Energy Corporation ("Delta") enter into a series of transactions with Citibank and an affiliate of Eonen Corporation. Julian Reddyough has prepared and sent to Bill Sullivan of Citibank preliminary drafts of board minutes, Maples and Calder legal opinion and Directors' Certificate relating to some portions of this transaction.

As part of the tax and accounting analysis for our transactions, we need to know the following about Delta:

1. Transactions and Activities:
   a. Is Delta currently party to any other transactions? If so, please list them and describe any contracts or similar arrangements that Delta is party to.
   b. Has Delta been party to transactions in the past? If so, please list them and describe any contracts or similar arrangements that Delta was party to.
   c. What are Delta's activities currently?

2. Assets:
   a. Please list the assets that Delta currently owns.
   b. Please list the assets that Delta has owned in the past.

3. Capitalization:
   We have seen in proposed documents prepared by Julian Reddyough that the authorized share capital of Delta Energy Corporation is U.S.$900,000 (900,000 ordinary shares of U.S.$1.00, of which 1,000 shares of which have been issued and are registered in the name of "Grand Commodities Corporation".

   Please confirm that this is correct.

   Also, please provide additional information concerning Grand Commodities Corporation ("Gome"). What kind of entity is Gome? Where is Gome organized? What is its capitalization?

4. United States Taxation:
   We intend to make an election on IRS Form 8832 to treat Delta as a pass-through entity for U.S. federal income tax purposes under Treasury Regulation section 301.7701-3. We may be prevented from doing so if Delta has previously taken a contrary position for tax purposes.

   Please provide information regarding any tax filings made by or on behalf of Delta or Gome with the United States Internal Revenue Service or any state tax authorities in the United States, including forms, tax returns or information returns.

   We may have follow up questions upon receipt of your response.
Francois, Tom

From: Sullivan, William A
Sent: Wednesday, November 23, 1999 2:10 PM
To: Kulick, Adam; Francois, Tom
Subject: PW: Andersen language

Rick, Bill
Andersen is willing to accept the following cap from Delta. We need to get a response from Delta today.

Jung
 forwarded by Jung-Suk Suh/CHU@ECT on 11/02/99 07:15 PM

Jung-Suk Suh
11/02/99 07:04 PM
To: Mark E Lindsey/GPG@Enron, Bob Butt/GPG@Enron, Doug McDowell/HQ@ECT
Cc: Mark E Lindsey/GPG@Enron, Bob Butt/GPG@Enron, Doug McDowell/HQ@ECT
Subject: Andersen language 2
11/2/99

1. There is no restriction in the corporate documentation of the Company limiting the number of entities with which the Company may conduct business.
2. The Company has undertaken business with a number of entities; not if 
3. There are unsecured assets of the Company available to the Lenders upon default. 

CONFIDENTIAL

CITI-SPSI 0040634
DELTA ENERGY CORPORATION
P.O. Box 369
George Town, Grand Cayman
Cayman Islands, B.W.I.

[Date]

Enron Corp.
[address]

Re: Delta Energy Corporation (the “Company”)

We confirm:

1. There is no restriction in the corporate documentation of the Company limiting the number of entities with which the Company may conduct business. The Company has undertaken business with a number of entities;

2. The Company has assets other than those acquired through transactions with Enron. All assets of the Company (other than those over which security has been granted) will be available to meet the claims of creditors of the Company (other than in cases where it has been agreed with the relevant creditor that a particular obligation owed by the Company is to be limited in amount and recourse to the sums derived from particular asset over which security has been granted).

Yours faithfully,

Delta Energy Corporation
November 18, 1999

Enron Corp.
1400 Smith Street
Houston
Texas 77002
U.S.A.

Dear Sirs,

Re: Delta Energy Corporation (the "Company")

We confirm:

1. There is no restriction in the corporate documentation of the Company limiting the number of entities with which the Company may conduct business. The Company has undertaken business with a number of entities;

2. The Company has assets other than those acquired through transactions with Yosemite Securities Trust I ("Yosemite"). The payment obligations of the Company under the promissory note dated November 18, 1999 in favour of Yosemite are all recourse obligations of the Company.

3. The Company has unencumbered assets which are available for application towards obligations owed to its creditors (including Yosemite).

Yours truly,

J.B. Bembow
Director
Also, I think that the letter looks good, but a couple of comments. I remain a little troubled at the recent formation, but we obviously can't fix. Should we not mention the dates? While I view the limited operating history as a bad fact, we may could avoid the issue altogether by not disclosing the formation date. It would have helped, I think, to see if we noted the formation dates in the Mahonea/Delta letters, if pressed. I would suggest that we don't draft the letter and can't avoid all of the facts which are being represented. We may also want to exclude the attachment of the Articles and embed the entities allowed activities which are relevant to the letter (again to avoid the date). I would broaden the statements made about Enron Corp. to include any Enron subsidiaries or affiliates. How large will the notional amount be? The limited period of existence could be overcome with some material activity. A statement to the effect that they expect that Swappco will continue to transact in the future would be a good fact. I would also ask that they note that the transactions as completed to date were not intercompany transactions, but transactions with true third parties.

--- Original Message---

From: Quintero, Jr., Alan
Sent: Tuesday, June 19, 2001 10:33 AM
To: Sherman, Chr
Subject: Sample Swap Co Letter

I am still trying to track down the original "Delta/Mahonea" Letter. Everyone seems to have shredded their files, which is a little disturbing.

See attached. << File: Special Purpose.doc >> Can you think of anything else that would need to be in a sample letter?

Thanks,

AQ
As discussed with Tim, attached is a sample letter with the representations that Andersen would like Delta to confirm. I am the accountant working on the deal with Michael and Mike. I am happy to discuss any of these representations with you or your advisors at your convenience.

I have already questioned Andersen about why these representations were not required on recent deals with Delta. Their response was that the reps will be required in this transaction if we are to achieve our accounting objectives. So that route is not available.

I can be reached at the following numbers:

(713)355-7771 (Office)
(713)593-1709 (Cell)
(713)221-1703 (Home)

Please feel free to call me at anytime over the weekend. I have voicemail on all numbers.

Thanks,

Alan Quainance
June 2001

Enron Corp.
1400 Smith Street
Houston, Texas 77002

To Whom It May Concern:

Re: Delta Energy Corporation (the "Company")

We confirm:

1. There is no restriction in the corporate documentation of the Company limiting the number of entities with which the Company may conduct business. The Company has undertaken business with a number of entities.

2. The Company has assets other than those acquired through transactions with Enron Corp and its subsidiaries and its affiliates (collectively "Enron").

3. The Company has unencumbered assets, which are available for application towards obligations owed to its creditors.

Yours truly,

Signed by: ____________________________
Title: ________________________________
June 2001

Enron Corp.
1400 Smith Street
Houston, Texas 77002

To Whom It May Concern:

Re: Delta Energy Corporation (the "Company")

We confirm:

1. There is no restriction in the corporate documentation of the Company limiting the number of entities with which the Company may conduct business. The Company has undertaken business with a number of entities.

2. The Company has assets other than those acquired through transactions with Enron Corp and its subsidiaries and its affiliates (collectively "Enron").

3. The Company has unencumbered assets, which are available for application towards obligations owed to its creditors.

Yours truly,

[Signature]

Signed by:

[Name]

CITICORP NATIONAL MORTGAGE CORP.

CORPORATE SERVICES LTD.
Swanson, Timothy [FI]
Thursday, June 28, 2001 10:13 AM
Wagner, Steve [FI]
reps

lydia got on and stated that the reps are facts that we believe are true, and the rationale for the letter is to confirm that Delta is not a spy that needs to be consolidated on the bns

fyi I have not sent any delta reps to enviro....
Lee, Andrew P [PIN]

From: Chaten, Rick [PIN]
Sent: Thursday, August 22, 2002 9:07 AM
To: Lee, Andrew P [PIN]
Subject: RE: A couple of more questions

We still would have to consolidate all of the assets of the trust and Citibank assets. Delta is not controlled by Enron, it is independently operated, set up with its own management - Citi had sold it up several years ago. It was used for the same reason it was used in the first deal.

---Original Message---
From: Lee, Andrew P [PIN]
Sent: Wednesday, August 21, 2002 11:31 PM
To: Chaten, Rick [PIN]
Subject: A couple of more questions

Hi Rick,

This will seem like a dumb question but: was it not possible to have Enron (or some other party) buy 90% of the [name of the asset] in the senior [asset class] in order to avoid having to consolidate the thing? (I guess it doesn't have too much of an affect on the overall Citibank balance sheet but it does appear to affect the one for credit derivatives).

Also, is Delta Energy a Cayman-based SPV controlled by Enron? Why was it used in this deal? (We are looking for information in Bob Page's old files that weren't able to come up with much.)

Thanks,
Andy

Permanently Subcommittee on Investigations
EXHIBIT #190g
Sent on behalf of William Sullivan

Jong

We are looking at Delta Energy Corporation ("Delta") as the counterparty for the transaction under discussion. Also, Delta is a Cayman corporation that is the purchaser on the existing pre-paid done in December 1998.

- Delta is capitalized by "Givens Hax", a Cayman Trust Co.
- It has a board of 3 local directors - none are Citibank employees.
- It is not, of course, consolidated onto the Bank's balance sheet.
- It is my belief that the remainder of the '93 prepaid is the only "business" currently in Delta.

Please call if you have any questions.

Regards,

Bill Sullivan
Tel: (212) 816-4391
Fax: (212) 816-7772
email: william.a.sullivan@csnib.com
Benefits to Enron Summary

Deal Name: Yosemite  Dollar Amount: $33.8 million
Date: 12/99
Description of Transaction: At year-end 1999, Enron sold LJM2 the equity in Yosemite structure.

Enron Business Unit Benefited: Enron Corp.

Did the deal result in a direct or indirect benefit to Enron? Direct

Primary Benefit: Enron was able to obtain a true sale opinion because LJM is a true 3rd party, preserving off-balance sheet treatment of the structure.

Funds Flow Direct: $33.8  Funds Flow Indirect: $766.2 million

Earnings Direct:  Earnings Indirect:

Fees Saved: 

Other equity investors bidding on the transaction: none

Did the deal close with LJM? yes —

Other benefits to Enron:
- Speed of execution (approx. 2 days) — LJM2 executed at year-end 1999 when Enron had unsuccessfully marketed the Yosemite equity.
- Willing counterparty

Compiled by: Ace Roman

Permanent Subcommittee on Investigation
EXHIBIT #191a
Confidential Treatment Requested
SE RAPTOR L.P.

December 30, 1999

LIMZ Co-Investment, L.P.
1831 Wroxton Road
Houston, Texas 77005

Attn: Andrew S. Fastow

Re: Letter of Understanding

Gentlemen:

Pending the preparation and execution of definitive agreements and subject to the acquisition by LIMZ Co-Investment, L.P. or its wholly owned subsidiary (the “Seller”) of $33,750,000 of certificates (the “Yosemite Certificates”) of beneficial ownership of Yosemite Securities Trust I, a Delaware business trust (the “Trust”), this letter will confirm our understanding regarding the proposed acquisition by SE Raptor L.P. (the “Purchaser”) of the Yosemite Certificates in accordance with the terms and conditions set forth in this letter (the “Transaction”).

1. Term Sheet. The Transaction shall be made in accordance with this letter and the Term Sheet attached hereto as Attachment A, which is by this reference incorporated into and made a part of this letter.

2. Definitive Agreements. The Purchaser and Seller shall incorporate the terms and conditions expressed in this letter in mutually acceptable definitive agreements (the “Definitive Agreements”) to be finalized and executed no later than February 15, 2000 (the “Closing Date”).

3. Confidentiality. The existence of this letter and its contents are intended to be confidential and are not to be discussed with or disclosed to any third party, except (i) with the express prior written consent of the other party to this letter, or (ii) as may be required or appropriate in response to any summons, subpoena or discovery order or to comply with any applicable law, order, regulation or ruling.

4. Arbitration. All claims and matters in question arising out of this letter, whether sounding in contract, tort, or otherwise, shall be resolved by binding arbitration.
pursuant to the Federal Arbitration Act. The arbitration shall be administered by
the American Arbitration Association under the expedited Commercial
Arbitration Rules. It is expressly agreed that the arbitrator shall have no authority
to award punitive or exemplary damages, either in arbitration or in litigation.

If the terms and conditions of this letter are in accord with your understanding,
please sign and return the enclosed counterpart of this letter.

Very truly yours,

SE RAPTOR L.P.

By: Blue Heron L.L.C.
    its General Partner

By: Whitewing Associates L.P.,
    its Sole Member

By: Whitewing Management L.L.C.
    its General Partner

By: Egret I L.L.C.
    its Managing Member

By:

Name: Ben Glisan
Title: Director

CONFIRMED
this 30th day of December, 1999.

LJM2 CO-INVESTMENT, L.P.

By: LJM2 Capital Management, L.P.,
    its General Partner

By: LJM2 Capital Management, L.L.C.,
    its General Partner

By:

Name: Andrew S. Fastow
Title: Managing Member

Confidential Treatment
Requested
Attachment A

Summary of Terms and Conditions
$33,750,000 Certificates of Beneficial Ownership

Issuer: Yosemite Securities Trust I (the "Issuer").
Seller: LJM2 Co-Investment, L.P. ("Seller")
Purchaser: SE Raptor L.P. (the "Purchaser").
Certificates: Certificates of the Issuer representing 45% of the beneficial
ownership of the Issuer (the "Certificates").
Price: $33,750,000, plus accrued and unpaid Certificate Yield.
Closing Date: Definitive Agreements to be finalized and executed on or before
February 15, 2000, with closing and funding to occur upon such date.
Certificate Yield: 11%, yield paid semi-annually on each May 15 and November 15
calculated, on the basis of a 360-day year consisting of twelve 30-
day months.
Trust Agreement: Certain rights and privileges of the Certificates are set forth in the
Trust Agreement of the Trust attached hereto as Exhibit A.
Assignment: The Purchaser shall have the right to transfer, assign, exchange or
sell the Certificates to one or more third parties at the Purchaser’s
discretion, subject to restrictions under applicable law, no tax
event to the Issuer, minimum transfer of $5 million, and
prohibitions on transfers to competitors of Enron.
Certificate Purchase Agreement: Mutually acceptable representations, warranties, and conditions
shall be set forth in a certificate purchase agreement, which
representations and warranties shall include, but not be limited to,
representations and warranties relating to the Trust under existing
transaction documentation, corporate organization and existence,
valid authorization and the issuance of the Certificates, title,
compliance with laws, governmental approvals and no material adverse change.

LJM031535
Confidential Treatment Requested
Choice of Law: The Definitive Agreements will be governed by the laws of the State of Texas.

Arbitration of Disputes: Disputes arising under the Definitive Agreements shall be submitted to mandatory binding arbitration.

Closing: Conditions precedent to closing shall include:

1) A mutually acceptable Certificate Purchase Agreement shall be executed and delivered.

2) All representations and warranties contained in the Certificate Purchase Agreement shall be true and correct as of the Closing Date.

3) Other information and documents contemplated by Definitive Agreements as the Purchaser may reasonably request shall be provided.
LJM APPROVAL SHEET

This Approval Sheet should be used to approve Enron's participation in any transactions involving LJM pass-throughs, L.P. ("LJM") or E G assisted-investment, L.P. ("EGAI"). LJM and EGAI will collectively be referred to as "LJM". This Approval Sheet is in addition to and in lieu of any other Enron approvals that may be required.

GENERAL

Deal name: Yosemite

Date Approval Sheet completed: February 8, 2000

Enron person completing this form: Catherine Pemex

Expected closing date: February 14, 2000

Business Unit: Enron Corp.

Business Unit Originator: Bill Brown/Doug McDowell

This transaction relates to LJM and/or E GAI.

The transaction is as a sale by Enron C to purchase by Enron C in co-ownership with Enron C in a co-purchase with Enron C and/or... Glaser.

Person(s) negotiating for Enron C: Bill Brown/Doug McDowell/Sam Glaser/Nomis Alvina

Person(s) negotiating for LJM: Michael Kopper

Legal counsel for Enron C: Garett Ballmann

Legal counsel for LJM: Dave Lambert of Kirkland & Ellis

DEAL DESCRIPTION

LJM is purchasing beneficial ownership in a Delaware Business Trust (Yosemite Securities Trust) that owns Trust Investments consisting of AAA securities, U.S. obligations, and payment obligations supported, in whole or in part, directly or indirectly, by Enron. The face amount of the Trust Investments equals the amount of Notes and Certificates in the Trust. The Trust and Citibank have entered into the Citibank Swap, which will provide for yield payments on the Certificates and for certain settlement payments under credit events in exchange for actual interest payments on the Trust Investments. LJM intends to sell this co-ownership to Citibank within one week of purchase.

ECONOMICS

LJM is purchasing the beneficial ownership at face value for $337,750,000 to achieve a yield of 11%

EXHIBIT 191c
1636

LJM APPROVAL SHEET

Page 2

ISSUES CHECKLIST

Sale Options
a. If this transaction is a sale of an asset by Enron, which of the following options were considered and rejected:
   1. Condor
   2. REI
   3. EXED
   4. Margaux
   5. EnelCo
   6. Rawhide
   7. Chewco
   8. Third Party
   9. Direct Sale

Please explain: Enron entered into a Letter of Understanding with LJM and LJM subsequently entered into a similar arrangement to sell the Certificates to Condor.

b. Will this transaction be the most beneficial alternative to Enron? [Yes] [No]. If no, please explain.

c. Were any other bids/offers received in connection with this transaction? [Yes] [No]. Please explain:

2. Prior Obligations
a. Does this transaction involve a Qualified Investment (as defined in the NEIMI partnership agreements) [Yes] [No]. If yes, please explain how this issue was resolved:

b. Was this transaction required to be offered to any other Enron affiliate or other party pursuant to a contractual or other obligation? [Yes] [No]. If yes, please explain:

3. Terms of Transaction
a. What are the benefits (financial and otherwise) to Enron in this transaction? [Cash flow] [Earnings]
   1. Other sale of asset to third party (full risk transfer), non-consolidation of Yosemite Debt on Enron’s balance sheet

b. Was this transaction done strictly on an arm’s-length basis? [Yes] [No]. If no, please explain:

c. Was Enron advised by any third party that this transaction was not fair, from a financial perspective, to Enron? [Yes] [No]. If yes, please explain:

d. Are all LJM expenses and out-of-pocket costs (including legal fees) being paid by LJM? [Yes] [No]. If no, is this market standard or has the economic impact of paying any expenses and out-of-pocket costs been considered when responding to items 1.b. and 3.b. above? [Yes] [No].

4. Compliance
a. Will this transaction require disclosure as a Certain Transaction in Enron’s proxy statement? [Yes] [No].

b. Will this transaction result in any compensation (as defined by the proxy rules) being paid to any Enron employee? [Yes] [No].

c. Have all Enron employees’ involvement in this transaction on behalf of LJM been waived by Enron’s Office of the Chairman in accordance with Enron’s Conduct of Business Affairs Policy? [Yes] [No]. If no, please explain:

d. Was this transaction reviewed and approved by Enron's Chief Accounting Officer? [Yes] [No].

4. Compliance
a. Will this transaction require disclosure as a Certain Transaction in Enron’s proxy statement? [Yes] [No].

b. Will this transaction result in any compensation (as defined by the proxy rules) being paid to any Enron employee? [Yes] [No].

c. Have all Enron employees’ involvement in this transaction on behalf of LJM been waived by Enron’s Office of the Chairman in accordance with Enron’s Conduct of Business Affairs Policy? [Yes] [No]. If no, please explain:

d. Was this transaction reviewed and approved by Enron's Chief Accounting Officer? [Yes] [No].

e. Was this transaction reviewed and approved by Enron’s Chief Risk Officer? [Yes] [No].

f. Has the Audit Committee of the Enron Corp. Board of Directors reviewed all Enron/LJM transactions within the past twelve months? [Yes] [No]. Have all recommendations of the Audit Committee relating to Enron/LJM transactions been taken into account in this transaction? [Yes] [No].

APPROVALS

<table>
<thead>
<tr>
<th>Name</th>
<th>Signature</th>
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</thead>
<tbody>
<tr>
<td>Bill Brown</td>
<td></td>
<td>2/18/00</td>
</tr>
<tr>
<td>Doug McDowell</td>
<td></td>
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<td>Gareth Baikowski</td>
<td></td>
<td>2/13/00</td>
</tr>
<tr>
<td>Ben Rogers</td>
<td></td>
<td>3/1/00</td>
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EC2 28948
AF100178
INTEROFFICE MEMORANDUM

To:        Rick Buy
From:  Dave Gorte
Date:      February 23, 2000
Re:        LJM2 Investment in Certificates of Beneficial Interest in Yosemite Securities Trust I

I have reviewed the proposed LJM2 investment. The 11% yield at which LJM proposes to purchase $33.75 million of the $37.5 million of Certificates of Beneficial Interest (the "Certificates") in Yosemite Securities Trust I is identical to the stated yield of these Certificates. In addition, this 11% yield is identical to the yield on the remaining $37.5 million of these Certificates purchased by Citibank at the closing of this transaction in November 1999.

As such, I am of the opinion that the pricing at which Enron is selling these Certificates to LJM reflects the market yield for these certificates. (LJM2 intends to resell these certificates to Condor within one week of its purchase of these certificates).

If you have any questions or comments, please let me know.
Enron Global Finance

From: Monty L. McMahon
02/24/2000 09:38 AM

To: Catherine_Pernol@enron.com @ ENRON
cc: Rachel A. Daniel@ECT, Nicole Abino@ECT, Anne Yeager@ECT
Subject: Re: calculation

Catherine,

I calculated the same number.

This is how I understand the funds to be flowing:

Whitewing (Condor) will wire LM2 the $261,250 on Monday, February 28, 2000. (3-day funds loan)
LM2 will wire Yosemite (Enron Corp.) the $261,250 on Monday, February 28, 2000. (purchase)
Whitewing will then purchase Yosemite from LM2. (No actual funds flow)

Let me know if there are any questions. Thanks, Monty 3-9627

Catherine_Pernol@enron.com on 02/25/2000 08:56:49 AM

To: mmcmahon@enron.com
cc:
Subject: calculation

I calculated the accrued interest for the Yosemite Certificates as follows:

Days from 1/1/99 closing to 2/28/00

Closing on a 30/360 day basis: 102 days

Yield: 11%

Face Amount: $13,750,000

Accrued Interest: 1,031,250

Total: 34,781,250

Confidential Treatment Requested

Exhibit #191c
<table>
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<td><strong>TOTAL PAYMENT</strong></td>
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<td>$34,777,771.86</td>
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<td>BLUE HERON I, LLC (0.01%)</td>
<td>3,478.14</td>
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<td><strong>S.E. ACQUISITION, LP SHARE OF ASSET COST</strong></td>
<td>$34,777,771.86</td>
</tr>
<tr>
<td>WHITEWING ASSOC LP (99.99%)</td>
<td>$34,774,294.10</td>
</tr>
<tr>
<td>BLUE HERON I, LLC (0.01%)</td>
<td>3,477.78</td>
</tr>
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Here is the structure and funding mechanics for this Thursday:

LIM II purchases Exxon's 45% interest in Yosemite certificates with "3-day" funds. SE Raptor, LP (Condor) then purchases the certificates with money they have available today. In essence, LIM II will not actually be "funding" because SE Raptor will have already wired money into LIM II's acct before LIM II's 3-day funds come through. We need to make sure that all the funds go through each acct on the same day.

Paul and Monty, would you mind giving me the acct info for LIM II and Exxon so that we can put them into the docs as well as SE Raptor LP's acct so that they have that on record for the yield payments?

The amount of the transaction will be $34,666,938.50, which is $23,750,000 certificate face amt. and $10,916,586.50 of accrued interest.

Thanks,

Catherine
X57654
## Wire Transfer Request

**Company:** DE ACQUISITION, L.P.  
**Bank:** CITIBANK  
**Account:** 2041-2821  
**Wire #:** 046-1121  
**Amount:** $200,000

### Beneficiary Information

- **Name:** RACHEL DAVIS  
- **Address:** 1400 SMITH STREET  
- **City:** HOUSTON  
- **State:** TX  
- **Country:** USA  
- **Account #:** 547799

### Wire Details

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<th>Account</th>
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<td>1000</td>
<td></td>
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</tr>
<tr>
<td>1000</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

**Total amount of wire:** $200,000

---

**Confidential Treatment Requested**

**Permanent Subcommittee on Investigations**  
**EXHIBIT #191g**

---

**EC2 000017434**
### Wire Transfer Request

**To:** Enron Corp  
**From:** Rachel Davis  
**Bank:** CitiBank  
**Amount:** $2,500  
**Date:** 2/26/2000

<table>
<thead>
<tr>
<th>Wire Transfer To</th>
<th>Wire Transfer Via</th>
<th>Wire Transfer From</th>
<th>Wire Transfer Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rodney Square North, 1100 North Market Street</td>
<td>Wilmington Trust Company</td>
<td>Wilmington</td>
<td>2/26/2000</td>
</tr>
</tbody>
</table>

**Note to Purchase Yosef**

**Wire Transfer Operating Account**

- **Address:** Rodney Square North, 1100 North Market Street
- **City:** Wilmington
- **State:** Delaware
- **Country:** USA

**Wire Transfer Details**

- **Amount:** $2,500  
- **Date:** 2/26/2000  
- **Wire Transfer Date:** 2/26/2000

**Wire Transfer Instructions**

- **Purpose:** Wire Call on Enron Demand Note to Purchase Yosef

**Wire Transfer Advice**

- **Date:** 2/26/2000  
- **Reference:** INT10 009841
## Wire Transfer Request

### Payee Information
- **Name:** ENRON CORP.
- **Account:** 011
- **Bank:** CITIBANK 00078488

### Request Details
- **Contact:** RACHEL DAVIS
- **Phone:** 533-9016
- **Department:** ECM - COMMERCIAL SUPPORT
- **Date:** 2/25/00
- **Purpose:** WHITENING CALL ON ENRON DEMAND
  - **Note:** TO PURCHASE YOSEMITE 1

### Bank Details
- **Routing #:** 02110-0
- **Bank Name:** WHITENING OPERATING ACCOUNT
- **Routing #:** 031-100-492
- **Bank Name:** WHITENING OPERATING ACCOUNT
- **Bank Name:** WILMINGTON TRUST COMPANY
- **Bank Name:** WILMINGTON
- **City:** WILMINGTON
- **State:** DE
- **Country:** USA

### Legal Details
- **Line #**
  - **Account:** 000,000
  - **G/L Account:** 001
  - **Cost Center:** 04
  - **Order:** 000
  - **Trading Partner:** WILMINGTON TRUST COMPANY
  - **Description:** WHITENING CALL ON NOTE - INT

### Approval
- **Approval:** 2/25/00
- **Approval:** 2/25/00
- **Approval:** 2/25/00

### Note
- **INT10 000844**
March 9, 2000

LJM2 Co-Investment, L.P.
1831 Wroxton Road
Houston, Texas 77005

Attn: Andrew S. Fastow

Gentlemen:

LJM2 Co-Investment, L.P. ("LJM2") and Enron Corp. ("Enron") entered into a Certificate Purchase Agreement, dated effective as of December 29, 1999 (the "Agreement").

In consideration of LJM2's participation as the purchaser under the Agreement and for certain services rendered in connection therewith, Enron agrees to pay LJM2 $100,000. Payment of such fee will be made to LJM2 upon Enron's receipt of notice of the account to which such payment shall be made.

In addition to the aforementioned fee, Enron agrees to reimburse LJM2 for expenses in the amount of $7,061.48.

ENRON CORP.

By:

William W. Brown
Deputy Treasurer

Acknowledged
this 9th day of March, 2000

LJM2 CO-INVESTMENT, L.P.

By: LJM2 Capital Management, L.P.,
Its General Partner

By: LJM2 Capital Management, LLC,
Its General Partner

By:

Andrew S. Fastow
General Partner

Endless possibilities™
April 7, 2000

Subject: Monthly Newsletter

To the Limited Partner of LJM2 Co-Investment, L.P.:

This correspondence from the General Partner summarizes the activities of LJM2 Co-Investment, L.P. ("LJM2") during the month of March, 2000.

Partnership Closing:

On April 5th, the final closing of LJM2 took place with the addition of 24 new investors and $122 million of additional capital commitments. These new investors consisted of banks, pension funds, a venture capital fund and individuals. This will be the final closing for LJM2, bringing the total capital commitments to the fund to $450 million.

Organizational Activities:

Ms. Joyce Tang joined LJM2 as a Vice President of Accounting, responsible for cash management, financial reporting and tax reporting for LJM2. Ms. Tang comes from American General Life Insurance Company where she was responsible for managing the accounting of 20 active variable life and variable annuity products totaling $1 billion in assets. Prior to American General, Ms. Tang worked for Hambro America in New York, managing the tax and accounting reporting for seven venture capital funds. Ms. Tang has a B.B.A. in Public Accounting from Pace University.

The first year-end audit of LJM2 financial statements has been completed by KPMG. The financials will be distributed to each Limited Partner on April 10th. Each LP should be receiving their K-1 statement of taxable income, by April 14, 2000. Any questions or inquiries on the financials or the K-1 should be directed to Anne Yasar, 714-832-9255.

Advisory Committee:

The Advisory Committee has been named and the members are:

Yosemite - On February 27, 2000, LJM2 purchased the certificates in Yosemite Trust for $33.75 Million. Yosemite Trust is a Delaware Business Trust that owns investments consisting of AAA securities, U.S. obligations and payment obligations supported, in whole, or in part, directly or indirectly by Fannie. Due to the low return on this investment, LJM2 entered into a back to back agreement with another investor and immediately sold the certificates after purchase, with no actual cash outflow required by LJM2. Kathy we actually did pay for the investment, we just regarded that we received the money from our purchaser before we had to pay. In other words using their funds. LJM2 earned a $100,000 fee for this transaction. Technically, no expenses were paid by Yosemite Trust. What did happen and what was documented in the fee letter is that $100,000 plus an amount of $7,000 (apportion) was paid by LJM2 to LJM2. The $7,000 was to cover the negative arbitrage LJM2 incurred as they had to draw down on the Chase verifier to become a CUSIP. The fee letter issilent in the use of the $7,000 but that is where the amount came from, perhaps one of that parties for the letter just wanted to let you know what happened and all taxes and legal fees were paid by Yosemite Trust. The unlevered return on this investment was 13.4%.

CONFIDENTIAL TREATMENT REQUESTED

By Dechert on behalf of its client

EXHIBIT #1911
Plato – At year end 1999, LIMZ purchased 99% of the equity and 100% of the debt in MEKS, LLC ("MEKS") for $26.3 Million. MEKS is a special purpose entity that purchased an offshore gas gathering system in the Gulf of Mexico from Mariner Energy and Burlington Resources. Prior to the March 6, 1999, closing was received of $285,799 and $496,501 in interest. LIMZ sold this investment on March 6, 2000 for $25.0 Million. All legal and tax fees were paid by Enron North America. The unlevered return on this investment is 10.3% and the levered return is 22.47%.

Nyara Sanyas – On December 22, 1999, LIMZ purchased a 75% indirect equity interest in a gas fired power plant in Poland for $30 Million. On March 31, 2000, LIMZ sold this equity interest to two parties for $31.9 Million. LIMZ received a $730,000 upfront fee on this transaction and all legal and tax fees were paid by Enron Europe. The unlevered return on this investment is 37.1% and the levered return is 20.7%.

New Investments

Rawhide – On March 28, 2000, LIMZ purchased 55.5% of the equity in Rawhide Investors, LLC ("Rawhide") for $12.5 Million. Rawhide is a consortium of Enron's merchant portfolio of selected Enron North America and Enron international assets, which closed in December 1998. The Rawhide structure is currently being extended and LIMZ purchased the existing equity from a third party. The unlevered return on this investment is expected to be 14.16%. The levered return on this investment is expected to be 17-20%.

Potential Investments

Raptor, Osprey and Margaux – These three investments, which were described in the presentation sent to investors on March 17, 2000, are still under review and are expected to close in the month of April, 2000. Raptor will provide the first co-investment opportunity for LFs.

Indebtedness

Available amounts under the revolver were used to make the Rawhide investment of $12.5 Million. LIMZ currently has three credit facilities in place. The $65 Million revolving facility with Chase Manhattan Bank has commitments remaining of $26,100,000. We are beginning the process of negotiating an increase in the amount of the revolver in light of the substantial increase in capital commitments since the Revolving Credit Agreement was signed with Chase in December of 1999. Liquidation proceeds from the sale of West Pluto and Nyara Sanyas were utilized to prepay the Seminole Eagle Acquisitions Loan and the LIM Cayman, L.P. Loan. The current balance on the Seminole Eagle Acquisitions Loan is $15.2 Million and the LIM Cayman, L.P. Loan has been prepaid in full. LIMZ's indebtedness is $83.7 Million, leaving availability of $33 Million and commitments of $2 Million. We are beginning the process of negotiating an increase in the amount of the revolver in light of the substantial increase in capital commitments since the Revolving Credit Agreement was signed with Chase in December of 1999.

Other

Thank you for your cooperation during all of the closings and funding of the LIMZ partnership. Now that the final closing has taken place, and the first year-end financial audit has been completed, we can turn our full attention to investment activities. We look forward to working with all of you and welcome any of your comments or suggestions to improve communication.

Sincerely,

CONFIDENTIAL TREATMENT REQUESTED
By Dechert on behalf of its client

DP 035634
<table>
<thead>
<tr>
<th>Name</th>
<th>Amount</th>
<th>Description</th>
<th>Status/Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Eco Electric</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Yosemite</td>
<td></td>
<td>Pass through of equity investment to Condor, No investment funds will be used</td>
<td>QIBB issue has been resolved, send out letter to Advisory Committee for approval. Expect to close on Monday, Feb. 20th</td>
</tr>
<tr>
<td>3. Euro Yosemite</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Screaming Eagle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Raikade</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Elkimo</td>
<td></td>
<td>Purchase of a portion of Elkimo equity as bridge to a strategic investor</td>
<td>Before the end of March</td>
</tr>
<tr>
<td>7. Bezmads Inc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Cyper</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Margaux</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Swap Selb</td>
<td>$215M</td>
<td>Replace brains shares as collateral for derivatives with income producing securities</td>
<td>Pursue forward equity sale with fee. If not working with Corp. to evaluate - ONSW proposal, too complicated and not as attractive for Euro.</td>
</tr>
<tr>
<td>11. Raptor</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Ins. Co/Raptor</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Yosemite Equity Sale
Project "YES"

November 10, 2000

Permanent Subcommittee on Investigations
EXHIBIT #191j
**Project YES**

**Need:**

- Condor and Enron seek to sell 45% of their 50% equity interests in Yosemite Securities Trust I ("Yo I") and Yosemite Securities Company Ltd. ("Yo II") prior to FYE2000. A divestiture of these interests is twofold: (i) the ownership of Yosemite II equity creates undesirable financial disclosure in Enron’s Unconsolidated Equity Affiliates footnote; and (ii) Condor has a need to enhance its liquidity.

- Although AIG has an appetite to purchase the Yo I and Yo II assets, they are not willing to accept the risk of total loss on its commitment in the event a failure to pay on the underlying Yo I and Yo II investments has no linkage to the more broadly defined Enron [Public] Failure to Pay in the Yo I and Yo II Collateral Security Agreements. Specifically, AIG is currently not able to mitigate its risk with credit default swaps that match its investment. Therefore, a sale in the purest sense is not a viable option.

**Solution:**

- Create a new, wholly-owned AIG SPV capitalized with Notes and Certificates, formed for the sole purpose of buying the Yo I and Yo II equity off of Enron’s balance sheet.

- Enron provides a Total Return Swap on the Notes to create a direct Enron obligation on 97% of the transaction.
Structural Overview

Step 1 - Formation of Yellowstone

- Enron purchases, at par (or $33.75 million), the Yosemite Securities Trust I ("Yo I") equity from Whiewing.

Diagram:

```
Enron
  / $33.75MM
/            
Whiewing
           / Yo I Equity
           /  
Yo I Equity
```

1651
Structural Overview

Step 2: Capitalization of Yellowstone

- Form a new 97/3 SPV ("Yellowstone").
- Yellowstone raises $55 million by issuing $1.65 million in Certificates and $53.35 million in Notes to AIG.
**Structural Overview**

**Step 3 – Sale of Yo I and Yo II equity**

- Yellowstone purchases 45/50ths of Enron's Yo I and Yo II equity interests for [$55 million]. These assets would be on Enron's balance sheet at [$50 million].
- Enron enters into a Total Return Swap ("TRS") with AIG. The TRS will cover the difference between the notional amount and actual principal payments at maturity.
- The premium represented in Yellowstone's purchase price is acceptable given the credit enhancement provided via the TRS, and results in a [$2 million gain] to Enron in [Q42000].
**Structural Overview**

Step 4 – Credit Default Swaps

- AIG purchases Credit Default Swaps on Enron in the open market to hedge any payment default risk associated with the TRS.
Structural Overview
Step 5 – Payment of Interest and Yield.

- Yellowstone receives 11% on the Yo I certificates and 12% on the Yo II certificates for a blended rate of 11.3% on [$50 million].

- Yellowstone pays (i) interest payments equivalent to a debt return of 9.25% on [$33.35 million] in Notes; and (ii) yield payments of 12.25% on the [$1.65 million] in Certificates for a blended rate of 9.3% on [$55 million].
**Structural Overview**

Step 6 – Maturity

- Yellowstone redeems the Certificates and Notes to AIG with the proceeds received from Yosemite and interest income which has accrued at the SPV level sufficient to cover the remaining $5 million.

- Enron pays AIG any shortfall between the notional amount of the Notes and the actual principal payments on the Notes.
### Assumptions

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Yeastole Equity</td>
<td>50.75</td>
</tr>
<tr>
<td>Return on Yeastole Equity</td>
<td>11.00%</td>
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<tr>
<td>Yeastole II Equity</td>
<td>16.85</td>
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<tr>
<td>Return on Yeastole II Equity</td>
<td>12.00%</td>
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<tr>
<td>SPV Deposit</td>
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</tr>
<tr>
<td>SPV Notes</td>
<td>51.22</td>
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<tr>
<td>SPV Certificates</td>
<td>1.20</td>
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<tr>
<td>Day Count Conversion</td>
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<tr>
<td>CDD</td>
<td>7.20%</td>
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<tr>
<td>Current Return of Blended Yeastole Equity</td>
<td>11.50%</td>
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<tr>
<td>Cost of Yellowstone Notes</td>
<td>2.00%</td>
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<tr>
<td>as a spread to LIBOR</td>
<td>2.00%</td>
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<tr>
<td>Cost of Yellowstone Notes</td>
<td>0.07%</td>
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<tr>
<td>Current Return of Yeastole II Notes Certificate</td>
<td>5.00%</td>
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<td>Current Return of Yeastole II Notes Certificate</td>
<td>6.20%</td>
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### Yellowstone Financial Summary

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<tr>
<td>Yeastole</td>
<td>$0.17</td>
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<td>$0.19</td>
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<td>Yeastole II</td>
<td>$0.35</td>
<td>$0.37</td>
<td>$0.37</td>
<td>$0.37</td>
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<tr>
<td>Interest Expense on Yeastole Notes</td>
<td>$0.21</td>
<td>$0.21</td>
<td>$0.21</td>
<td>$0.21</td>
</tr>
<tr>
<td>Interest Expense on Yeastole II</td>
<td>$0.21</td>
<td>$0.21</td>
<td>$0.21</td>
<td>$0.21</td>
</tr>
<tr>
<td>Interest Expense on Yeastole II Notes Certificate</td>
<td>$0.21</td>
<td>$0.21</td>
<td>$0.21</td>
<td>$0.21</td>
</tr>
<tr>
<td>Management and Administrative Fees</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
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</tr>
<tr>
<td>Total Cash Flow</td>
<td>$0.41</td>
<td>$0.41</td>
<td>$0.41</td>
<td>$0.41</td>
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<tr>
<td>Cumulative Cash Flow</td>
<td>$0.41</td>
<td>$0.41</td>
<td>$0.41</td>
<td>$0.41</td>
</tr>
<tr>
<td>Discount Rate</td>
<td>7.20%</td>
<td>7.20%</td>
<td>7.20%</td>
<td>7.20%</td>
</tr>
<tr>
<td>NPV to 8%</td>
<td>$0.25</td>
<td>$0.25</td>
<td>$0.25</td>
<td>$0.25</td>
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</table>

### NPV to 8% AGE

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<th>Value</th>
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<tbody>
<tr>
<td>M&amp;I</td>
<td>8.00%</td>
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<tr>
<td>Debt Service (EGS)</td>
<td>1.20%</td>
</tr>
<tr>
<td>Total Debt Service</td>
<td>1.20%</td>
</tr>
<tr>
<td>Net Margin to 8%</td>
<td>0.47%</td>
</tr>
<tr>
<td>PV</td>
<td>$0.25</td>
</tr>
</tbody>
</table>
Structural Benefits

Enron

- At Maturity, Enron pays $50 million to Yellowstone.

- Yellowstone redeems the Certificates and Notes to AIG with the proceeds received from Enron and interest income which has accrued at the SPV level sufficient to cover the remaining $5 million.
1659

Whitewing Investment Proposal
Yosemite Securities Company Ltd.

December 12, 2000
Executive Summary

- Whitewing has the opportunity to purchase an £10,012,500 (£US$14.5 million) equity interest in Yosemite Securities Company Ltd. ("Yosemite II") from Bank Boston. Yosemite II is capitalized with £22.25 million in Certificates and £200 million in secured Notes.

- The Certificates carry a 12% yield and have a final maturity date of February 1, 2007. Interest is paid annually on February 1.

- Whitewing's purchase will act as a temporary bridge to a 2001 sale to a third party investor. Equity consent is required because of the $40 million Obligor cap. This metric is exceeded as a result of Whitewing's current $33,750,000 equity interest in Yosemite Securities Trust I ("Yosemite I").

- Both Yosemite I and Yosemite II were structured to provide a credit quality which mirrors Enron senior unsecured obligations. As a result, both issues are rated BBB+/Baa1, consistent with Enron Corp.'s senior unsecured debt rating.
Executive Summary (cont.)

- Proceeds from both the Notes and Certificates of Yosemite I and Yosemite II were applied towards the acquisition of Company Investments. Company Investments are defined as (i) (a) securities denominated in pounds sterling having either (1) a short term debt rating of "P-I" by Moody's and "A-1+" by S&P of issuers whose long-term unsecured debt rating is "Aa3" or better by Moody's and "AA-" or better by S&P and maturing 45 days or less from the date of purchase or (2) a long term debt rating of "Aaa" by Moody's and "AAA" by S&P or (b) debt securities of the United Kingdom known as Gilts and (ii) payment obligations denominated in pounds sterling supported, in whole or in part, directly or indirectly, by Enron.
Executive Summary (cont.)

- Yosemite I and Yosemite II have both entered into Citibank Swaps for each Company Investment that, in the absence of a credit event, provide that:
  - Citibank will receive periodic distributions on Company Investments
  - Citibank will make interest payments on the Yosemite II Notes and yield payments on the Certificates
  - Principal payments on Company Investments will be the investors’ primary source of principal repayment

- The Citibank Swap ensures credit risk which is essentially the same as Enron senior unsecured obligations.
Yosemite Structure

Citibank Swap

Periodic Cash Flows
Interest Accruals and Yield Payments

All Interest Receipts received on Company Investments
Credit Default Rights
Company Investments

Citibank, N.A.

Yosemite Securities Company Ltd.

$200 million

$22.25 million

$222.25 million

Company Investments:
- Enron Investments
- Permitted Investments

* After an Enron Credit Event, Citibank Swap may be settled physically or in cash.
Transaction Rationale

* CREDIT:  Risk profile mirrors senior unsecured obligations of Enron Corp., as supported by the Yosemite II credit rating of BBB+/Baa1.

* HOLD:    This is a bridge financing to a longer-term solution which will be implemented in 2001.

* RETURN:  12% per annum return is above market for Enron Corp. paper.
DEWEY BALLANTINE LLP

MEMORANDUM

TO: The Parties On The Attached
    Distribution List

FROM: Robert H. Blackman, Legal Amt.

DATE: December 13, 2000

RE: Ogprey Consent- Yosemite

Attached is a Consent in connection with the Whitewing Investment
Proposal regarding the acquisition of a Trust Certificate in Yosemite Securities Ltd. We
understand Enron previously discussed this with you. If you are in agreement, please fax
one executed copy to me at (212) 259 6333, and forward ten (10) executed copies of the
relevant signature pages to me at Dewey Ballantine LLP, 1301 Avenue of the Americans,
New York, NY 10019.

If you have any questions or concerns, please contact Thomas Mazza at
(212) 259 6700 or me at (212) 259-7236 at your earliest convenience.

Best regards.

Attachments
Distribution List

Principal Life Insurance Company
Ken Hovey
JoEllen Watts

Stonehust Capital Inc.
Doug Stuck

Nixon Peabody LLP
Scott Cristman

John Hancock Life Insurance Company
Dan Revers
Amy Wood

Kirkland & Ellis
Martha Stuart

Chewco Investments L.P.
Michael Kopper

LJM Investments
Kathy Lynn
Chris Loehr

CONFIDENTIAL TREATMENT REQUESTED
By Dechert on behalf of its client
CONSENT

This written consent is dated as of December ___, 2000 and is being given pursuant to Section 6.06 (b) of that certain Amended and Restated Limited Liability Company Agreement of Whitewing Management LLC (the "Agreement") dated as of the Closing Date between Egret I LLC, a Delaware limited liability company ("Egret") and Osprey Trust, a Delaware business trust ("Osprey"). Terms capitalized for other than grammatical purposes in this consent but not defined herein have the meanings set forth in the Agreement.

Egret has advised Osprey that Egret expects a wholly-owned direct or indirect subsidiary of Whitewing Associates L.P. ("Whitewing L.P.") to acquire a Trust Certificate in Yosemite Securities Company Ltd., as more fully described in the presentation previously submitted to the Certificateholders. The aggregate purchase price of each Trust Certificate shall not exceed $1.5 million.

Information required pursuant to Section 6.01 (c) and Schedule 6.01 (c) of the Agreement regarding the Trust Certificate has been delivered previously by Egret to each of the Certificateholders of Osprey. In addition, each Certificateholder has had the opportunity to discuss the Trust Certificate with representatives of Enron.

Acquisition of such Trust Certificate by a wholly-owned direct or indirect subsidiary of Whitewing L.P requires the consent of Osprey pursuant to Section 6.06 (c) (i) of the Agreement. The undersigned, constituting at least an Osprey Majority of the Osprey Certificates, hereby consents in writing pursuant to Section 6.06 (b) of the Agreement to the transaction described in the second paragraph hereof.

This Agreement may be executed in any number of counterparts with the same effect as if all signing parties had signed the same document. All counterparts shall be construed together and constitute the same instrument.

CONFIDENTIAL TREATMENT REQUESTED
By Dechert on behalf of its client

DP 090387
PRINCIPAL LIFE INSURANCE COMPANY, on
behalf of one or more separate accounts
By: Principal Capital Management, LLC,
a Delaware limited liability company, its
authorized signatory

By: ____________________________
Its:

By: ____________________________
Its:

PRINCIPAL LIFE INSURANCE COMPANY, as
attorney-in-fact for Osprey Associates LLC, as
holder of Osprey Certificate No. 1
By: Principal Capital Management, LLC
a Delaware limited liability company, its
authorized signatory

By: ____________________________
Its:

By: ____________________________
Its:

CONFIDENTIAL TREATMENT REQUESTED
By Dechert on behalf of its client
WESTBORO PROPERTIES L.L.C.
By: Stonehurst Capital Inc., its Manager

By: ________________________________
   Name: _____________________________
   Title: ______________________________

OSPREY ASSOCIATES L.L.C., as holder of
Osprey Certificate No. 2
By: Stonehurst Capital L.L.C., its Manager
By: Stonehurst Capital Inc., its Manager

By: ________________________________
   Name: _____________________________
   Title: ______________________________
JOHN HANCOCK LIFE INSURANCE COMPANY

By: __________________________________
    Name: ______________________________
    Title: _______________________________

JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY

By: ________________________________
    Name: ______________________________
    Title: ______________________________

INVESTORS PARTNER LIFE INSURANCE COMPANY

By: ________________________________
    Name: ______________________________
    Title: ______________________________

CONFIDENTIAL TREATMENT REQUESTED
By Dechert on behalf of its client

DP 090390
CHEWCO INVESTMENTS, L.P.

By:  SONR #1, L.P., its General Partner
By:  SONR #1, L.L.C., its General Partner

By: ______________________________________
Name:
Title:

CONFIDENTIAL TREATMENT REQUESTED
By Dechert on behalf of its client

DP 090391
LJM2-OSPREY, LLC
By: LJM2-OSPREY, LLC, as its Managing Member
By: LJM2 CAPITAL MANAGEMENT, LLC, as its General Partner
By: LJM2 CAPITAL MANAGEMENT, LLC, as its General Partner
By: 
Name:
Title:

OSPREY ASSOCIATES II LLC
By: OA Investments, LLC, as its Manager
By: LJM2-osprey II, LLC, as its Manager
By: LJM2 Co-Investment, L.P., as its sole Member and Managing Member
By: LJM2 Capital Management, L.P., as its General Partner
By: LJM2 Capital Management, LLC, as its General Partner
By: 
Name:
Title:

CONFIDENTIAL TREATMENT REQUESTED
By Dechen on behalf of its client

DP 090392
From: A.Wong@milbank.com@ENRON [MAILTO:A.Wong@milbank.com]  4G@ENRON@ENRON.com
Sent: Thursday, February 22, 2001 1:37 PM
To: Amanda.Angellis@samis.com; McDowell, Doug; gareth.bahrman@milbank.com
Subject: RE: Yosemite Securities Company Ltd (the "Company")

That is indeed the correct form. If anybody needs to reach me at home my number is 201-626-5199. Here is the information needed from Enron and Raptor as asked for by Jersey:

Enron Corp.

This company, as a public listed company is required to to provide us with a Client (Corporate) Questionnaire and all of the documentation requested therein. We also require verification of 2 of the directors of Enron Corp.

In addition we require a letter from the management of Enron Corp. verifying the capacity in which Jill Erwin is acting and confirmation that she is authorised to act in this capacity on behalf of Enron Corp.

The further clarification is required as to the structure of SE Raptor as it may be helpful form a compliance point of view to establish more clearly its connection with Enron Corp. We also require details of the beneficial ownership of SE Raptor. A Client (Corporate) Questionnaire and all documentation requested therein is also required and potentially Client (Pension) Questionnaires in respect of the beneficial owners, if the company has a private pension.

Sincerely,

Albert Wong

Albert Wong
Associate
Global Corporate Finance
Milbank, Tweed, Hadley & McCloy LLP
1 Chase Manhattan Plaza
New York, NY 10005
Telephone: 312-356-5363
Fax: 212-822-5382
Internet: awong@milbank.com

---Original Message---

From: angellis, amanda [F]  SMIT@samis.com
Sent: Thursday, February 22, 2001 5:14 PM
To: McDowell, Doug; gareth.bahrman@milbank.com
Cc: a.wong@milbank.com
Subject: RE: Yosemite Securities Company Ltd (the "Company")

Doug

As discussed here is the questionnaire.

AI

If this is the incorrect form please forward the correct form to Doug and Gareth as it needs to be filled in by Ozsprey.

Permanent Subcommittee on Investigations
EXHIBIT #191m
From: AWong@mfBank.com [mailto:AWong@mfBank.com]
Sent: Thursday, February 22, 2001 1:12 PM
To: Angelica, Amanda [F1]
Subject: FW: Yosemite Securities Company Ltd (the "Company")

Amanda:

Please advise as to who at Fleet National Bank should receive the questionnaire to fill out regarding the bank as certificateholder in Yosemite B. Thanks.

Sincerely,
Albert Wong

Associate
Global Corporate Finance
Merrill, Tweed, Hadley & McCloy LLP
1 Chase Manhattan Plaza
New York, NY 10005
Telephone: 212-350-5392
Facsimile: 212-522-5392
Internet: awong@mfBank.com

---Original Message---
From: Lynda Shepard [SMTP:lshepard@jerseytrustco.com]
Sent: Thursday, February 22, 2001 12:51 PM
To: AWong@mfBank.com
Cc: "Thomas_Moorem@storm.com"; Jennifer Svatine;
"UH.Ernst@ernst.com"; Steve Barnett
Subject: Yosemite Securities Company Ltd (the "Company")

Dear Albert,

I refer to the conference call of this afternoon between ourselves and Steve.

Bumett in relation to the distributions to the certificateholders (the
"Distributions").
As previously advised, regardless of whether an account is opened for the distributions or whether the distributions are made from the Euroclear account, where the funds are at present, there is still a requirement for the directors of the Company to authenticate the transactions, which the Directors are unable to do for compliance reasons, until such time as all of our compliance requirements have been met.

As advised in our previous correspondence with the various parties, the compliance documentation that is required is as follows:

Fleet National Bank

A Client (Corporate) Questionnaire requires to be completed. If however, Fleet National Bank is regulated by relevant Money Laundering legislation in the US and can provide us with the name of the relevant legislation under which they are regulated, we will not require the documentation requested within the Client (Corporate) questionnaire.

Enron Corp

This company, as a public listed company is required to to provide us with a Client (Corporate) Questionnaire and all of the documentation requested therein. We also require verification of 2 of the directors of Enron Corp. In addition we require a letter from the management of Enron Corp., verifying the capacity in which Jill Ewles is acting and confirmation that she is authorised to act in this capacity on behalf of Enron Corp.

SE Raptor L.P.

Further clarification is required as to the structure of SE Raptor as it may be helpful from a compliance point of view to establish more clearly its connection with Enron Corp. We also require details of the beneficial ownership of SE Raptor. A Client (Corporate) Questionnaire and all documentation requested therein is also required and potentially Client (Personal) Questionnaires in respect of the beneficial owners, if the company has a private status.

I attach a further copy of our Client (Corporate) Questionnaire for your information.

<<Client (Corporate) Questionnaire.doc>>

I look forward to hearing from you with regards to the way forward.

Kind regards,

Lynne Shepherd

<<Client (Corporate) Questionnaire.doc>>

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or agent responsible for delivery of this message to the intended recipient(s), you are hereby notified that any dissemination, distribution or copying of this e-mail message is strictly prohibited. If you have received this message in error, please immediately notify the sender and delete this e-mail message from your computer.

<< File: Client (Corporate) Questionnaire.doc >>

This e-mail message may contain legally privileged and/or confidential information. If you are not the intended recipient(s), or the employee or agent responsible for delivery of this message to the intended recipient(s), you are hereby notified that any dissemination, distribution or copying of this e-mail message is strictly prohibited. If you have received this message in error, please immediately notify the sender and delete this e-mail message from your computer.
From: Walen, Clint
Sent: Thursday, November 01, 2001 6:48 PM
To: Cline, Mary
Subject: Dods

Permanent Subcommittee on Investigations

EXHIBIT #191n
Yosemite I Transaction

Enron purchased certificates of Yosemite Securities Trust I (Trust I) equaling an aggregate principal amount of $37,750,000. This represented an approximate 50% equity interest in the Trust. A Bank of Boston affiliate purchased the remaining 50% interest in the Trust.

Effective as of December 29, 1999 Enron sold $33,750,000 of its certificates in Trust I to LJM in order to reduce Enron's ownership interest in Trust I to approximately 5%. LJM purchased this equity from Enron at par, and from the date of purchase began receiving the same 11% return as the other equity holders.

Effective as of December 30, 1999 LJM sold $33,750,000 of its certificates in Trust I to SE Rapport LP (subsidiary of Whitewing) in order to reduce LIJM’s ownership interest in Trust I to zero. SE Rapport LP purchased this equity from LJM at par, and from the date of purchase began receiving the same 11% return as all other equity holders.

For tax purposes the total equity in Trust I was equal to 10%. This is above the required 3% level to achieve deconsolidation in a 97%/3% SPV structure for GAAP purposes.

If Enron had owned 50% of the equity in Trust I every year-end, the Yosemite transaction would have had to be disclosed in the unconsolidated affiliates footnote. The Yosemite transaction was structured to allow Citibank to syndicate Enron exposure to the capital markets (exposure which is reflected on our balance sheet as a liability). Including Trust I in the footnote would result in analysts double counting liabilities through the typical add back of a percentage of the debt of unconsolidated subsidiaries.

Transaction Structure Description

Trust I was created by Citibank. Approximately $825 million of proceeds were raised by selling equity and debt interests in Trust I. The proceeds raised by Trust I were invested in permitted investments that included AAA rated securities, time deposits, promissory notes or commercial paper of US money center banks.

Related to this structure was a credit default swap, which was entered into between Trust I and Citibank. The terms of the swap were such that absent an Enron Credit Event, Citibank would pay to Trust I an amount equal to the interest and yield on the debt and equity of Trust I and Trust I would pay to Citibank the actual amount earned on the permitted investments. Upon an Enron Credit Event, Citibank could settle the swap physically (by delivering Trust I certain Enron Obligations) or in cash.
Credit and Subordination Agreement between SE Acquisitions and LJM2

- The proceeds received under the agreement by LJM2 were used for general partnership purposes.

- On December 20, 1999, SE Acquisitions LP (Lender) and LJM2 Co-investment LP (Borrower) entered into a Credit and Subordination Agreement in which SE Acquisitions would lend LJM2 up to $38.5 million.

- Amounts borrowed and then repaid were not allowed to be re-borrowed.

- On the closing date, LJM2 drew the entire $38.5 Million.

- Terms of the loan were as follows:

  Principal Amount = $38.5 million  
  Maturity Date = December 20, 2000 subject to extension to December 20, 2001  
  Interest Rate = LIBOR + 2.5%  
  Commitment Fee = .25% annually on the sum of the average daily unused portion of the commitment.  
  Facility Fee = 1% of the commitment amount

- In November 2000, one month preceding the initial maturity date, LJM2 paid the loan and interest off in full.
We aren't required to settle the TRS on Yosemite now are we? If we did, would that cause us to put these deals on our books, or would we have the TRS banks hold the certificates?

---

We do not have cash to give; not sure how to deal with it. Will try to check it out.

---

Know you are very tired up so I thought I would email you rather than continue to play phone tag. We have been pressurized by our counterparties on the total return swaps written on the equity in the Yosemite deals to settle the deals asap. As senior unsecured recoveries would need to exceed 90% for the equity to have any value, the counterparties are looking for pay payments to end the swaps.

Under the agreement between the GRB and the Credit Derivatives Trading Desk, the GRB agreed to keep us whole on the equity. Therefore, we would request that we settle out with you in order to settle out with our counterparties. How do you pay cash - is it through the loan book, or is there another route (we need the cash to settle the swaps)?

Also, the mark to market on the portfolio swap in which Eire wrote us credit protection on a basket is $19,655,549.087. We need to settle out this deal as well. We know the margin is limited, so again, how do we get reimbursed for the counterparty exposure taken by the GRB (again, we will have to pay cash to break the trade with our counterparties on the other side)?

Appreciate your attention.

Regards,

Rick
Investment Dealers' Digest Article

ON DECEMBER 6, 1999 THE FOLLOWING ARTICLE ABOUT THE TRANSACTION APPEARED IN INVESTMENT DEALERS’ DIGEST

WALL STREET IS BECOMING EVER MORE SOPHISTICATED IN FIGURING OUT WAYS TO APPLY NEW DERIVATIVES TECHNOLOGY TO THE BASIC CORPORATE FINANCE NEEDS OF ITS CLIENTS. AS EVIDENCED BY ENRON CORP.'S RECENT PRICING OF $750 MILLION IN SYNTHETIC BONDS THAT REPACKAGE THE CREDIT RISK OF STRUCTURED BANK LOANS.

The bonds, called LCDs or Linked Enron Obligations, were created by Citigroup through a technique that combines credit derivatives, securitizations, and traditional fixed-income structures. The complex procedure achieves a simple goal: It transforms structured bank loans from a single corporate borrower into instruments that the capital markets can digest.

"The goal was to create something that looks and acts like an Enron bond and sell it to the people who buy Enron bonds," said Rick Coplan, a VP in Salomon Smith Barney's derivatives capital markets group.

Enron, like many companies, relies on a variety of structured bank loans to finance specific uses. For example, when financing its corporate headquarters, Enron used a common lease structure that provided significant tax advantages over a straight debt.

Although these structures offer the company unique benefits, there are also drawbacks — namely the unwillingness of banks to extend these loans for long periods of time. Structured loans are generally limited to terms of two or three years, with new facilities running five to seven years. The reluctance of banks to offer longer loans comes primarily from their hesitancy to take on significant levels of corporate credit risk.

To help address this problem, Wall Street applied derivatives structures that isolate credit risk. For Enron, Citigroup used a swap default structure to wrap a trust — Yosemite Securities Trust I — that holds $850 million in Enron structured bank loans. The swap, which was provided by CreditSuisse, "securitized" the risk of the assets in the trust, which the structured credit remaining with Citibank, while the credit risk was stripped off and Adam Kullik, a Salomon derivatives VP who also worked on the deal. That credit risk was then packaged into securities, the 8.25% five-year LCDs, which resemble Enron's public recall debt. The synthetic bonds, which were issued in a 144a transaction last month through lead manager Salomon Smith Barney, mirror Enron debt so closely that they carry the same credit rating as the company's senior unsecured debt.AAA from Standard & Poor's and Baa2 from Moody's Investors Service.

In fact, the structure is now effective in separating the structural and credit risk that neither the deal's investors nor the ratings agencies over exactly what assets are held in the trust. From their perspective it doesn't matter — the securities they are analyzing carry only Enron credit risk. The LCDs price at a spread of 227.5 basis points over the comparable U.S. Treasury, a level that's about 100 bps wider than the spread on Enron's five-year senior unsecured debt.

Because it is passing the credit risk onto the capital markets, Enron has the opportunity to add years to the terms of its financing, which would be offset by refinancing risk and costs.

In addition, Citibank has the ability to sell default swaps in Enron's name out of the structure. Enron and Citibank could in the future issue default swaps running as far out as 10, 20 or even 30 years. That would effectively hedge Citibank, making it an intermediary in the transaction.

The deal illustrates the extent to which corporatons can benefit from innovations in derivatives structuring. It also demonstrates the potential of closely integrated bank and capital markets operations — a point that Citigroup is anxious to drive home. "This is the first time that people have really thought through how LCDs and derivatives technology can be used together in general corporate finance," Kullik said. "The market is going to move in this direction, and we're looking to apply this technology as broadly as possible."
GCIB Checkings on Michael Kopper/LJM

James F. Reilly, GCIB, Houston
I spoke with Jim on 7/23 concerning the Michael Kopper transaction. He mentioned that he and Bill Fox had met with Michael Kopper and Andy Fastow the previous week and were aware of the sale of LJM to Michael.

Jim explained that he was the account manager for the Enron relationship and had had past dealings with Fastow, Kopper and LJM. In fact, Jim stated he was responsible for "forcing the issue" on Citigroup/Travellers' investment in LJM2. The initial investment in the fund was based solely on Enron's relationship with Citigroup, not potential investment returns. Nonetheless, the investment has turned out well for Citigroup and they plan on staying with the fund even after the sale to Michael Kopper.

Jim believes that Michael is a very smart man and the fund will continue with its close ties with Enron and be successful. In Jim's opinion, Enron is in significant need of a fund like LJM2 to manage its asset base and shareholder return.

Jim had absolutely no character issues with Michael or our involvement in the proposed transaction. In fact, we are viewed positively for taking on this transaction.

William F. Fox, GCIB, New York
I spoke with Bill on 7/23 also. Bill relayed that there were no issues with LJM, Kopper or Fastow. Citigroup is favorably disposed to Enron. The LJM relationship is another facet to the global relationship. He believes Michael is very bright and has for the most part been responsible for all the analysis and structuring in the LJM portfolio.

Bill sees no issues with us financing Kopper and has no character issues with him personally.
To: Mary Lynn Fawny
CC: Hunter Reiner, Craig Farnsworth
From: Steve Hart
Date: January 24, 2001
Re: Review of LIM2 (Enron Fund), and Recommendation for LIM3

Enron is in the market to raise LIM3, the follow on fund to LIM2 which Citigroup committed $15 million ($10 from Citibank, $5 from Travelers). Enron has stated to Jim Reilly (SSB account manager) that there are no negative relationship implications should we choose not to participate in LIM3. Given this and the points discussed below, I recommend that we do not participate in LIM3.

Low Cash on Cash returns.
Returns on fully and partially realized investments to date are all positive, high IRR but low (1.4x) cash on cash. Based on LIM3’s projections, the Fund is not likely to return more than 2x cash on cash. However, it is too early to tell if such returns will be realized, in part because the investments are relatively new but also due to the highly structured nature of the transactions (see below).

High exposure to share price fluctuation, particularly Enron.
The returns of many transactions completed (38% by number, 43% by amount) are based in whole or part on Enron share price. 65% of the projected Fund gains depend on flat or rising share price, particularly Enron’s, based on LIM3’s projections. In committing to LIM2, we understood that the Fund would be relying on Enron directly for transactions and indirectly on Enron’s credit strength (as the party the Fund could put assets to). We have been surprised at the number of transactions that are reliant on Enron’s share price for success.

Mitigating this risk, LIM2’s principals have sought to hedge this exposure through contracts back to Enron. Additionally, LIM2 principals argue that Enron would make the Fund whole should it suffer losses because the vehicles that the Fund invests in are critically important to Enron’s ability to manage its earnings. Fortunately, this thesis has not had to be tested yet.

Some investments are not attractive to Citigroup in the Fund.
The Fund invested in debt and equity of 2 CLOs. Citigroup could invest in CLOs without carry. These investments represented 13% of deals done and 14% of capital invested.

Complex investment structures make it difficult to assess risk and reward.
The Fund’s investments are typically highly structured making it difficult to understand the key drivers of returns and related risks. This has made it difficult to assess the riskiness of the transactions and their potential outcome.
Citigroup Relationship Review

Enron provides significant corporate and investment banking revenue to Citigroup.

1998-2000 Citigroup Revenues

$112.7MM

- Syndication
- Structured Deals
- Fixed Income
- Derivatives & FX
- Equities
- M&A
- Loans
- Treasury & Other

<table>
<thead>
<tr>
<th>Product Group</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Syndication</td>
<td>542</td>
<td>61,181</td>
<td>632</td>
<td>66,855</td>
</tr>
<tr>
<td>Structured Deals</td>
<td>10,597</td>
<td>16,674</td>
<td>7,238</td>
<td>34,509</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>270</td>
<td>5,934</td>
<td>5,192</td>
<td>12,997</td>
</tr>
<tr>
<td>Derivatives &amp; FX</td>
<td>3,637</td>
<td>5,171</td>
<td>27,607</td>
<td>35,615</td>
</tr>
<tr>
<td>Equities</td>
<td>0</td>
<td>2,776</td>
<td>3,729</td>
<td>6,505</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>0</td>
<td>3,100</td>
<td>0</td>
<td>3,100</td>
</tr>
<tr>
<td>Loans</td>
<td>1,040</td>
<td>142</td>
<td>(469)</td>
<td>713</td>
</tr>
<tr>
<td>Treasury &amp; Other</td>
<td>2,444</td>
<td>4,346</td>
<td>5,248</td>
<td>12,039</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$16,331</td>
<td>$44,326</td>
<td>$56,174</td>
<td>$112,731</td>
</tr>
</tbody>
</table>
## Citibank Exposure Analysis

### Summary of Structured and Non-Recourse Facilities

($ in Millions)

<table>
<thead>
<tr>
<th>Name</th>
<th>Detailed Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nahanni</td>
<td>Supports a $405 million, five-year revolving loan made by CIBC, collateralized by a preferred LP interest in a partnership holding $750 million of Enron notes. Preferred shares of Houston Pipeline, Tubs and cash (50%). The amount of Tubs and cash must at all times be equal to the amount outstanding under this facility.</td>
</tr>
<tr>
<td>TurboPark</td>
<td>Facility is used for the purchase of 5/12% A-Notes (Enron guarantee) and 8.25% O-Notes (tub to collateral). Funds will not be distributed from this facility after 3/31/01. However, this facility has an outside maturity date of 3/31/99. Purpose is to finance the construction and development of gas fired electric generating assets including fixed and soft costs related to future projects not yet identified.</td>
</tr>
<tr>
<td>Coal</td>
<td>Senior Unsecured recourse to Enron. $150MM monetization of a royalty stream receivable by HULP, funded via CIBC. The HULP risk was fully syndicated.</td>
</tr>
<tr>
<td>Monetization</td>
<td>$150MM R/C facility available to Joint Energy Development Investments Limited Partnership (JEDIP), a 50/50 joint venture partnership between Enron Corp. and the California Public Employers' Retirement System (CalPERS). The loan is collateralized by investments and additionally by unfunded obligations from Enron.</td>
</tr>
<tr>
<td>JEDIP Loan</td>
<td>PSCR loan for this loan is a 150MM, 100-day financially settled, unfunded gas prepay guaranteed by Enron. Termination will be on settlement of the Jan '02 gas contract on the NYMEX (12/27), but expected to be unwound early in the 4th quarter.</td>
</tr>
<tr>
<td>Gas Prepay</td>
<td>Supports the A-Note portion of a $118,000,000 5-year SADF for Enron Venture Corp. The SADF is comprised of A-Notes (80%), $900MM; B-Notes (15% / $140MM) and Certificates (5% / $30MM). Only A's were funded through CIBC.</td>
</tr>
<tr>
<td>New J1 Holdings Corp</td>
<td>The facility underpins a $750 MM 3-year portfolio monetization structure for a special purpose company owned by Enron Corp. Consists of (a) $750 million 3-year term loan made by CIBC, and (b) $225 million of equity interests. The Flawdale investment portfolio is secured by a Debenture Fac 5, which contains Enron owned notes.</td>
</tr>
</tbody>
</table>
### Citibank Exposure Analysis

**Summary of Structured and Non-Recourse Facilities**

($ in Millions)

<table>
<thead>
<tr>
<th>Name</th>
<th>Detailed Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yosemite 1</td>
<td>Citi synthetically purchased $37.5MM of equity certificates of Yosemite Trust via a total return swap with an investor (Balance Sheet Provider) who actually funds the equity investment.</td>
</tr>
<tr>
<td>Yosemite 2</td>
<td>$200 million of Linked Enron Obligations and $22.25 million of Equity Certificates. Citi takes 1% of Equity. Yosemite 2 is the same transaction as Yosemite 1, except the transaction was denominated in Sterling.</td>
</tr>
<tr>
<td>Dashol</td>
<td>Citi’s take as Lead arranger in 7-year limited recourse re-syndicated Euro Loan related to the construction of a power plant and LNG Facility.</td>
</tr>
<tr>
<td>Dabhol</td>
<td>Citi’s take as Lead Arranger on a US Dollar denominated senior secured 10-year limited recourse Euro Loan credit facility and insurance against credit risk related to the construction of a power plant and LNG Facility.</td>
</tr>
<tr>
<td>Bahia Las Minas</td>
<td>$100MM 3-year loan to Bahia Las Minas Corp. (BILM Corp.) is a power company 51% owned by Enron International Panama, S.A. and 49% by the Government of Panama. The facility is secured by real estate and will be repaid with proceeds from the disposition of the assets.</td>
</tr>
<tr>
<td>Elektro</td>
<td>Non recourse to Enron. Electricity distribution company for the Brazilian state of Sao Paulo. Variety of loans/loancies.</td>
</tr>
</tbody>
</table>
# Pipeline Trading Multiples

Trading Multiples for Selected Pipeline Companies

($'s in Millions)

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Enron Corp</td>
<td>$45.58</td>
<td>(49.8%)</td>
<td>8.5%</td>
<td>$34,007</td>
<td>$44,369</td>
<td>47.1</td>
<td>25.1x</td>
<td>21.0x</td>
<td>3.7x</td>
<td>13.6x</td>
<td>8.8x</td>
<td></td>
</tr>
<tr>
<td>El Paso Energy</td>
<td>53.22</td>
<td>(59.3%)</td>
<td>13.6%</td>
<td>21,090</td>
<td>45,357</td>
<td>22.2</td>
<td>15.9</td>
<td>13.8</td>
<td>3.9</td>
<td>10.2</td>
<td>14.4</td>
<td></td>
</tr>
<tr>
<td>Williams Companies</td>
<td>33.80</td>
<td>(29.6%)</td>
<td>12.7</td>
<td>16,360</td>
<td>26,938</td>
<td>15.4</td>
<td>14.4</td>
<td>12.5</td>
<td>2.3</td>
<td>8.8</td>
<td>12.3</td>
<td></td>
</tr>
</tbody>
</table>

High: 51.5% 14.6%
Median: (29.8) 12.7
Mean: (30.3) 13.6
Low: (41.8) 8.5
# Pipeline Trading Multiples

Trading Multiples for Selected Master Limited Partnerships with Pipeline Assets
($ in Millions)

<table>
<thead>
<tr>
<th>Partnership</th>
<th>Price/Growth</th>
<th>Equity Value</th>
<th>Firm Value</th>
<th>P/E/EBITDA</th>
<th>LTM Unit Coverage</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buckeye Partners, L.P.</td>
<td>$36.30</td>
<td>$1.166</td>
<td>$1.418</td>
<td>12.6x</td>
<td>1.4x</td>
<td>6.6%</td>
</tr>
<tr>
<td>El Paso Energy Partners, L.P.</td>
<td>35.20</td>
<td>1.795</td>
<td>2.254</td>
<td>14.8</td>
<td>1.4x</td>
<td>6.3</td>
</tr>
<tr>
<td>Enterprise Products Partners, L.P.</td>
<td>43.30</td>
<td>3.185</td>
<td>3.892</td>
<td>12.3</td>
<td>1.9x</td>
<td>6.8</td>
</tr>
<tr>
<td>Kandi Pipeline Partners, L.P.</td>
<td>37.27</td>
<td>2.099</td>
<td>3.156</td>
<td>10.3</td>
<td>1.3x</td>
<td>5.4</td>
</tr>
<tr>
<td>Kinder Morgan Energy Partners, L.P.</td>
<td>71.17</td>
<td>8.045</td>
<td>11.381</td>
<td>16.8</td>
<td>2.3x</td>
<td>7.5</td>
</tr>
<tr>
<td>Lakehead Pipeline Partners, L.P.</td>
<td>35.45</td>
<td>1.556</td>
<td>2.246</td>
<td>11.0</td>
<td>1.1x</td>
<td>7.7</td>
</tr>
<tr>
<td>Northern Border Partners, L.P.</td>
<td>37.56</td>
<td>1.729</td>
<td>3.022</td>
<td>9.3</td>
<td>1.6x</td>
<td>7.5</td>
</tr>
<tr>
<td>Romain All American Pipeline, L.P.</td>
<td>25.42</td>
<td>1.397</td>
<td>1.900</td>
<td>11.1</td>
<td>1.8x</td>
<td>8.1</td>
</tr>
<tr>
<td>Shamrock Logistics, L.P.</td>
<td>32.90</td>
<td>6.212</td>
<td>9.041</td>
<td>12.5</td>
<td>2.1x</td>
<td>7.5</td>
</tr>
<tr>
<td>TEPPCO Partners, L.P.</td>
<td>31.18</td>
<td>1.518</td>
<td>2.309</td>
<td>11.1</td>
<td>1.2x</td>
<td>7.7</td>
</tr>
<tr>
<td>Williams Energy Partners, L.P.</td>
<td>30.65</td>
<td>3.855</td>
<td>4.033</td>
<td>11.5</td>
<td>2.0x</td>
<td>6.9</td>
</tr>
</tbody>
</table>

**Mean of Pipelines**

|                     | 12.1x | 11.3x | 1.6x | 1.1x | 6.9% | 6.9% |

**Source:** Energy Information Administration (EIA)
## Pipeline Trading Multiples

Trading Multiples for Selected Master Limited Partnerships with Pipeline Assets

($s in Millions)

<table>
<thead>
<tr>
<th>Pipeline &amp; Transportation</th>
<th>Price of Equity (6/2001)</th>
<th>Equity Value</th>
<th>Firm Value</th>
<th>P/E</th>
<th>EBITDA</th>
<th>LTM Unit Coverage</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buckeye Partners, L.P.</td>
<td>30.72</td>
<td>1.186</td>
<td>1.448</td>
<td>12.4x</td>
<td>12.4x</td>
<td>1.2x</td>
<td>1.0%</td>
</tr>
<tr>
<td>El Paso Energy Partners, L.P.</td>
<td>35.20</td>
<td>1.766</td>
<td>2.254</td>
<td>14.8</td>
<td>12.1</td>
<td>1.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Enterprise Products Partners, L.P.</td>
<td>43.83</td>
<td>3.185</td>
<td>3.097</td>
<td>12.3</td>
<td>11.5</td>
<td>1.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Kinder Morgan Energy Partners, L.P.</td>
<td>37.27</td>
<td>789</td>
<td>1.055</td>
<td>10.6</td>
<td>10.3</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Laclede Pipe Line Partners, L.P.</td>
<td>71.17</td>
<td>9.364</td>
<td>11.431</td>
<td>16.8</td>
<td>15.3</td>
<td>2.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Northern Border Partners, L.P.</td>
<td>45.45</td>
<td>1.536</td>
<td>2.946</td>
<td>11.2</td>
<td>10.3</td>
<td>1.1</td>
<td>0.9%</td>
</tr>
<tr>
<td>Plains All American Pipeline, L.P.</td>
<td>37.56</td>
<td>1.739</td>
<td>2.303</td>
<td>10.4</td>
<td>8.8</td>
<td>1.6</td>
<td>1.4</td>
</tr>
<tr>
<td>Siteworks Logistics, L.P.</td>
<td>25.42</td>
<td>997</td>
<td>1.390</td>
<td>12.1</td>
<td>10.8</td>
<td>1.8</td>
<td>1.3</td>
</tr>
<tr>
<td>TEPPCO Partners, L.P.</td>
<td>32.99</td>
<td>622</td>
<td>693</td>
<td>12.5</td>
<td>9.5</td>
<td>2.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Williams Energy Partners, L.P.</td>
<td>31.18</td>
<td>1.516</td>
<td>2.309</td>
<td>12.1</td>
<td>11.8</td>
<td>1.2</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

*Mechanical Pipelines*:

12.4x | 11.2x | 1.6x | 1.1x | 0.9% | 6.9%
# Enron Direct and Indirect Liability Schedule

<table>
<thead>
<tr>
<th>Name</th>
<th>Size</th>
<th>Maturity Date</th>
<th>Fund Source</th>
<th>Type</th>
<th>CGP/Corpor</th>
<th>Security</th>
<th>What happens if the assets are sold</th>
<th>Early Disposition Triggers</th>
<th>Events upon Earning Liquidation</th>
<th>Known Treatment</th>
<th>Known Contingents</th>
<th>Known Positions</th>
</tr>
</thead>
<tbody>
<tr>
<td>198 GBR Prepaid</td>
<td>$210 MM</td>
<td>12/27/01</td>
<td>Prepaid</td>
<td>$210 MM</td>
<td>Risk Rating 4</td>
<td>Cash reserves in case of underlying company going down MTH'ed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bobbi Lee Mines</td>
<td>5/30/04</td>
<td>Loan</td>
<td>$10 MM</td>
<td>Risk Rating 4</td>
<td>$100 MM, $250 million to Delta Lee Mines (DLR)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board 3 yrs.</td>
<td>5/30/04</td>
<td>Loan</td>
<td>$135 MM</td>
<td>Risk Rating 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bowles River Trust</td>
<td>$100 MM</td>
<td>2/29/96</td>
<td>Bond YPP</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal Muni 1994</td>
<td>$118 MM</td>
<td>12/30/01</td>
<td>$118 MM</td>
<td>Risk Rating 4</td>
<td>Senior secured mortgage in Enron. The MTH'd risk was fully syndicated.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debenture 1998</td>
<td>3/31/99</td>
<td>Loan</td>
<td>$15 MM</td>
<td>Risk Rating 4</td>
<td>Check is paid against a U.S. Dollar保证金 under several 10 year Limited recourse Notes issued with liens against various CapEx and the construction of a power plant in China.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Bond, Loan, Synthetic Loan, Total Enron Swap, Prepaid, Contingent Capital Commitment, Share Trust, First Loss Piece, etc.
2 List assets underlying transaction and any other structured risk mitigants
3 Ratings based, assets valuation
# Enron Direct and Indirect Liability Schedule

<table>
<thead>
<tr>
<th>Name</th>
<th>Size</th>
<th>Net Notional</th>
<th>Type</th>
<th>Citigroup Exposure</th>
<th>Barad</th>
<th>What happens if notional value is worthless</th>
<th>Early Payment Trigger</th>
<th>Enron Notes</th>
<th>Enron Investors</th>
<th>Enron contact</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC01</td>
<td>$100</td>
<td>$150</td>
<td>Bond</td>
<td>$150</td>
<td>$90</td>
<td>Enron Bankruptcy</td>
<td>Citibank</td>
<td>11-May-00</td>
<td>J. C.</td>
<td>713-303-8944</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$150</td>
<td>$300</td>
<td>Bond</td>
<td>$150</td>
<td>$90</td>
<td>Enron Bankruptcy</td>
<td>Citibank</td>
<td>11-May-00</td>
<td>J. C.</td>
<td>713-303-8944</td>
<td></td>
</tr>
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<td></td>
<td>$100</td>
<td>$300</td>
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<td>$500</td>
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<td>$100</td>
<td>$90</td>
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<td>Citibank</td>
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<td>Bond</td>
<td>$100</td>
<td>$90</td>
<td>Enron Bankruptcy</td>
<td>Citibank</td>
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<td>$500</td>
<td>$1500</td>
<td>Bond</td>
<td>$100</td>
<td>$90</td>
<td>Enron Bankruptcy</td>
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<td>$90</td>
<td>Enron Bankruptcy</td>
<td>Citibank</td>
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<td></td>
<td>$500</td>
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<td>Bond</td>
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<td>$90</td>
<td>Enron Bankruptcy</td>
<td>Citibank</td>
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<td></td>
<td>$500</td>
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<td>$90</td>
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<td>Citibank</td>
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<td></td>
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<td>$1500</td>
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<td></td>
<td>$500</td>
<td>$1500</td>
<td>Bond</td>
<td>$100</td>
<td>$90</td>
<td>Enron Bankruptcy</td>
<td>Citibank</td>
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<td>713-303-8944</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$500</td>
<td>$1500</td>
<td>Bond</td>
<td>$100</td>
<td>$90</td>
<td>Enron Bankruptcy</td>
<td>Citibank</td>
<td>11-May-00</td>
<td>J. C.</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>$500</td>
<td>$1500</td>
<td>Bond</td>
<td>$100</td>
<td>$90</td>
<td>Enron Bankruptcy</td>
<td>Citibank</td>
<td>11-May-00</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>$500</td>
<td>$1500</td>
<td>Bond</td>
<td>$100</td>
<td>$90</td>
<td>Enron Bankruptcy</td>
<td>Citibank</td>
<td>11-May-00</td>
<td>J. C.</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>$500</td>
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<td>$100</td>
<td>$90</td>
<td>Enron Bankruptcy</td>
<td>Citibank</td>
<td>11-May-00</td>
<td>J. C.</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>$500</td>
<td>$1500</td>
<td>Bond</td>
<td>$100</td>
<td>$90</td>
<td>Enron Bankruptcy</td>
<td>Citibank</td>
<td>11-May-00</td>
<td>J. C.</td>
<td>713-303-8944</td>
<td></td>
</tr>
</tbody>
</table>

---

1. Bond, Loan, Synd. Loan, SRS, Pd. Rev, Contingent capital commitments, Sec. Trust, First Last Pmt, etc.
2. Site assets underlying transactions and any other structural risk mitigants
3. Ratings based on market valuations
# Enron Direct and Indirect Liability Schedule

<table>
<thead>
<tr>
<th>Name</th>
<th>Size</th>
<th>Date/Time</th>
<th>Direct Liability</th>
<th>Type/Security</th>
<th>Known Investors</th>
<th>Note</th>
<th>Contact Name/Phone Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECLN II</td>
<td>5.1 MB</td>
<td>1695</td>
<td>Bond</td>
<td>35</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Trust Investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ECLN III</td>
<td>6.2 MB</td>
<td>1695</td>
<td>Bond</td>
<td>35</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Trust Investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P_parad IV</td>
<td>5.1 MB</td>
<td>1695</td>
<td>Security</td>
<td></td>
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<td></td>
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<tr>
<td>ECLN IV</td>
<td>6.2 MB</td>
<td>1695</td>
<td>Security</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Trust Investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enron Debt</td>
<td>13.0 MB</td>
<td>1695</td>
<td>Security</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Bond, Loan, Synth, Loan, YFS, Present, Common, Capital, Common, Share, Trust, First Loss, Raze, other.
2. See events matching securities and any other structured risk categories.
3. Ratings based on: Plastics, others.
# Enron Direct and Indirect Liability Schedule

<table>
<thead>
<tr>
<th>Name</th>
<th>Size</th>
<th>Maturity Date/First Date Bond Notes Due</th>
<th>Type</th>
<th>Other Exposure</th>
<th>Equity</th>
<th>What happens if the assets are worthless</th>
<th>Early Repayment Trigger</th>
<th>Event Upon Entering Bankruptcy</th>
<th>Known Investors</th>
<th>Expected Contact - Name/Phone Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edison</td>
<td>$175 MM</td>
<td>9/2002</td>
<td>Loan</td>
<td>$185,000</td>
<td>$200,000</td>
<td>Bankruptcy</td>
<td>Bankruptcy</td>
<td>Bankruptcy</td>
<td>Bankruptcy</td>
<td>Bankruptcy</td>
</tr>
<tr>
<td>JERH II</td>
<td>$210 MM</td>
<td>6/18/02</td>
<td>Loan</td>
<td>$180,000</td>
<td>$180,000</td>
<td>Bankruptcy</td>
<td>Bankruptcy</td>
<td>Bankruptcy</td>
<td>Bankruptcy</td>
<td>Bankruptcy</td>
</tr>
<tr>
<td>AT Holdings</td>
<td>$90 MM</td>
<td>12/06/01</td>
<td>Loan</td>
<td>$100,000</td>
<td>$100,000</td>
<td>Bankruptcy</td>
<td>Bankruptcy</td>
<td>Bankruptcy</td>
<td>Bankruptcy</td>
<td>Bankruptcy</td>
</tr>
</tbody>
</table>

* Bond, Loan, Synthetic Loan, TSLF, Pool, Contingent Capital Commitment, Senior Trust, First Loss Trust, etc.  
* Contingent capital commitment with any other investment sector's protection  
* Ratings based on various rating agencies.
## Enron Direct and Indirect Liability Schedule

<table>
<thead>
<tr>
<th>Name</th>
<th>Size</th>
<th>Maturity Date (Month/Year)</th>
<th>Type</th>
<th>Exposure</th>
<th>Security</th>
<th>What happens if the entity goes bankrupt</th>
<th>Early Repayment Trigger</th>
<th>Entity bankruptcy</th>
<th>Owners</th>
<th>Owners contact phone number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marlin</td>
<td>5475 MM</td>
<td>2/20/02</td>
<td>Bond (Shea Trust)</td>
<td>$0</td>
<td>Enron Convertible Preferred Stock (RtPS), 6.5% Convertible Preferred Stock</td>
<td>March 2003</td>
<td>Enron convertible preferred stock by 50% of March 2003 Total and each quarter thereafter</td>
<td>34/44, Default under indenture</td>
<td>Houston, Texas, Enron Bondholder, 713-494-2351</td>
<td>Houston, Texas, Enron Bondholder, 713-494-2351</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name</th>
<th>Size</th>
<th>Maturity Date (Month/Year)</th>
<th>Type</th>
<th>Exposure</th>
<th>Security</th>
<th>What happens if the entity goes bankrupt</th>
<th>Early Repayment Trigger</th>
<th>Entity bankruptcy</th>
<th>Owners</th>
<th>Owners contact phone number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parental</td>
<td>Up to 250 MM, current data outstanding</td>
<td>1200</td>
<td>Interest on Parental</td>
<td>$0</td>
<td>Parental</td>
<td>March 2003</td>
<td>Enron convertible preferred stock by 50% of March 2003 Total and each quarter thereafter</td>
<td>34/44, Default under indenture</td>
<td>Houston, Texas, Enron Bondholder, 713-494-2351</td>
<td>Houston, Texas, Enron Bondholder, 713-494-2351</td>
</tr>
</tbody>
</table>

1. Bond, Loan, Synthetic Loan, TSU, Parental, Contingent Capital, Subordinated, Shea Trust, First Loss Plan, etc.
2. Lien on underlying investment and any other interrelated risk agreements.
3. Returns based on available data.
# Enron Direct and Indirect Liability Schedule

<table>
<thead>
<tr>
<th>Name</th>
<th>Size</th>
<th>Series</th>
<th>Maturity Date</th>
<th>Due Date for Early Retirement</th>
<th>Type</th>
<th>Citation Expansions</th>
<th>Secured</th>
<th>What Happens if the Metrics are Missed</th>
<th>Early Repayment Triggers</th>
<th>Events upon Early Repayment</th>
<th>Early Repayment Trigger</th>
<th>Enron Related - Provisions</th>
<th>Documents Related to Enron, Other Related</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oncor</td>
<td>$2 425</td>
<td>C00 1</td>
<td>01/19/97</td>
<td>Bond (Shear Trust)</td>
<td>50</td>
<td>Enron MCI Credit Blending (D5 800 800) consisting of [Debt] [Equity] [50% MCI] [25% Oncor] [10% Enron]</td>
<td>Secured</td>
<td>Early repurchase of MCI's equities and/or MCI's shares repurchased by MCI and/or a third party or Enron to the extent that MCI's delisting price drops below $20.00 per share</td>
<td>Within certain time periods, including the early repayment of Enron MCI Credit Blending (D5 800 800) consisting of [Debt] [Equity] [50% MCI] [25% Oncor] [10% Enron]</td>
<td>Enron, related provisions and documents related to Enron, other related</td>
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<td>2001</td>
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<td>2002</td>
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</table>

1 Bond, Loan, Syndicated Loan, TRS, Project, Certain Venture Capital Commitments, Other Trust, Other Loan Trust, Other
2 See note on underlying transaction and any other disclosure risk categories
3 Ratings bond, bond-related

---

**Notes:**

- Enron Direct and Indirect Liability Schedule
- **Oncor:** $2.425 billion, Series C00 1, due 01/19/97, bond held by Shear Trust. The security is secured by Oncor's equipment and other assets.
- **Early Repayment Triggers:**
  - If the delisting price of MCI's shares falls below $20.00 per share, Enron can repurchase MCI's equities and/or repurchase MCI's shares to maintain its delisting price.
- **Events upon Early Repayment:**
  - Within certain time periods, including when the delisting price falls below $20.00 per share.
- **Enron-Related Provisions:** Includes Enron's related provisions and documents related to Enron, other related provisions, and Enron-related provisions and documents related to Enron, other related.
### Enron Direct and Indirect Liability Schedule

<table>
<thead>
<tr>
<th>Name</th>
<th>Size</th>
<th>Type</th>
<th>Early Repayment</th>
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1. Bond, Loan, Synthetic Loan, TBO, Married, Tranche Capital Commitment, Share Trust, First Loss Trust, etc.
2. See notes and other technical details.
3. Tranche bond, stock option, etc.
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<th>Source</th>
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</table>

**Enron Direct and Indirect Liability Schedule**

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CITI-SPSI 0045028
### Enron Direct and Indirect Liability Schedule

| Name          | Size     | Amount     | Type | Chg. Exp. | Security | What happens if the security is worthless | Early repayment triggered | Entry upon EMI/insolvency | Entry upon EMI/insolvency | Entry upon EMI/insolvency | Entry upon EMI/insolvency | Entry upon EMI/insolvency | Entry upon EMI/insolvency | Entry upon EMI/insolvency | Entry upon EMI/insolvency | Entry upon EMI/insolvency | Entry upon EMI/insolvency | Entry upon EMI/insolvency |
|---------------|----------|------------|------|-----------|----------|------------------------------------------|--------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Seaworld     | 150,000  | 121,000    | 10   | 30/0      | 400,000  | Look in CTRs under Credit Swap with Enron Credit Trust. After Enron Credit Trust termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. |
| P-Prepaid 1  | 100,000  | 100,000    | 50   | 25/0      | 300,000  | Hedge provided by Enron Credit Trust in exchange for the credit enhancement. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. |
| B-Prepaid 2  | 150,000  | 150,000    | 50   | 25/0      | 300,000  | Hedge provided by Enron Credit Trust in exchange for the credit enhancement. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. | Bankruptcy                | Enron False in possession of physical securities or any other action for termination of Credit Trust. |

1. Bank, Loan, Synthetic Issuer, TRS, Prepaid, Contingent Capital Commitment, Share Trust, First Loss Pool, others
2. List means underlying commodities and any other collateral with indices
3. Entry upon EMI, early termination
## Enron Direct and Indirect Liability Schedule

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<th>Size</th>
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<th>Date</th>
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<th>Obligee</th>
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<th>Defaulting Currency</th>
<th>Typical Defaulting Currency</th>
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<th>Current Amount</th>
<th>Credit Line Available</th>
<th>Loan Type</th>
<th>Notes</th>
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<td>Proposal</td>
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</tr>
</tbody>
</table>

1. Bond, Loan, Swap, Loan, TBA, Propose, Contingent Capital/Commitment, Swap Note, Fair Loss Floor, etc.
2. Net margin on all swap, commodity futures and any other executory contracts
3. Margin, excess value
## Enron Direct and Indirect Liability Schedule

<table>
<thead>
<tr>
<th>Name</th>
<th>Max</th>
<th>Min</th>
<th>Type*1</th>
<th>Original Exposure</th>
<th>Recovery</th>
<th>What happens if the assets are settled</th>
<th>Early Termination Trigger*2</th>
<th>Event upon Early Termination</th>
<th>Exposure Transfer</th>
<th>Exempted Amount</th>
<th>Exempted Amount Reference</th>
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<td>3M-day RC</td>
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<td>6 Year RC</td>
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<td>Collateral plus 3M Fee</td>
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<td>Equity</td>
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<td>$1 B</td>
<td>Liquidate asset (Net of 3M Fee)</td>
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1. Bond, Loans, Syndicated Loans, TES, Pledged, Commitment, Share Trust, First Loss Note, other
2. List loans revolving transaction and any other structured risk exposure
3. Ratings bond, state relation
Summary of Enron's Capital Market Exposure with Citigroup:

<table>
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<tr>
<th>Derivatives</th>
<th>Current MTM</th>
<th>12/31/99</th>
<th>Collateral</th>
<th>Net Exposure</th>
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<td>Derivatives</td>
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<td>$250MM</td>
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<td>Futures</td>
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<td>$2.76MM</td>
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<td>Other</td>
<td>$877.70MM</td>
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<td>$777MM</td>
<td>$140.70MM</td>
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</table>

Details:

Commodity Derivatives

The Citigroup Commodity Derivatives overall MTM w/ Enron was $55.6MM (Enron owes Citigroup) as of 12/31/99. These trades are documented under an ISDA with Enron North America. The current threshold is $250MM; collateral on hand is $250MM. The call frequency is daily. As per our agreement, the client has 24 hours to post margin. The threshold declines to $50MM, should Enron Corp be downgraded to BBB-/Baa3 and declines to $0 should Enron Corp fall below BBB-/Baa3. PFE on trades is $1.4MM. Details on the gas and oil trades are below.

**Natural Gas Book**

- Average life: 3 years
- Maximum tenor: 7 years (Dec 2008)
- Risk: Exposure to Enron increases as natural gas prices rise. If ENH has deals price off MTM and contract location basis risk is not significant. MTM increases $1.4MM for every -1% rise in natural gas price.
- Stress: MTM increases by $250MM should 3-year forward prices average $6 (as in winter 2000/01).

**Oil Book**

- Average life: 3-4 years
- Maximum tenor: 5 years (Dec 2008)
- Risk profile: Exposure to Enron increases as refining margins narrow. There is no material exposure to outright (directional) prices. MTM increases $2.76MM per 10C narrowing in gasoline crack spreads. Spread exposures to jet fuel & heating oil cracks spreads are not significant.
- Stress: MTM increases by $250MM should forward gasoline crack spreads narrow from average $3.25/barrel to $1.50/barrel.

Foreign Exchange

There are also FX transactions with Enron Corporation, the current MTM is $1.4 MM (Enron owes Citigroup). PFE of 4.4 MM. These are primarily CAD, EUR, MXN, JPY with a small amount of Latin currencies. The trades are short term with tenors of one to six months. Latest maturity is Jan 2, 2002. There is no collateral agreement.

Pre-paid Forward

We have a prepaid forward where Enron must pay us back $250MM in December. Using a triangular structure involving shell corporation/S&W called the Delta Energy Corporation, we loaned Enron 350MM in June 2001. They must pay the loan back with interest in December of this year. This is economically a loan, but it was set up via pre-paid commodity forwards. This form of financing is advantageous to Enron in that it allows the borrowing to be reported as “price risk management” liability rather than debt. In addition, because of the way Enron classifies trading assets/liabilities on the balance sheet, the amount of the borrowing actually is recorded as cash from operations.

Futures

Futures initial margin requirements are $6.4MM; variation margin is $1.4MM. We provide a futures financing line for both initial and variation and we are
currently financing the entire initial and variation margin requirement of $6.4MM. The client is net long 197 NYMEX unleaded gas contracts, net short 1,998 NYMEX Crude Oil and net short 325 contracts of NYMEX Heating Oil. Net liquidating value on the account is $2.76MM (Enron owes $55).

Pbbro

Pbbro has a current MTM of $57MM (Enron owes Pbbro) of which $73MM is collateralized. There are three entities trading with Pbbro: Enron North America which has a $150MM threshold for Commodity Swaps and Options and a $270MM threshold for Emission Credits contracts. The threshold in the Pbbro agreements drops to zero if Enron is rated below investment grade by both rating agencies. Enron Capital International has $2MM of the above stated MTM exposure, with no collateral agreement. The third entity is Enron Reserve, all trades are closed, and the loss of $700MM to Enron is locked in. The receivable is due at the end of November.

CLARE

We have done 4 Credit Linked Note deals (totaling approximately $7.3 Billion) that essentially have allowed Enron to borrow funds in the public market and enter into prepaids. The investors have effectively "loaned" Enron the money, not Citibank. Citibank assumes basis risk. The basis risk being the difference between the recovery rate of a derivatives claim (which can be delivered to investors on the occurrence of an Enron Credit Event) and the recovery rate of a senior secured debt obligation. These deals were approved with zero PFE. (These deals are sometimes referred to as Credit Linked Notes or the Vostermans structure.)

Prepared By: Elona Mattrile
Murray Barnes
October 25, 2001

CONFIDENTIAL
Project 10
Due Diligence Findings

November 7, 2001
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VIII. Off Balance Sheet Financings
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   B. Share Trusts
   C. Minority Interest Financings
   D. FAS 125/140s Total Return Swaps ("TRS")
   E. Other Structured Transactions
   F. Guarantees, Leases & Non-Recourse Debt

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   I. Citigroup Team
   II. Financial Market Reaction
   III. Credit Approval Memo
Executive Summary

Purpose

- To complete due diligence in conjunction with Citigroup’s commitment to provide $600 MM of financing to Enron.

The Financing

- $1.0 B ($600 MM - Cit; $400 MM - Chase), 364-day Facility to a bankruptcy remote operating company owned 100% by Enron, secured by the stock and assets of Northern Natural Gas and Transwestern Pipeline Company.

- Proceeds will be used to provide liquidity to Enron and refinance our existing $250 MM Perpetual exposure.

Enron’s Financial Status

- Enron is suffering from a severe liquidity crisis, and lack of investor confidence. Through 12/31/02, we estimate that Enron has no limited short term sources of liquidity, and no limited access to the capital markets. With a further loss of trading counterparty confidence, Enron could have an immediate and incremental $1 B need.

- Adding back off balance sheet debt (excluding non-recourse debt), Enron’s debt/EBITDA of 8.8x pro-forma. Rating agencies have downgraded Enron to BB/Baa2 both with negative outlook. Fitch downgraded Enron to BB/- with a negative outlook. Enron’s bonds are trading at 70-75 and its stock closed on 11/5 at $11.17/share, down from a peak of $90.00 on August 17, 2000.
Executive Summary

Enron’s Trading Operations

- Highly profitable, market dominant gas & power trader
- Risk levels moderately high but recently reduced 50%
- Significant liquidity needs going forward
- Reserve policy highly discretionary; prudence reserve currently $1.2 B, used to dampen earnings volatility

Strategic Alternatives

- Enron has held discussions with potential private equity investors regarding the feasibility of a substantial capital injection
- Enron has also been in discussions with Rockne regarding a potential merger-of-equals, which would include an upfront investment of $1.5 B in preferred stock in Enron’s pipeline subsidiary. The upfront investment would be funded by Rockne’s 20% shareholder, Heimann
- Other strategic investors have expressed interest in talking to Enron
- Enron’s board has met frequently over the last 2 weeks and has reviewed the status of discussions with third parties. A decision regarding a merger with Rockne may be taken as early as November 7th
Executive Summary

SEC Investigation

- The SEC has initiated a formal investigation into the dealings of Enron, its former CFO, and an investment partnership, LJM, run by the former CFO, focusing on related party issues.

- The investigation could well lead to broader scrutiny of Enron’s accounting practice particularly as it relates to Enron’s treatment for off balance sheet debt and revenue recognition.

- The scope and magnitude cannot be accurately determined at this time. A special committee of the Board has been formed and with outside legal and accounting advice, is investigating the matter. Enron’s written response is expected within the week.

Citigroup Franchise Issues

- Citigroup has originated Enron structured transactions that provided off balance sheet and/or non debt categorized financings
  - Six structured financings (CLN) with associated Prepays underwritten/placed into public markets - $2.4 B
  - Two Minority Interest financings funded in the Citibank CP conduit market - $1.24 B
  - One equity investment of $25 MM with an additional contingent equity obligation of $160 MM
  - One synthetic lease transaction funded in the Citibank CP conduit - $740 MM
  - One Financial “Gas” Prepay - $250 MM
  - One Contract Monetization funded in the Citibank CP conduit - $150 MM

- Citigroup securitization vehicles have funded $744 MM of transactions with backstops provided by the banks

- Travelers/Citibank have invested $15 MM in LJM

- LJM is an equity investor in one of our Minority Interest Financings (Rawhide)
Executive Summary

Citigroup Exposure

$ 322 MM Direct Enron Risk
$ 314 MM Structured Enron Risk - Unsecured (includes Prepay)
$ 211 MM Structured Enron Risk with Asset Support
$ 62 MM Non Recourse to Enron
$ 28 MM Equity Investment in Enron Affiliate
$ 302 MM Travelers Surety Bonds

(3. 65 MM Credit Derivatives (execute 1/7/2001))

$1,174 MM Subtotal

$ 600 MM of New Exposure
(2. 250 MM Production of Proper exposure)

$1,524 MM Total

Structure of the Financing

- Borrower is bankruptcy remote, unable to voluntarily file for bankruptcy without consent of all shareholders.
- Secured by the stock and assets of Transwestern and Northern Natural Gas.
- We believe 75% of the value of the asset collateral can be fully perfected at time of funding (and within 10 days thereafter). 100% of the stock will be fully perfected at closing.

Value of Loan Collateral

- Transwestern and Northern Natural are stable, consistent FERC regulated gas pipelines generating combined EBITDA of $385 MM with a combined firm value of $1.2 - $3.3 B giving us a loan/value of 40%.
Executive Summary

Recommendation/Rationale

- We confirm completion of our due diligence and recommend both removing the due diligence contingency from the commitment letter and proceeding to financial close pending satisfactory review of Enron's response to the SEC investigation which is expected later this week;

- We have a bankruptcy-remote structure with perfected collateral that provides significant collateral coverage; and

- We provide the company with additional liquidity to execute its strategic alternatives.
Executive Summary

Next Steps

- Financing
  - Obtain SEC filing response
  - Consider timing of putting the $744 MM of CP conduit outstandings to backstop banks
  - Full legal review of existing transactions
  - Determine new clearing limits

- Strategic
  - Boards of the two merging companies expected to approve this transaction as early as Wednesday, November 7 or Thursday, November 8.
  - Citigroup will deliver its fairness opinion with regard to the merger on November 7.
  - Upon filing of HSR (expected as early as November 7 - 8), Enron will receive $1.5 billion in exchange for shares of Preferred Stock in Northern Natural (exchangeable into shares of Enron Common).
    - This should substantially enhance Enron's short-term liquidity.
  - The announcement of the merger should have a strong positive impact in re-establishing market's confidence in Enron.
### Overview of Enron's Business Segments

<table>
<thead>
<tr>
<th>Segments</th>
<th>% of 2001 EBIT</th>
<th>% of EBIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing and Trading</td>
<td>95.1%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Offers commodity sales and service, risk management products and financial services to wholesale customers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Develops, acquires and operates power plants, natural gas pipelines and other energy-related assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operates in developed markets such as North America and Europe, as well as newly deregulating or developing markets including Japan, Australia, South America and India</td>
<td></td>
</tr>
<tr>
<td>Transportation and Distribution</td>
<td>17.2%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operates domestic interstate natural gas pipelines, including Northern Natural Gas, Transwestern Pipeline and Florida Gas Transmission (50% owned); also owns 70% interest in Northern Border Partners, L.P.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provides electric utility operations in the state of Oregon through Portland General Electric, serving approximately 725,000 customers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Purchases, gathers, transports, trades, stores and resells crude oil and refined petroleum products through EOTT Energy Partners, L.P.</td>
<td></td>
</tr>
<tr>
<td>Retail Energy Services</td>
<td>0.9%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provides energy outsourcing products and services to business customers</td>
<td></td>
</tr>
<tr>
<td>Broadband Services</td>
<td>(18.2%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provides bandwidth management, intermediation services and high-quality content delivery services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Owns or has contractual access to approximately 18,000 miles of a fiber optic network</td>
<td></td>
</tr>
</tbody>
</table>
### Historical and Projected EBIT by Segment

Wholesale Services has grown at a CAGR of 45.7% from 1998 to 2001 and continues to represent the majority of Enron's EBIT.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation and Distribution</td>
<td>$637.0</td>
<td>$585.0</td>
<td>$722.0</td>
<td>$540.0</td>
<td>(5.3%)</td>
</tr>
<tr>
<td>% of Total</td>
<td>49.9%</td>
<td>34.1%</td>
<td>28.9%</td>
<td>31.1%</td>
<td></td>
</tr>
<tr>
<td>Wholesale Services</td>
<td>908.0</td>
<td>1,377.0</td>
<td>2,295.0</td>
<td>2,998.4</td>
<td>45.7%</td>
</tr>
<tr>
<td>% of Total</td>
<td>64.6%</td>
<td>69.9%</td>
<td>87.1%</td>
<td>122.2%</td>
<td></td>
</tr>
<tr>
<td>Retail Energy Services</td>
<td>(119.05)</td>
<td>(68.00)</td>
<td>115.0</td>
<td>187.2</td>
<td>NM</td>
</tr>
<tr>
<td>% of Total</td>
<td>-7.3%</td>
<td>-3.4%</td>
<td>6.8%</td>
<td>10.9%</td>
<td></td>
</tr>
<tr>
<td>Broadband Services</td>
<td>-</td>
<td>-</td>
<td>(20.0)</td>
<td>(572.3)</td>
<td>NM</td>
</tr>
<tr>
<td>% of Total</td>
<td>-</td>
<td>-</td>
<td>-2.4%</td>
<td>-32.9%</td>
<td></td>
</tr>
<tr>
<td>Corporate and Other</td>
<td>96.00</td>
<td>81.00</td>
<td>(615.0)</td>
<td>(1,411.4)</td>
<td>NM</td>
</tr>
<tr>
<td>% of Total</td>
<td>6.1%</td>
<td>2.7%</td>
<td>-24.6%</td>
<td>-98.1%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,582.0</td>
<td>1,562.0</td>
<td>2,482.0</td>
<td>1,746.4</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

Source: Enron. Estimate for 2001 is annualized performance of the first three quarters.
## Enron’s Projected Asset Sales

### 4th Quarter 2001 and 2002

- Projected 4th quarter Asset Sales are reasonably certain

<table>
<thead>
<tr>
<th>Asset Sales</th>
<th>4Q Expected Closing</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>OEG/OFXO - 7773</td>
<td>$247</td>
<td>Nov 01</td>
</tr>
<tr>
<td>Entrinsic - 2001</td>
<td>333</td>
<td>2001</td>
</tr>
<tr>
<td>ENX - 1120</td>
<td>245</td>
<td>Nov 01</td>
</tr>
<tr>
<td>Axtela North America</td>
<td>133</td>
<td>2001</td>
</tr>
<tr>
<td>Total (includ ed in 4Q 01)</td>
<td>$962</td>
<td></td>
</tr>
</tbody>
</table>

### Asset Sales Enron Projected in 2002

($ in millions)

<table>
<thead>
<tr>
<th>Asset</th>
<th>2002</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portland General Electric</td>
<td>$1,000</td>
<td></td>
</tr>
<tr>
<td>Enextran Corp</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>SK Enron</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Geoport</td>
<td>205</td>
<td></td>
</tr>
<tr>
<td>Merchant Portfolio</td>
<td>350</td>
<td></td>
</tr>
<tr>
<td>Other Total</td>
<td>325</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$2,800</td>
<td></td>
</tr>
</tbody>
</table>

- Includes various other assets
- Includes assets in Poland, Asia, Transocean, Califa and various other assets.

- Sale of Brazil distribution company under contract with Petrobras
- Sale agreement signed with British Gas. Reliant must waive right to terminate operator or change of control.
- Enron selling 6% interest to Mirant. Some outstanding issues. Bank consent is required. non- eve. plan will be rescinded.
- Axtela due to high yield covenants.

- Enron's wholly owned electric subsidiary in Oregon. Contract signed with Northwest Natural Gas. Manufacturer and developer of wind power, providing power plant design and engineering. Company has attempted to sell.
- Korean gas distribution company and JFK hyperbaric tank. A wholly owned subsidiary of Enron. Geopart owns interests in seven Brazil oil fields.
Pro Forma Credit Ratio Analysis

Adding all of Enron's Off Balance Sheet Debt ($16 B), the company's debt/cap ratio is expected to rise to 69% at 12/31/01.

Potential equity write downs of $5 B could raise Enron's projected debt/cap to 79% by year-end.

<table>
<thead>
<tr>
<th>Pro Forma</th>
<th>Pro Off DS</th>
<th>Pro Non</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Sheet</td>
<td>Obligations</td>
<td>Resource Debt</td>
</tr>
<tr>
<td>Total Debt</td>
<td>$12.927</td>
<td>$20.036</td>
</tr>
<tr>
<td>Total Equity (includes Preferred &amp; Minority Interest)</td>
<td>12.789</td>
<td>12.789</td>
</tr>
<tr>
<td>Total Equity (w/ addition of $5.0 B equity write-down)</td>
<td>7.793</td>
<td>7.793</td>
</tr>
<tr>
<td>Debt / Capitalization</td>
<td>52.3%</td>
<td>79.9%</td>
</tr>
<tr>
<td>Debt / EBITDA (x)</td>
<td>3.02x</td>
<td>9.80x</td>
</tr>
</tbody>
</table>

Credit Ratios

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>$3.300</td>
<td>$3.337</td>
<td>$2.865</td>
<td>$2.459</td>
</tr>
<tr>
<td>FFO</td>
<td>1.230</td>
<td>1.230</td>
<td>1.087</td>
<td>1.087</td>
</tr>
<tr>
<td>Total Balance Sheet Debt</td>
<td>12.927</td>
<td>10.229</td>
<td>6.182</td>
<td>7.557</td>
</tr>
<tr>
<td>Total Equity After the $2.3 B write-down in 3Q01</td>
<td>7.793</td>
<td>11.470</td>
<td>8.910</td>
<td>7.508</td>
</tr>
<tr>
<td>Total Adj. Equity (includes debt of $3.0 B write-down)</td>
<td>4.490</td>
<td>4.460</td>
<td>4.409</td>
<td>4.409</td>
</tr>
<tr>
<td>Total Balance Sheet Debt/Capitalization (%)</td>
<td>43.2%</td>
<td>44.3%</td>
<td>42.9%</td>
<td>47.9%</td>
</tr>
<tr>
<td>Total Debt / EBITDA (x)</td>
<td>3.02x</td>
<td>3.07x</td>
<td>2.85x</td>
<td>2.05x</td>
</tr>
<tr>
<td>EBITDA / Interest (x)</td>
<td>1.73x</td>
<td>1.74x</td>
<td>1.74x</td>
<td>1.74x</td>
</tr>
<tr>
<td>EBITDA - Capital Interest (x)</td>
<td>1.44x</td>
<td>1.44x</td>
<td>1.44x</td>
<td>1.44x</td>
</tr>
</tbody>
</table>

(1) Structured Debt includes Ogeezy ($2.6 B), Marlin ($915 MM) & Other Outstanding Structured Debt (approx. $1.6 B), such as VPPs, Contract Monetizations, and Synthetic Leases

14
Financing Terms & Conditions*

* See Appendix for Full Credit Memo
# Northern Natural Financing

<table>
<thead>
<tr>
<th>Borrowers:</th>
<th>Northern Natural Gas Pipeline Company (&quot;NNG&quot;)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating:</td>
<td>BBB/Baa2 (Senior unsecured)</td>
</tr>
<tr>
<td>Amount:</td>
<td>$400.0 MM</td>
</tr>
<tr>
<td>Upsize Option:</td>
<td>$550.0 MM</td>
</tr>
<tr>
<td>Clp Commitment:</td>
<td>$270.0 MM</td>
</tr>
<tr>
<td>New Money:</td>
<td>$157.5 MM</td>
</tr>
<tr>
<td>Assumption of Prepay:</td>
<td>$112.5 MM</td>
</tr>
<tr>
<td>Guarantor:</td>
<td>Enron Corp.</td>
</tr>
<tr>
<td>Terms:</td>
<td>364 days</td>
</tr>
<tr>
<td>Collateral:</td>
<td>• Pledge of stock of NNG</td>
</tr>
<tr>
<td></td>
<td>• Lien on all assets (subject to agreed exceptions)</td>
</tr>
<tr>
<td></td>
<td>• Pledge of unsecured intercompany note from Enron</td>
</tr>
<tr>
<td>Undrawn Pricing:</td>
<td>$10 bps</td>
</tr>
<tr>
<td>Drawn Pricing:</td>
<td>LIBOR + 250 bps or Base Rate + 150 bps</td>
</tr>
<tr>
<td>Key Borrower Covenants:</td>
<td>• Minimum Tangible Net Worth of $750 MM (actual 9/30/01: $1,087MM)</td>
</tr>
<tr>
<td></td>
<td>• Prohibition of additional debt (subject to agreed exceptions)</td>
</tr>
<tr>
<td></td>
<td>• Limitation on liens and asset sales</td>
</tr>
<tr>
<td></td>
<td>• Prohibition on intercompany advances when:</td>
</tr>
<tr>
<td></td>
<td>(i) a default has occurred at either the Borrower or Guarantor,</td>
</tr>
<tr>
<td></td>
<td>(ii) the sum of Borrower's cash and availability under the Facility is less than $30 MM, or</td>
</tr>
<tr>
<td></td>
<td>(iii) when Guarantor is no longer investment grade.</td>
</tr>
<tr>
<td>Mandatory prepayment:</td>
<td>• Required by an amount equal to net cash proceeds from asset sales, equity issuances or capital markets transactions (subject to agreed exceptions) at NNG</td>
</tr>
<tr>
<td>Events of Default:</td>
<td>• Failure to pay principal or interest when due (5-day grace period)</td>
</tr>
<tr>
<td></td>
<td>• Failure to comply with covenants (5-day grace period)</td>
</tr>
<tr>
<td></td>
<td>• Cross default to Debt of Borrower greater than $10 MM</td>
</tr>
<tr>
<td></td>
<td>• Event of Default under Enron's $1.75 B 364-day revolver or Enron's $1.25 B multi-year revolver</td>
</tr>
<tr>
<td></td>
<td>• Bankruptcy or insolvency or Enron</td>
</tr>
<tr>
<td></td>
<td>• Enron ceases to own 100% of Borrower</td>
</tr>
<tr>
<td></td>
<td>• Failure to create a valid and perfected security interest in collateral (subject to agreed exceptions)</td>
</tr>
</tbody>
</table>
### Pipeline Description and Financial Summary

<table>
<thead>
<tr>
<th>Pipeline Description</th>
<th>Transwestern</th>
<th>Northern Natural</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-Service Date</td>
<td>1959</td>
<td>1940</td>
</tr>
<tr>
<td>Service Area</td>
<td>West Texas to California Border, bi-directional</td>
<td>Texas and Oklahoma to Monroeville, Michigan and Illinois</td>
</tr>
<tr>
<td>Capacity</td>
<td>1.1 Tlsuil (East-West), .89 Tlsuif (West-East)</td>
<td>4.5 Tlsuif (North Section), 1.6 Tlsuif (South Section)</td>
</tr>
<tr>
<td>2000 Throughput</td>
<td>1,057 Tlsuif</td>
<td>3.5 Tlsuif</td>
</tr>
<tr>
<td>Utilization Rate</td>
<td>83%</td>
<td></td>
</tr>
</tbody>
</table>

**FERC - Regulated Tariffs**

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>West</td>
<td>0%</td>
<td>77%</td>
<td>77%</td>
<td>77%</td>
</tr>
<tr>
<td>East</td>
<td>0%</td>
<td>77%</td>
<td>77%</td>
<td>77%</td>
</tr>
</tbody>
</table>

**% Capacity Subscribed through 2005:**

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>West</td>
<td>0%</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>East</td>
<td>0%</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
</tr>
</tbody>
</table>

**% Revenues from capacity reservation changes:**

<table>
<thead>
<tr>
<th></th>
<th>Paid whether or not gas is shipped</th>
<th>Paid whether or not gas is shipped</th>
</tr>
</thead>
</table>

**Financial Summary**

<table>
<thead>
<tr>
<th></th>
<th>Transwestern</th>
<th>Northern Natural</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006 EBITDA</td>
<td>$120M</td>
<td>$205M</td>
</tr>
<tr>
<td>2001 EBITDA</td>
<td>$148M</td>
<td>$237M</td>
</tr>
</tbody>
</table>

**EBITDA Annual AAR growth rate, 2005-2006:**

- 7.0%; Growth source is mainly capacity payments arising from projects being completed
- 0%; little expansion capacity and otherwise stable market

**Latest Senior Unsecured Rating:**

- BBB

**Existing Debt (Manuf/Plant):**

<table>
<thead>
<tr>
<th>Year</th>
<th>Transwestern</th>
<th>Northern Natural</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$11.5MM</td>
<td>$100MM</td>
</tr>
<tr>
<td>2006</td>
<td>$150MM</td>
<td>$250MM</td>
</tr>
<tr>
<td>2007</td>
<td>$200MM</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>$300MM</td>
<td></td>
</tr>
</tbody>
</table>

**Total Existing Debt:**

- $11.5MM

**Enterprise Valuation:**

- $1.5 - $1.7B; based on DCF analysis, 10x EBITDA multiple
- $2.2 - 2.5B; based on DCF analysis, 8x EBITDA multiple
## Credit Issues

<table>
<thead>
<tr>
<th></th>
<th>Transwestern</th>
<th>Northern Natural</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stable Predictable EBITDA</strong></td>
<td>High Utilization rate, capacity charges account for 90% of revenue. Opportunities for contracted expansions leverage ratios sufficiently robust to permit a decline in firm shippers at next rate setting.</td>
<td>Capacity charges account for 85% of revenues. This is a very important mid-Western pipeline that enjoys a strong market position with many local gas distribution companies.</td>
</tr>
<tr>
<td><strong>Pipeline Competition:</strong></td>
<td>Many proposals to add capacity in California market but these may bring gas from other supply basins. San Juan basin and other suppliers will need to compete using wellhead prices. Closed competitor is 100% sold out.</td>
<td>Impact of new Alliance pipeline and Northern Border expansion have already been set in northern and eastern portions of the service area. Very large number of gas delivery points an advantage.</td>
</tr>
<tr>
<td><strong>FERC Regulation</strong></td>
<td>Expansive capital expenditures are not usually undertaken unless the new capacity is deemed necessary. Necessary is typically defined as being required to expand the firm, transportation service and connecting to pay whether or not gas is actually shipped.</td>
<td>Same</td>
</tr>
<tr>
<td><strong>Leverage</strong></td>
<td>Pro-forma for this transaction, book leverage will be approximately 50%. Debt can also be amortized if needed. Too much leverage might persuade FERC to lower tariffs since the cost of debt is less than the target ROE.</td>
<td>Similar, except that the age of the pipeline and lack of expansion capital expenditures may affect rate FERC acceptability. Impact might be to impose higher leverage; in rate case, thus lowering the tariff slightly. Unlikely since debt pays down to 40% leverage by end 2004, close to leverage at last rate case.</td>
</tr>
<tr>
<td><strong>Collateral</strong></td>
<td>Security interest in accounts receivable and inventory, mortgage on pipeline and the stock. Cross collateralized.</td>
<td>Same</td>
</tr>
<tr>
<td><strong>Cash Management System</strong></td>
<td>Cash is consigned at Enron with cash from other Enron businesses. This is important for Enron since these pipeline companies are an important source of cash. If a cash sweep becomes necessary, an appropriate mechanism could be put in place.</td>
<td>Same</td>
</tr>
<tr>
<td><strong>Pending Litigation</strong></td>
<td>Enron Transportation Services’ general counsel has informed us that there is no pending or threatened material (greater than $100,000) environmental lawsuits or investigations. An Administrative Law Judge recently decided favorably on Transwestern’s tabular index testing. At risk is a 10.5 MM bbl payment. FERC will act as an appellate court.</td>
<td>Same</td>
</tr>
</tbody>
</table>
| **Pipeline Safety Legislation** | Depends on the proposed test for about $30 MM during 2003-04 if legislation is enacted as expected, expect cost recovery through tariff. | Expects $277 MM over 10 years, legislation not yet enacted, expect recovery through rates, included in forecast.
## Ways Out

<table>
<thead>
<tr>
<th>Refinance:</th>
<th>Transwestern</th>
<th>Northern Natural</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Refinancing entire $650 MM in bond market would maintain financial ratios within FERC parameters.</td>
<td>A large portion of the new debt could be refinanced in the bond market while maintaining target FERC ratios.</td>
</tr>
<tr>
<td>Sell:</td>
<td>Enterprise value of $1.5 B is more than twice the $650 MM of debt</td>
<td>$1.05 B of debt vs. enterprise value of $2.2 B.</td>
</tr>
</tbody>
</table>

**Cash flow:**

| Date repayment expected: | 2013 if cash swept beginning 1/1/03; 2010 in management projections. | 2014 if cash swept beginning 1/1/03; 2011 in management projections. |
Collateral Perfection

- Prior to Closing, we intend to file UCC-1’s with the Secretary of the State of Delaware (where the pipeline companies are incorporated) as well as the Secretary of State of each state through which the pipelines pass.
  - Pursuant to the UCC, our security interest will be perfected in all shipper contracts, receivables, inventory, pipe, compressors and other equipment.
  - The net book value of pipes, compressors and receivables at NNG is $800 MM, $450 MM and $29 MM respectively at 9/30/01. These same values at TW are $282 MM, $495 MM and $16 MM respectively.
  - We plan to deliver the UCC-1’s tomorrow (11/5) or Tuesday (11/6) and obtain the signed/stamped UCC-1 by the end of the week – November 9.
- We perfect on the value of the Borrowers stock by taking physical possession at Closing.
- With respect to the real property – gas storage facilities, easements, rights-of-way, and any parcels of land are more problematic.
  - Our thought is that the real property with the highest value that we can get to immediately (i.e. within 10 days of Closing) are the gas storage fields.
  - Enron thinks that the description of real property rights relating to at least a portion of these facilities is available now.
  - Ideally, these liens would be taken and perfected either before Closing or within the 10-day period following Closing.
  - In addition, we can be perfected as to all of the real property in some states, such as Texas, either before Closing or within the 10-day period following Closing.
## Existing Citigroup Exposure

<table>
<thead>
<tr>
<th>Name</th>
<th>Type</th>
<th>Citibank Commit</th>
<th>Risk Rating</th>
<th>Maturity Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity Trading</td>
<td>PSA Exposure</td>
<td>$180,000</td>
<td>4</td>
<td>up to 3 years</td>
</tr>
<tr>
<td>Cash Management</td>
<td>CD Lines</td>
<td>16,606</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Foreign Exchange</td>
<td>PA/PSR</td>
<td>7,182</td>
<td>4</td>
<td>02/13/03</td>
</tr>
<tr>
<td>Letter of Credit Facility</td>
<td>Energy Corp</td>
<td>18,937</td>
<td>4</td>
<td>02/14/03</td>
</tr>
<tr>
<td>5-year E/C</td>
<td>Energy Corp</td>
<td>33,333</td>
<td>4</td>
<td>05/18/03</td>
</tr>
<tr>
<td>364-day E/C</td>
<td>Energy Corp</td>
<td>65,933</td>
<td>4</td>
<td>03/13/02</td>
</tr>
<tr>
<td>Total Direct Corporate</td>
<td></td>
<td><strong>$222,886</strong></td>
<td>4</td>
<td>05/13/02</td>
</tr>
<tr>
<td>Structured Corporate Risk-Corporate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secured</td>
<td>Structured</td>
<td>$254,000</td>
<td>4</td>
<td>12/31/01</td>
</tr>
<tr>
<td>Yankee 1</td>
<td>Structured</td>
<td>37,000</td>
<td>4</td>
<td>11/18/04</td>
</tr>
<tr>
<td>Yankee 2</td>
<td>Structured</td>
<td>16,137</td>
<td>4</td>
<td>02/13/01</td>
</tr>
<tr>
<td>Total Structured Unsecured</td>
<td></td>
<td><strong>$317,136</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structured Corporate Risk-Asset Supported</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structured</td>
<td>Structured</td>
<td>$24,286</td>
<td>2</td>
<td>07/12/00</td>
</tr>
<tr>
<td>Energy Funding</td>
<td>Structured</td>
<td>42,000</td>
<td>5</td>
<td>02/10/02</td>
</tr>
<tr>
<td>TotalPool A Notes</td>
<td>Structured</td>
<td>6,168</td>
<td>5</td>
<td>02/10/02</td>
</tr>
<tr>
<td>JT Holdings</td>
<td>Structured</td>
<td>66,812</td>
<td>4</td>
<td>03/31/00</td>
</tr>
<tr>
<td>TotalUnpaid</td>
<td>Structured</td>
<td>20,000</td>
<td>4</td>
<td>02/06/01</td>
</tr>
<tr>
<td>Total Structured Secured</td>
<td></td>
<td><strong>$211,281</strong></td>
<td>4</td>
<td>07/02/01</td>
</tr>
<tr>
<td>Non Recourse</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dابل</td>
<td>Non-Recourse</td>
<td>$7,143</td>
<td>9</td>
<td>02/28/01</td>
</tr>
<tr>
<td>Overseas</td>
<td>Non-Recourse</td>
<td>47,474</td>
<td>4</td>
<td>09/30/03</td>
</tr>
<tr>
<td>EcuStates</td>
<td>Non-Recourse</td>
<td>6,790</td>
<td>3</td>
<td>09/16/04</td>
</tr>
<tr>
<td>Total Non-Recourse Debt</td>
<td></td>
<td><strong>$61,907</strong></td>
<td>4 to 5</td>
<td>07/02/01</td>
</tr>
<tr>
<td>Loan</td>
<td>Credit Duration</td>
<td><strong>$65,000</strong></td>
<td>4</td>
<td>12/31/01</td>
</tr>
<tr>
<td>Total Citibank Committed Exposure</td>
<td></td>
<td><strong>$443,987</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TraiLaLa</td>
<td></td>
<td><strong>$300,000</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Investments</td>
<td></td>
<td><strong>$200,000</strong></td>
<td></td>
<td>up to 4 years</td>
</tr>
<tr>
<td>Total Existing Citigroup Exposure</td>
<td></td>
<td><strong>$1,173,987</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing Limit</td>
<td>DOL</td>
<td>1,564,485</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Cash Lines</td>
<td>CD Lines</td>
<td>15,600</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Settlement Limit</td>
<td></td>
<td>30,300</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

(1) $33 MM Mark-to-Market, $129 MM M/L IV  (2) Up to $160 MM Unfunded Contingent Liabilities
## Citigroup Exposure

### Gas Prepay

**Size:** $250 MM, plus $4 MM PSR  
**Discussion:** A six-month gas prepay transaction terminating December 2001 that created a price risk management liability on Enron's balance sheet. A three-party OTC gas transaction documented under ISDA's backed by an Enron Corp. guarantee. The fixed leg was prepaid to Enron via the third party, and repayment to Citi is both directly from Enron via the fixed leg and indirectly from Enron through the third party via the floating leg.

### Yosemite 1 & 2

**Size:**  
- $35 MM (Yosemite 1)  
- $16 MM (Yosemite 2)  
**Discussion:** Represents the equity in two CLN-funded commodity prepay transactions. Y1 is a US$800 MM CLN terminating November 2003, and Y2 is a $200MM CLN terminating January 2007. Both transactions appear on Enron's balance sheet as price risk management liabilities. Enron uses prepayps to monetize the mark-to-market value in its trading book. Citi's exposure represents a PSR line for a total return swap with a balance sheet provider who purchased equity certificates issued by the trust in each transaction (i.e., Citi synthetically purchased the equity interest, and the balance sheet provider is exposed to SSB risk only). Structural elements equate equity certificate exposure with Enron Corp. senior unsecured credit risk. Citi's exposure is 50% of the trust's equity.

### Coal Monetization

**Size:** $6 MM  
**Discussion:** Represents our hold in a $123MM remaining balance of an original $150MM monetization of the minimum required payments under a royalty stream related to a coal lease assignment between Reliant Energy HLP, a division of Reliant Energy, and Delec Properties Limited Partnership ("DPLP"), a subsidiary of Enron. The transaction is funded via CitiBank CP conduit; the liquidity backstop rolls every 364-days, and the financing terminates in 2012. Citi can elect to put the funding to the banks whenever it chooses. Enron covers the cost of carry (interest, fees etc.). in the monetization through an exchange payment mechanism. From a risk perspective, the facility is comprised of the HLP risk, which is approximately $90 MM, and the Enron risk of approximately $33 MM. GNP — Global Power carries an $18 MM exposure representing the HLP portion held by CitiBank in this transaction.
**Citigroup Exposure**

**Nahanni**  
Size: $24 MM  
Discussion: Presently unused, represents the GRB OSUC attributable to a $485 MM minority interest financing that also permits re-characterization of cash flow to reduce volatility of operating cash flow (at the expense of increasing volatility in cash flow from financing activities). Terminates December 2004. Structurally, Citibank is in the same position as a lender to Enron, however our position is much improved because we are secured by treasury securities (or cash proceeds therefrom). The structural elements (bankruptcy remote, third-party custodian, etc.) insulate Citibank as a liquidity provider from the bankruptcy of Enron. Events of default/termination include 1) $100 MM cross-acceleration, 2) Enron bankruptcy, 3) Enron ratings of BBB- and Baa, and 4) $100 MM judgement. Enron is presently considering canceling this facility.

**Enron Funding**  
Size: $42 MM  
Discussion: Backstops an insurance wrapped $500 MM A1/P1 CP conduit that was put in place in order to diversify Enron's funding sources by transferring the credit risk of the surety provider. It is renewed annually with the next renewal date in March 2002. If the facility is drawn and Enron cannot repay, our repayment source is the insurance provider (minimal rating of AA+). The present insurer is Winterthur International Insurance Co., Ltd (AA-Aa3). Winterthur can assign with consent of lenders to another AA+ surety. Enron guarantees the obligations of EFC, and the guarantee contains standard Enron financial covenants (max debt/cap of 65%). Although a breach of the guaranty does not allow us to demand payment, it does prohibit the issuance of CP (effectively limiting the banks' commitment to the outstanding CP). Any outstanding CP must be refinanced by the facility. Any payment default by EFC or Enron (under its guarantee) is reimbursed by the insurance company within 7 business days after demand. In the event of Enron bankruptcy, we are required to refinance outstanding CP; however, Enron is required to rep and warrant that the insurance policy is still available to fully repay the revolver outstandings. The surety can terminate their obligation if (a) Enron Corp is downgraded below BBB-/Baa3) by any two of four rating agencies (S&P, Moody's, Duff & Phelps, Fitch) or (b) at any rollover date (30-day period), if the credit wrap is terminated or not renewed, then any outstanding CP would be covered for a 30-day period and EFC would be prohibited from issuing any additional CP. Tenor of CP is limited to 90 days.
# Citigroup Exposure

## Turbo Park

<table>
<thead>
<tr>
<th>Size</th>
<th>$69 MM (A-Notes)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 6 MM (B-Notes)</td>
</tr>
</tbody>
</table>

**Discussion:** Represents our portion of a $600 MM off-sheet financing of all costs incurred in the acquisition, ownership, development, construction, operation and maintenance of gas-fired power projects in the US. Commonly known as a turbine warehouse facility, the structure preserves synthetic lease accounting treatment for power plants throughout their life in the structure. Final maturity of March 2008, although likely to terminate March 2004. Only $2.5 MM and $0.2 MM are presently drawn under the A-Notes and B-Notes, respectively. Usage is low because Enron's strategy since closing has changed such that they now typically develop power peaker projects to the point that they are ready to be built, and then sell them. The facility is available to be drawn only for the purposes noted above, it is not available for general corporate purposes. Enron guarantees the obligations of its subsidiaries. In the event of guarantor default (covenants and defaults consistent with corporate revolvers), recourse under both branches is to both Enron and the underlying collateral. In the event of collateral liquidation (e.g., Enron is unable to repay the loan), the A-Notes are paid prior to the B-Notes. While it is very difficult to estimate the value of the collateral, which presently consists of plants in development, 25% to 50% of the value is presently estimated to be hard assets.

## JT Holdings

| Size | $20 MM |

**Discussion:** Represents our portion of $59.2 MM of A-Notes under a $74 MM synthetic lease of a methanol plant located in Pasadena, Texas. The methanol plant is the remaining asset in this original $740 MM facility (the others have been sold). The A-Notes are recourse to Enron, but can share pari passu with the B-Notes in a collateral liquidation if Enron's debt rating is higher than Bb- or Ba3. If Enron's rating is Bb- or Ba3 or lower, then the A-Notes will not share in the collateral proceeds. The final maturity is December 2009. Triggers include lease payment default, insolvency of Enron, and events of default consistent with Enron's core five-year revolver. The A-Notes are presently funded by a Citibank SP conduit. Citi can elect to put the funding to the banks whenever it chooses. Although we don't have recent value estimates, the methanol market is presently well over-supplied, with accompanying depressed prices. We estimate the value to be 25% to 50% of the loan amount.
Citigroup Exposure

Rawhide
Size: $49 MM
Discussion: Our portion of a $90 MM minority interest financing, terminating March 2003. The assets are a portfolio of equity and debt investments in energy and power projects located in OECD and non-OECD countries. Although fully recourse to Enron via demand loans, the facility is also supported by the assets in the pool, with an estimated value by Enron of $958 MM, or loan-to-value coverage of 1.4x excluding the Enron demand loans. We note that we do not have a third party assessment of the asset value. Appendix A outlines the largest holdings within Rawhide. Upon either 1) a downgrade by S&P or Moody's to a level of B3 or Ba1, respectively, or 2) Enron's inability to meet drawing conditions precedent under its primary corporate revolver, there is a required mandatory repayment of the demand loans into a debt service reserve account. There is also a cross payment default of $50 MM and a cross default upon Enron bankruptcy. We note that this facility is presently funded by CP sold by a Citibank conduit. Citi can elect to put the funding to the banks whenever it chooses. This action may be advisable in the event of imminent bankruptcy. LMII is an equity holder in Rawhide.
## Citigroup Exposure

### Rawhide Asset Valuation – Top Five Assets

| JEDI I | Enron owns 50% of this partnership with third party investors making investments in energy companies in the US and Canada. Enron estimates the FMV to be $153 MM. JEDI I returned cash flow to Enron of $171 MM and $154 MM in 2001 and 2000, respectively. |
| CIESA | CIESA is 49% owned by Enron; CIESA owns 70% of Transportadora de Gas del Sur S.A. ("TGS"), a publicly traded gas transmission company in Argentina. TGS is the largest gas transportation company in Argentina, and connects the southern production basins to the city of Buenos Aires. It operates a 4,104-mile pipeline system that has a capacity of approximately 1.9 Bcf per day and primarily serves four distribution companies in the greater Buenos Aires area under long-term, firm transportation contracts. Enron presently estimates its interest in CIESA to be worth $170.5 MM. CIESA provided cash flow to Enron of $30.8 MM over the last four quarters, in the form of dividends and a management fee. |
| CEG | An interest in the municipal gas LDC for the municipality of Rio de Janeiro. CEG serves more than 590,000 residential and 9,000 industrial and commercial customers with a 2,280 kilometer pipeline network in Rio de Janeiro. Enron presently estimates the FMV to be $196 MM. CEG is not presently upstreaming cash flow to Enron. |
| Gaspart | Through Gaspart, Enron has a 41.5% interest in the gas LDCs of seven Brazilian coastal states. Enron estimates the FMV to be $149 MM. Gaspart is not presently upstreaming cash flow to Enron. |
| NSP | An Enron subsidiary holds an 11.8% interest in Northern Border Partners L.P., a publicly traded partnership (NYSE: NBP). NBP owns a 70% general partner interest in Northern Border Pipeline Company, which owns and manages a 1,214-mile regulated natural gas pipeline system that extends from the Canadian border in Montana to Illinois. The pipeline has a peak capacity of 2.4 Bcf/d and is fully contracted under long-term agreements with an avg. term of six years. Enron estimates its interest to be worth $91 MM. Northern Border returned $7.6 MM of dividends to Enron over the last four quarters. |
Trading Operations Assessment

Project Scope

- Project focused on North America Gas and Power business (>90% revenues and risk), although many other product lines exist including coal, oil, metals, pulp and paper, weather, broadband and credit trading.

Summary

- Management is unseasoned and dominated by a trading culture
- Revenues have been very strong due to strong trading revenues in markets with unparalleled volatility
- Relative to strong revenue results, Market Risk levels would be viewed as "moderately high" for much of the year as measured by VAR.
- Even after collateral posted, receivables (MTM exposure) total $14 B, with $5 B in non-investment grade credits
- No defined methodology exists for calculating and booking non-credit reserves, and this has led to large swings in reserves, which can lessen the transparency of earnings.
Trading Operations Assessment

Management and Personnel

• Management: For a large company that is central to the energy trading markets, Corporate and Financial Management is inexperienced and dominated by a trading culture:
  • High Volatility of Daily Revenues
  • "Disconnected" Trading vs. Corporate Capabilities
    ➢ Excellent technology for monitoring market risk yet...
    ➢ Poor liquidity management
    ➢ Capital not specifically allocated to businesses
    ➢ Funding costs not pushed down to businesses
    ➢ Easily manipulated reserves

• Personnel: Although they have a loyal, motivated, successful team, there is significant risk of instability post-January, when bonuses are paid.
  • Two weeks ago the top 25 traders were guaranteed minimum bonuses, in cash, of 50% of year 2000 bonuses.
  • The top 75 traders were put under 2-year contracts (with non-compete clauses) earlier this year. This would not be a stabilizing factor as 50% of the guarantee is in stock and markedly higher-strike options.
Trading Operations Assessment

Revenues: Enron's revenues in 2001 have been very strong due to:

- Strong trading revenues in markets with unparalleled volatility. They believe that superior information, given their pervasive market presence, leads to large position taking advantages. Trading opportunities will likely be much less prevalent in more stable markets.
- Enron-on-line (EOL) allows Enron to capture a dominant market share and "move the market." It is unique, with no competition in sight and provides the market with huge liquidity and transparency. Enron is essentially the energy market's OTC "exchange and clearinghouse."
- Highly profitable, chunky, structuring transactions with clients leveraging Enron's modeling expertise and appetite for risk.

<table>
<thead>
<tr>
<th>2001 YTD 3Q</th>
<th>Gross Margin (B)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structuring</td>
<td>$1.4 B</td>
<td>33%</td>
</tr>
<tr>
<td>Market Making (incl. EOL)</td>
<td>$0.6 B</td>
<td>15%</td>
</tr>
<tr>
<td>Proprietary</td>
<td>$2.2 B</td>
<td>52%</td>
</tr>
<tr>
<td>Total</td>
<td>$4.2 B</td>
<td>100%</td>
</tr>
</tbody>
</table>

(1) Gross margins are NOT net of interest charges.
(2) $600 MM was related to a single set of transactions involving the sale of power plants.
(3) The split between market making and proprietary is estimated based on RAC data.

- The Gas and Power departments represent virtually all of the revenues. The overall strategy of developing liquid markets as newly deregulating markets emerge (such as broadband) has not paid off. They are now refocusing on core franchises.
- Both the market making and structuring revenues could be severely impacted by further downgrades. They could not survive as an ongoing concern below investment grade due to their "exchange" status. As for recent developments, trading volumes have remained strong; however some counterparties have cut off trading and others have continued trading (temporarily) only because Enron has paid out cash to reduce credit exposure.
Trading Operations Assessment

Market Risk

- Relative to strong revenue results in 2001, risk levels would be viewed as "moderately high" for much of the year as measured by VAR.

- Enron views their risk-taking as a core franchise based on their market share and integration of trading books across different energy markets. An appetite for risk combined with energy markets that have been highly volatile (natural gas prices exploded from $2 to $10 late last year; California natural gas prices widened to nearly $50 above other regions) continues to result in very volatile daily P/L swings.

  - The VAR 95% has been cut 50% (from $100 MM to $50 MM) over the past two weeks in response to their funding crisis. (Meaning: 1 out of every 20 days will result in a $50 MM or more loss). Since October 15, losses from position marks due mainly to outright market exposures total $315 MM, with 5 days having losses of $30 MM or more. During the past week, however, losses have been contained as risks have been reduced with minimal market impact.

  - The Board cut the VAR limit from $150 MM to $85 MM.

However:

- VAR is understated (options vega risk is not captured; commodity markets are characterized by stability for long periods followed by instability making VAR a suspect measure; and the risk in longer dated trades may be understated).

- Risk appetite will likely return to pre-crisis levels if the funding situation stabilizes. They believe that it is appropriate to manage at risk levels that are twice the year 2000 VAR given the higher liquidity of the markets (provided by themselves).

- Although half of the risk is in outright positions, which can be liquidated in a few days, some basis risks are long dated (out to 30 years) and could not be liquidated. In the Gas business positions beyond 2004 represent about 15% of the risk. Long dated exposures are higher in the Power business due to one, large, "price unverified" position.

- Historical simulations and stress scenarios indicate about a $600 MM stress loss potential at today's level of risk.

- Historical swings in revenues due to volatile market movements have been as high as $2 billion (over a one-month period during the California energy crisis late last year). A minimum capital requirement to support the trading business would be a multiple of this number.
Trading Operations Assessment

Credit Risk

- Even after collateral posted, receivables (MTM exposure) total $14 B, with $5 B in non-investment grade credits. The tenor concentration in non-investment grade credits is 2-5 years (approximately two-thirds).

- Credit reserves total $939 MM, of which $309 MM is a specific reserve against PG&E and Southern California Edison. The remainder are model-based credit reserves against the portfolio and represent 12% of non-investment grade exposures.

- Largest investment grade receivables:

<table>
<thead>
<tr>
<th>Counterparty</th>
<th>Moody's/S&amp;P</th>
<th>Enron</th>
<th>Net Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>TXU</td>
<td>Baa2/BBB+</td>
<td>4</td>
<td>$1,500 MM</td>
</tr>
<tr>
<td>B cokevile Power</td>
<td>none</td>
<td>2</td>
<td>$580 MM</td>
</tr>
<tr>
<td>TransAlta Utilities</td>
<td>none/BBB+</td>
<td>4</td>
<td>$205 MM</td>
</tr>
<tr>
<td>Nevada Power</td>
<td>Baa2/BBB</td>
<td>4</td>
<td>$261 MM</td>
</tr>
</tbody>
</table>

- Largest non-investment grade receivables:

<table>
<thead>
<tr>
<th>Counterparty</th>
<th>Moody's/S&amp;P</th>
<th>Enron</th>
<th>Net Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Power</td>
<td>none</td>
<td>10</td>
<td>$57 MM</td>
</tr>
<tr>
<td>EOTT</td>
<td>Baa2/BBB</td>
<td>7</td>
<td>$180 MM</td>
</tr>
<tr>
<td>Constellation Power</td>
<td>none</td>
<td>6</td>
<td>$65 MM</td>
</tr>
<tr>
<td>Calpine</td>
<td>Baa3/BBB+</td>
<td>6</td>
<td>$12 MM</td>
</tr>
</tbody>
</table>

- Enron is rated BBB/Baa2 by both S&P and Moody's, respectively, with negative outlooks.
Trading Operations Assessment

Marks & Reserves

- Marks: Trades are marked at mid-market with no bid/offer adjustment. The 75% of transactions that go through EOL are transparent. In addition, settling daily MTMs with counterparties also provides a measure of price verification. However, the Risk Assessment and Control (RAC) group does not independently verify long dated trades. This is exacerbated by Enron essentially setting the price for the market given their large market share.

- Reserves: No defined methodology exists for calculating and booking non-credit reserves, and this has led to large swings in reserves, which can lessen the transparency of earnings.

<table>
<thead>
<tr>
<th>Reserve Types</th>
<th>Sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bid/Offer</td>
<td>None</td>
</tr>
<tr>
<td>Liquidity</td>
<td>None</td>
</tr>
<tr>
<td>Prudency</td>
<td>$1.2 B (1)</td>
</tr>
<tr>
<td>Credit</td>
<td>$2.6 B</td>
</tr>
<tr>
<td></td>
<td>$1.8 B</td>
</tr>
</tbody>
</table>

(1) Includes $309 MM credit reserve against PG&E claim.

<table>
<thead>
<tr>
<th>Date</th>
<th>Reserves</th>
<th>Quarterly Revenue Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2000</td>
<td>$115 MM</td>
<td>$0 MM</td>
</tr>
<tr>
<td>September 2000</td>
<td>$363 MM</td>
<td>$&lt;249&gt; MM</td>
</tr>
<tr>
<td>December 2000</td>
<td>$873 MM</td>
<td>$&lt;510&gt; MM</td>
</tr>
<tr>
<td>March 2001</td>
<td>$1,354 MM</td>
<td>$&lt;481&gt; MM</td>
</tr>
<tr>
<td>June 2001</td>
<td>$1,353 MM</td>
<td>$1 MM</td>
</tr>
<tr>
<td>September 2001</td>
<td>$1,171 MM</td>
<td>$183 MM</td>
</tr>
</tbody>
</table>
Trading Operations Assessment

Controls

- Basic controls around the core trading business appear adequate (based solely on verbal discussions of the process). The EOL process is fully automated from trade entry through settlements. Intercompany transactions are reconciled and there are minimal suspense balances.

- However, we were unable to determine whether gains or losses from the trading books are being shifted to other entities (SPVs) based on the information evaluated.
Counterparty Credit Issues

Exposure Profile

- Enron has approximately 15,000 trading counterparties (2000 MTM agreements) that execute an average 7,000 transactions daily. Enron’s net credit exposure totals $14B. Of this amount 35% ($5B) are exposures to non-investment grade counterparties. The top twenty-five net exposures total $4.4B of which the top four are listed below. (See attached schedule B for a full listing). These are as follows:

<table>
<thead>
<tr>
<th>Counterparty</th>
<th>RR</th>
<th>Gross Exposure</th>
<th>Collateral</th>
<th>Net Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>TXU Europe Energy Trading</td>
<td>4</td>
<td>$1.650 MM</td>
<td>N/A</td>
<td>$1.650 MM</td>
</tr>
<tr>
<td>Bonneville Power Authority</td>
<td>2</td>
<td>$369 MM</td>
<td>N/A</td>
<td>$369 MM</td>
</tr>
<tr>
<td>TransAlta Utilities Corp.</td>
<td>4</td>
<td>$265 MM</td>
<td>N/A</td>
<td>$265 MM</td>
</tr>
<tr>
<td>Nevada Power Company</td>
<td>4</td>
<td>$201 MM</td>
<td>N/A</td>
<td>$201 MM</td>
</tr>
</tbody>
</table>

- Of the top twenty-five net exposures, four counterparties with net exposures totaling $430 MM are non-investment grade. These are as follows:

<table>
<thead>
<tr>
<th>Counterparty</th>
<th>RR</th>
<th>Gross Exposure</th>
<th>Tenor Exposure</th>
<th>Tenor Exposure</th>
</tr>
</thead>
</table>

- Enron’s top 25 non-investment grade net exposures, which include those counterparties highlighted above total $1B, of which $392 MM is collateralized (see attached schedule). A review of these top non-investment grade exposures indicated a concentration primarily in the 2-5 year bucket. Out of this sampling no meaningful exposures were found past 2010.

- Enron has $438 MM in exposure to counterparties that have filed for bankruptcy. The largest exposure of $404 MM is to PG&E. Individual exposures decline sharply after PG&E, with the second largest exposures being to Perry Gas of $65 MM and Polaroid of $5.4 MM.

- Credit reserves currently total approximately $939 MM, of which $309 MM is a specific reserve against PG&E and Southern California Edison (SoCal exposure is $111 MM). The remainder are general credit reserves taken against the entire portfolio and represent 12% of the net non-investment grade exposures.
Counterparty Credit Issues

Obligation Profile

- Euron's top 25 obligations (this includes financial and physical MTM as well as prepaids) total $9.1B of which Euron has posted $2.6B in collateral. Gross obligations to Chase (this includes Mahonia Ltd., the vehicle through which a Chase prepay was transacted) and Citi total $5B. Citi's portion is $3B (only $250 MM is not hedged by capital markets transactions).

- Not all of Euron's counterparties are currently exercising their contractual rights to call for margin. Should all counterparties exercise their contractual rights to call Euron for margin, it would mean an immediate increase of approximately $200 MM in margin posting requirements. This could happen at any time. Several counterparties had cut off Euron the week of October 29, and then reinstated after the announcement of our commitment. Most counterparties continue trading with Euron, however, in one case, AEP asked for $50 MM in margin against a $400MM MTM exposure that Euron was not contractually obligated to provide. Euron sent the $50 MM and AEP has continued its trading relationship.
Counterparty Credit Issues

Credit Policies

- Euron has 48 credit professionals in its Credit Risk Management division. Counterparty credit limits are established against current MTM, not potential exposure. At the inception of each relationship, counterparties are risk rated and full credit review is done. A review of the Euron Credit Policy manual shows that policies do not include mandatory review cycles for existing counterparties. Euron’s head of credit confirmed that no such policy exists and that renewals of individual credits are done on an as needed basis. Euron risk rates counterparties on a scale of 1-12 and has an approval matrix based upon MTM limit, risk rating, and tenor bucket. (See attached Appendix B & C from Euron’s Credit Policy Manual).

- Euron has just instituted the concept of counterparty potential exposure, but it is used only as an informational tool and it has not been incorporated into its approval matrix. Euron has rolled out a potential exposure system based upon an in-house developed PE methodology. Potential exposure calculations, using Monte Carlo simulations, are run at PS0, P95, and P99. The assumption is one of no margining, even if it is in place and also of full tenor risk. In order for credit limits to be established based upon potential exposure the calculation would need to be refined. Written documentation on methodology was provided. The system is very flexible in that exposure buckets can be changed and viewed with any level of specified granularity and is still very much a work in progress. Euron was asked to provide the top 25 potential exposures last week and this week. The information we received was inconsistent with what one would expect given current MTM and cannot be used to draw any meaningful conclusions.

- The credit reserve calculation is based upon the probability of default calculated using implied spreads on the underlying bonds. An adjustment is made for liquidity and recovery rates. The resulting number is then multiplied against potential exposure. The credit reserves, with the exception of PG&E & SoCal use a portfolio approach done through simulations in the credit system. Reserves are not reduced by collateral, which is a conservative approach. The reserves are calculated monthly. No written documentation on methodology was provided.
Counterparty Credit Issues

Documentation

- From the list of counterparties with the largest MTM exposures to and from Enron, we selected ten counterparties (five from each list) for document review. In particular, our review focused on increases to required collateral upon rating downgrade triggers. On a positive note, of the 15 master agreements we reviewed, none included a traditional MAC clause, which would have led to uncertainty as to a counterparty's right to demand additional collateral from Enron given Enron's lower ratings.

- The agreements are consistent in requiring full collateralization of the MTM exposure by the party rated below BBB- or equivalent. At or above the rating, there are usually reduced requirements: collateral is required only for the MTM exposures above a threshold amount ranging from $5 to $20 MM depending on the agreement. Some agreements have a sliding scale with decreasing thresholds as the rating declines while other agreements have only the below BBB- trigger.

- Permitted collateral is typically cash and LCs (and sometimes short-term Treasuries). Crucial from a liquidity perspective are the following limitations on the use of LCs: (a) if the LCs are within 20 business days (sometimes 10 days) of expiration, they have to be replaced or else are accrued zero value for collateralization purposes and (b) some agreements also disqualify LCs if the LC issuing bank has indicated its intent not to renew the LC at least 20 business days prior to expiration. Furthermore, as a limitation on cash collateral, a party rated below BBB- is generally NOT allowed to rehypothecate the collateral, i.e. if Enron is rated below BBB- and it has received cash collateral from a counterparty, it is not entitled to send that cash to another counterparty.

- We found one instance where the below BBB- trigger also requires posting an amount additional to actual MTM exposure. Below BBB-, Enron would have to post $5 MM even if exposure is zero.
Off Balance Sheet Financings

CONFIDENTIAL

CITI-SPS/0033025
## Off Balance Sheet Financings

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total 9/30/00 Balance Sheet Debt</td>
<td>$17.927</td>
</tr>
<tr>
<td>Prepayment</td>
<td>$5,115</td>
</tr>
<tr>
<td>Structured Debt</td>
<td>4,632</td>
</tr>
<tr>
<td>Minority Interest</td>
<td>1,705</td>
</tr>
<tr>
<td>Securitization/FAS 140</td>
<td>2,334</td>
</tr>
<tr>
<td>Residual Value of Leases</td>
<td>540</td>
</tr>
<tr>
<td>Financial Guarantees</td>
<td>1,963</td>
</tr>
<tr>
<td>Total Off balance Sheet (excluding Non-Recourse)</td>
<td>$16,109</td>
</tr>
</tbody>
</table>

**Adjusted Debt for Off Balance Sheet**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt of Unconsolidated Subsidiaries (Non-Recourse)</td>
<td>$10,805</td>
</tr>
</tbody>
</table>

---

(1) Structured Debt includes Onprey ($2.6 B), Martin ($915 MM) & Other Outstanding Structured Debt (approx. $1.0 B), such as VPPs, Contract Monetizations, and Synthetic Leases
### Prepays

<table>
<thead>
<tr>
<th>Deals</th>
<th>Type</th>
<th>Arranger</th>
<th>Commodity</th>
<th>O/S Amount as of 9/30/2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial - Capital Markets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yosemite I</td>
<td>Financial - CLN</td>
<td>SSB</td>
<td>Crude</td>
<td>$800.0</td>
</tr>
<tr>
<td>Yosemite II (GBP)</td>
<td>Financial - CLN</td>
<td>SSB</td>
<td>Crude</td>
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<tr>
<td>ECLN I</td>
<td>Financial - CLN</td>
<td>SSB</td>
<td>Crude</td>
<td>475.0</td>
</tr>
<tr>
<td>ECLN II</td>
<td>Financial - CLN</td>
<td>SSB</td>
<td>Crude</td>
<td>475.0</td>
</tr>
<tr>
<td>ECLN II (Euro)</td>
<td>Financial - CLN</td>
<td>SSB</td>
<td>Crude</td>
<td>150.0</td>
</tr>
<tr>
<td>ECLN II (GBP)</td>
<td>Financial - CLN</td>
<td>SSB</td>
<td>Crude</td>
<td>150.0</td>
</tr>
<tr>
<td>Financial - Bank</td>
<td></td>
<td></td>
<td></td>
<td>$2,371.0</td>
</tr>
<tr>
<td>Gas Pre-Pay</td>
<td>Financial - Bank</td>
<td>Citibank</td>
<td>Gas</td>
<td>150.0</td>
</tr>
<tr>
<td>Crude Pre-Pay</td>
<td>Financial - Bank</td>
<td>CSFB</td>
<td>Crude</td>
<td>150.0</td>
</tr>
<tr>
<td>Physical - Bank</td>
<td></td>
<td></td>
<td></td>
<td>$415.0</td>
</tr>
<tr>
<td>Chase 5/19</td>
<td>Physical - Bank</td>
<td>Chase</td>
<td>Crude</td>
<td>$150.0</td>
</tr>
<tr>
<td>Chase 5/20</td>
<td>Physical - Bank</td>
<td>Chase</td>
<td>Crude</td>
<td>150.0</td>
</tr>
<tr>
<td>Chase 5/10</td>
<td>Physical - Bank</td>
<td>Chase</td>
<td>Crude</td>
<td>52.0</td>
</tr>
<tr>
<td>Chase 3Q</td>
<td>Physical - Bank</td>
<td>Chase</td>
<td>Crude</td>
<td>49.2</td>
</tr>
<tr>
<td>Chase 4</td>
<td>Physical - Bank</td>
<td>Chase</td>
<td>Crude</td>
<td>305.7</td>
</tr>
<tr>
<td>Chase 5</td>
<td>Physical - Bank</td>
<td>Chase</td>
<td>Crude</td>
<td>299.4</td>
</tr>
<tr>
<td>Chase 6</td>
<td>Physical - Bank</td>
<td>Chase</td>
<td>Crude</td>
<td>350.0</td>
</tr>
<tr>
<td>Chase 4C</td>
<td>Physical - Bank</td>
<td>Chase</td>
<td>Crude</td>
<td>$1,664.3</td>
</tr>
<tr>
<td>Industrial</td>
<td></td>
<td></td>
<td></td>
<td>$1,664.3</td>
</tr>
<tr>
<td>Chase VII (APEA/Municipality)</td>
<td>Industrial</td>
<td>APEA/Chase</td>
<td>Gas</td>
<td>$175.5</td>
</tr>
<tr>
<td>North America/Municipality</td>
<td>Industrial</td>
<td>Municipality</td>
<td>Gas</td>
<td>33.0</td>
</tr>
<tr>
<td>Energy America/ERA</td>
<td>Industrial</td>
<td>Municipality</td>
<td>Power</td>
<td>212.3</td>
</tr>
<tr>
<td>Total Pre-Pays</td>
<td></td>
<td></td>
<td></td>
<td>$5,114.6</td>
</tr>
</tbody>
</table>
Overview of Prepays

- Prepays are transactions in which Enron has received proceeds at closing and is required to "repay" the counterparty either with cash indexed to a commodity or the physical commodity itself.
  - Based on Mark-to-Market Accounting
    - Prepays are accounted for in "Price Risk Management Liability"
    - Included in Funds From Operation ("FFO")
  - Three main types
    - Industrial Prepays
    - Physical Prepays
    - Financial Prepays

- Physically Settled Industrial Prepays ("Industrial Prepays") - $424 MM
  - Funded by Industrial User as ordinary course of business
  - Hedge executed by Financial Institution; proceeds raised in the tax-exempt market

- Physical Settled Prepays ("Physical Prepays") - $1,904 MM
  - Funded in Bank Market
  - Hedge executed by Financial Institution

- Financial Prepays ("Financial Prepays")
  - Funded in Bank Market or Capital Markets
    - Capital Market through Credit Linked Notes ("CLNs") - $2,371 MM
    - Bank - $415 MM
  - No Hedge required
Industrial Prepay funded by Municipal Bonds

Mechanics:
(1a) Aggregate Municipality issues tax exempt floating rate debt
(1b) Aggregate Municipality Prepays Enron for MMBTUs at Fixed Price from proceeds of Offering
(2a) Aggregate Municipality swaps gas from floating to fixed with Financial Institution
(2b) Same trade as 2a between Financial Institution and Enron
(3a) Enron delivers physical gas to Aggregate Municipality at Fixed Price
(3b) Aggregate Municipality delivers physical gas to Municipalities at Index (Floating)
Physical Prepay funded by Bank/Bank Market

Mechanics: SPV 1
(1) SPV enters into a Gas Forward Sale Agreement with Enron to deliver physical gas over time
(2) SPV borrows from financial institution to fund pre-payment to Enron
(3) OPTIONAL: SPV enters into a Surety Agreement to cover Enron's performance obligation to deliver physical gas

Mechanics: SPV 2
(4) Separately, Enron enters into a contract with SPV 2 to receive physical gas over time for a Fixed Price
(5) SPV 2 pays Financial Institution for physical gas (reversing Financial Institution's physical position) and effectively amortizing the loan.
Financial Prepay funded by Bank

Mechanics:
1a) Citibank prepay Delta Fixed Payment of financially settled gas swap
1b) Delta pre-pays Enron as Fixed Payment of financially settled gas swap
2a) Enron pays Floating to Delta at closing price of NYMEX for contracted maturity of gas swap
2b) Delta pays Floating to Citibank at closing price of NYMEX for contracted maturity of gas swap
3) A net payment is made between Enron and Citibank in settlement of this swap based on NYMEX contracted maturity of gas swap
Financial Prepay funded by Credit Linked Notes (CLNs)

Mechanics:

1. Issuance of 144A Notes

2. Placement of Certificates (representing tax equity)

3. Proceeds of Notes and Certificates used to purchase Trust Investments consisting of Citibank CD

4. Credit Derivative Desk (CDD) enters into credit default swap where CDD pays the coupon for notes and certificates and receives the proceeds from Trust Investments (CD). In addition, credit default swap provides CDD with protection on Enron from Trust.

5a. CDD makes a forward prepayment to Enron for [x] Bbls at a fixed price. At maturity Enron pays [x] Bbls at the then market price. Enron purchases a cap on [x] Bbls at the same fixed price.

5b. CDD purchases a put from Delta at same trigger as cap in 5a.

5c. Same trade as 5b from Delta to Enron.

6. CDD makes loan to Enron with coupon required to cover amounts needed for payment to CLN trust not provided by Pre-Pay.

7a. Enron pays floating oil price on [y] Bbls on semi-annually basis to CDD.

7b. CDD pays Delta same floating payment received from Enron and receives fixed oil price on [y] Bbls.

7c. Same trade as 7b from Delta to Enron.
Share Trusts
Share Trust Transactions

- Enron has two deconsolidated ventures which include Share Trust supported debt issues
  - *Marlin*: Deconsolidates Auzurix Corp and Wessex Water Plc, a provider of water and wastewater services in southwestern England
  - *Osprey*: Deconsolidates investments in several international projects and various domestic equity investments

- Debt issues supported by Share Trusts:
  - **Marlin**:
    - $475 MM due July 15, 2003
    - $450 MM due July 15, 2003 (denominated in Euros)
    - $915 MM
  - **Osprey**:  
    - 1,400 MM due January 2003
    - 750 MM due January 2003
    - 282 MM due January 2003 (denominated in Euros)
    - $2,437 MM
  - **Total**: $3,352 MM

- Upon certain trigger events $3,352 million in proceeds must be generated by the sale of Enron equity including MCPS in the Share Trust with any shortfall being a claim against Enron

- Third party equity have certain rights with respect to asset dispositions
  - **Marlin**:  
    - $125 MM
  - **Osprey**:  
    - $220 MM
    - $345 MM
## Share Trust Transactions

- Net asset values supporting both transactions as currently estimated by Enron at:

<table>
<thead>
<tr>
<th></th>
<th>Martian:</th>
<th>Osprey:</th>
<th>Total:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>$219 MM</td>
<td>$1,596 MM</td>
<td>$2,189 MM</td>
</tr>
<tr>
<td></td>
<td>$125 MM</td>
<td>$249 MM</td>
<td>$1,845 MM</td>
</tr>
<tr>
<td></td>
<td>$344 MM</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Asset value shortfall in covering third party investor and debt

<table>
<thead>
<tr>
<th></th>
<th>Martian:</th>
<th>Osprey:</th>
<th>Total:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>$896 MM</td>
<td>$812 MM</td>
<td>$1,508 MM</td>
</tr>
</tbody>
</table>

- A Trigger Event requiring the Share Trust trustee to remarket the shares and apply the proceeds against the Senior Notes will occur if Enron is downgraded to below investment grade by either S&P, Moody's or Fitch.
Share Trust Transactions

- Companies deconsolidate assets by selling an interest with at least 50% "control" to third parties
- All balance sheet items related to those assets are replaced with a single line item, Affiliate Investment. Income is recorded under the equity method
- Third-party interests in deconsolidated joint ventures resulting from structured financings often allocate a disproportionate share of losses and gains to the Sponsor
- A Share Trust is used to provide support to the debt issued by the third party investor to buy its interest in the joint venture assets
  - Mandatory Convertible Preferred Stock (MCPS) equal to the debt is issued to a trust
  - Following certain events, Remarketing and Share Settlement Agreements require the Sponsor to issue as many shares as needed to raise the amount required to repay the debt
  - Enron is contractually obligated to pay the difference between the amount raised from the sale of MCPS or other equity and the outstanding debt amount
Share Trust Transactions

($ Millions)

- **Share Trust**
  - $500 Convertible Preferred Stock
  - Remarking Agreement

- **Enron**
  - $100 invested in Enron debt ("Overfund Amount")
  - Assets

- **Joint Venture**
  - Class B interest $450 dividend
  - Class A interest
  - $550
  - Assets

- **Equity**
  - $50

- **Investor**
  - $500

- **Senior Notes**

*Alternatively, the $450 million dividend could be used to invest in Assets at Joint Venture or used to repay existing debt at Assets.*
Minority Interest Financing

- Enron has four minority interest structured transactions

<table>
<thead>
<tr>
<th>Name</th>
<th>Facility Amount</th>
<th>Outstanding (9/30/01)</th>
<th>Asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rawhide</td>
<td>$660 MM</td>
<td>$190 MM</td>
<td>Citigroup</td>
</tr>
<tr>
<td>Nahanni</td>
<td>500 MM</td>
<td>15 MM</td>
<td>Citigroup</td>
</tr>
<tr>
<td>Zephyrus</td>
<td>500 MM</td>
<td>500 MM</td>
<td>Chase</td>
</tr>
<tr>
<td>Choctaw</td>
<td>500 MM</td>
<td>500 MM</td>
<td>Chase</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$2,160 MM</td>
<td></td>
</tr>
</tbody>
</table>

- Assets supporting the transactions
  - Rawhide: Minority investment is fully supported by Enron demand notes plus approximately $1.3 B of various equity and debt investments in Enron affiliates
  - Nahanni: Cash and/or T-Bills equal to minority investment plus additional Enron assets
  - Zephyrus: $1.25 B Enron debt obligations and trade receivables. Trade receivables are limited recourse to Enron
  - Choctaw: Enron debt obligations and trade receivables. Trade receivables are limited recourse to Enron

- Triggers - All have transaction specific tests regarding cash flow coverage and asset value tests. Also have Enron downgrade triggers as follows
  - Rawhide: Rating of BBB- or below requires cash collateral for minority investment. No specific termination if below Investment Grade
  - Nahanni: Rating below BBB- and Ba3 is a termination event
  - Zephyrus: Below investment grade is a termination event
  - Choctaw: No ratings trigger
 Minority Interest Financing

- Minority interest represents third-party equity of a consolidated subsidiary

- Minority Interest resulting from structured financings often allocate the first loss to the Sponsor
  - In contrast to a pro rata loss sharing in joint venture projects

- Enron has both types of Minority Interest
  - Structured financings ($1,705 MM)
  - Joint venture project equity ($526 MM)

- Assets and income are fully consolidated on Enron's statements
  - Income attributed to minority investors is Minority Expense
  - Capital provided by minority investors is Minority Interest on balance sheet
FAS 125/140s Total Return Swaps ("TRS")
FAS 125/140s Total Return Swaps ("TRS")

- FAS 125 deals were revised in 2000 to comply with FAS 140
- FAS 125 and 140 deals have the characteristics of:
  - Sale for GAAP purposes
  - Debt for tax purposes
  - Off Balance Sheet Financing
  - Funds flow or gain recognition
    - Merchant assets treated as Proceeds from Merchant Assets
    - Strategic assets treated as Proceeds from Asset Sales
  - Business unit maintains
    - Control of the asset
    - Maintains P&L risk
    - Responsible for ultimate disposition of the asset
- Total Return Swap
  - The total return swap exchanges future payments received from the asset being purchased for the quarterly payments equal to periodic interest payments and at maturity, principal.
  - The TRS provides the lenders assurance of payment similar to an Enron guaranty.
### FAS 140s

<table>
<thead>
<tr>
<th>Deal Name</th>
<th>Transaction Amount (D)</th>
<th>FTV as of 03/01/01</th>
<th>Maturity Date</th>
<th>Underlying Asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Oil I</td>
<td>28.1</td>
<td>7/19/02</td>
<td></td>
<td>NPV Warrants</td>
</tr>
<tr>
<td>NPV Warrants</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Oil II</td>
<td>91.5</td>
<td>7/19/02</td>
<td></td>
<td>NPV Warrants</td>
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<tr>
<td>NPV Warrants</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESSC</td>
<td>46.7</td>
<td>7/19/02</td>
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<td>NPV Warrants</td>
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<tr>
<td>Total Hawaii I</td>
<td>186.3</td>
<td>99.4</td>
<td></td>
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</tr>
<tr>
<td>Hawaii II</td>
<td>213.3</td>
<td>11/29/02</td>
<td>CGAS and E&amp;P Co in CH</td>
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<tr>
<td>COAS</td>
<td>21.3</td>
<td>11/29/02</td>
<td>New Power Note</td>
<td></td>
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<tr>
<td>Tari</td>
<td>20.0</td>
<td>11/29/02</td>
<td>Morgan, Asset in ENE rec.</td>
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<tr>
<td>Tari 2</td>
<td>20.0</td>
<td>11/29/02</td>
<td>New Power Note</td>
<td></td>
</tr>
<tr>
<td>Tari 3</td>
<td>52.2</td>
<td>11/29/02</td>
<td>Class C Interest in ESSC</td>
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<tr>
<td>Tari 4</td>
<td>115.2</td>
<td>11/29/02</td>
<td>New Power Note</td>
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<tr>
<td>Gil Lily</td>
<td>36.0</td>
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<td>DIS contract with Gil Lily</td>
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<td>Total Hawaii II</td>
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</tr>
<tr>
<td>Facility Total</td>
<td></td>
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<td>184.4</td>
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<tr>
<td>Other 130/140 Structures</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Riverside 5</td>
<td>73</td>
<td>72.0</td>
<td>1/1/02</td>
<td>Teesdale Per Plant</td>
</tr>
<tr>
<td>Riverside 6 (new Riverside 10)</td>
<td>146.3</td>
<td>146.3</td>
<td>9/1/02</td>
<td>Teesdale Per Plant</td>
</tr>
<tr>
<td>Riverside 8</td>
<td>2.9</td>
<td>2.9</td>
<td>12/17/91</td>
<td>Teesdale Per Plant</td>
</tr>
<tr>
<td>ETOL</td>
<td>43.5</td>
<td>49</td>
<td>9/1/03</td>
<td>Div. Stk of Teesdale Util.</td>
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<tr>
<td>ETOL I</td>
<td>247.3</td>
<td>252.2</td>
<td>11/10/94</td>
<td>Div. Stk of Teesdale Util.</td>
</tr>
<tr>
<td>Convertible</td>
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<td>332.7</td>
<td>6/2/02</td>
<td>EOG Shares</td>
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<tr>
<td>Service Code</td>
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<td>26</td>
<td>9/2/05</td>
<td><em>B</em> Interest (ServCo CStock)</td>
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<tr>
<td>Nile - EOTT</td>
<td>80</td>
<td>80</td>
<td>9/2/03</td>
<td>EOTT Shares</td>
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<tr>
<td>Neure Shekel/Cash</td>
<td>51.8</td>
<td>51.6</td>
<td>5/4/96</td>
<td>Pyne rec. by EOTT (GSEF)</td>
</tr>
<tr>
<td>Other 130/140 Total</td>
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<td>567.6</td>
<td>1,024.5</td>
<td></td>
</tr>
<tr>
<td>Other Structure w/ TRS (post 130/140)</td>
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<td></td>
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<tr>
<td>Total (D)</td>
<td>12</td>
<td></td>
<td></td>
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<td>Counterparty</td>
<td>222.1</td>
<td>236.5</td>
<td>3/1/02</td>
<td>Teesdale IV Power Station</td>
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<tr>
<td>Mason</td>
<td>64.0</td>
<td>63</td>
<td>3/20/02</td>
<td>Cogen Md Equity $11MM</td>
</tr>
<tr>
<td>Backdrop</td>
<td>50</td>
<td>50</td>
<td>6/30/02</td>
<td>Broadband/Fiber Optic</td>
</tr>
<tr>
<td>Stepoff/Stepoff</td>
<td>358</td>
<td>358</td>
<td>6/30/02</td>
<td>Stationary Paper Plant</td>
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<tr>
<td>ECK (VIP)</td>
<td>13.8</td>
<td>13.8</td>
<td>2/5/05</td>
<td>Equity in VFP</td>
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<tr>
<td>TRS Total</td>
<td></td>
<td>275.3</td>
<td>275.3</td>
<td></td>
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<tr>
<td>Total of 130/140 &amp; TRS</td>
<td></td>
<td>2,133.8</td>
<td>1,338.0</td>
<td></td>
</tr>
</tbody>
</table>

(1) Hedged: Currently mark all debt associated with this transaction. Any P&L on this TRS will be offset with the mark on debt effectively any difference between the Asset Price and Fair Value is made up through this hedge.

(2) Transaction Amount is the total debt and equity contributed to the structure on the initial closing date.

(3) Total obligation represents Emins cost to unwind the specified structure as of 03/01/01.
Other Structured Transactions
### Other Structures

<table>
<thead>
<tr>
<th>Deal Name</th>
<th>Transaction Amt.</th>
<th>OIS Amount</th>
<th>Type of Structure</th>
<th>Maturity Date</th>
<th>Underlying Asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash V</td>
<td>139.9</td>
<td>140.0</td>
<td>Contract Monetization</td>
<td>A's in 6/02 B's &amp; Certs 2/07</td>
<td>Power Marketing Contract</td>
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<tr>
<td>Destiny</td>
<td>150.0</td>
<td>108.0</td>
<td>Contract Monetization</td>
<td>2/12/2013</td>
<td>Coal Contract with HL&amp;P</td>
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<tr>
<td>Joshua Tree</td>
<td>171.0</td>
<td>119.4</td>
<td>VPP</td>
<td>12/31/2005</td>
<td>Blind Pool</td>
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<tr>
<td>KSC VPP</td>
<td>149.3</td>
<td>149.3</td>
<td>VPP</td>
<td>12/31/2007</td>
<td>Surety note on VPP</td>
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<tr>
<td>Inauguration</td>
<td>475.0</td>
<td>310.2</td>
<td>Synthetic Lease</td>
<td>7/10/02</td>
<td>Turbines</td>
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<tr>
<td>ENEX/Turbopark</td>
<td>600.0</td>
<td>17.6</td>
<td>Synthetic Lease</td>
<td>12/15/2003</td>
<td>Turbines</td>
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<td>SE Acquisition</td>
<td>120.0</td>
<td>120.0</td>
<td>Other</td>
<td>3/27/02</td>
<td>Assets supporting Osprey</td>
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<tr>
<td>Vahalla</td>
<td>50.0</td>
<td>50.0</td>
<td>Other</td>
<td>12/01, 3 year term out</td>
<td>Pitneagle</td>
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**$1,856.2 - $1,005.5**
Guarantees, Leases & Non-Recourse Debt
## Leases, Guarantees and Non-Recourse Debt

### Operating Lease Obligations (in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$123</td>
</tr>
<tr>
<td>2002</td>
<td>86</td>
</tr>
<tr>
<td>2003</td>
<td>66</td>
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<td>2004</td>
<td>46</td>
</tr>
<tr>
<td>2005</td>
<td>45</td>
</tr>
<tr>
<td>Thereafter</td>
<td>350</td>
</tr>
<tr>
<td>Total Commitment</td>
<td>$1,504</td>
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### Guarantees Issued to Support Debt of Unconsolidated Subsidiaries (in millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Guarantees</td>
<td></td>
</tr>
<tr>
<td>Guarantees issued to support international projects (Non-Debt)</td>
<td>$1,000</td>
</tr>
<tr>
<td>Residual Value of Lease Guarantees</td>
<td>540</td>
</tr>
<tr>
<td>EOTT Trade</td>
<td>530</td>
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<tr>
<td>Guarantees issued to support debt of unconsolidated Subsidiaries</td>
<td>230</td>
</tr>
<tr>
<td>Total financial guarantees</td>
<td>$2,460</td>
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<tr>
<td>Performance Guarantees</td>
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<tr>
<td>Guarantees issued to support letters of credit</td>
<td>354</td>
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<td>Total</td>
<td>$3,814</td>
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### Unconsolidated Obligations (in millions)

<table>
<thead>
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<th>Description</th>
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<td>Contract</td>
<td>$1,500</td>
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<td>TRG</td>
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<td>NPI</td>
<td>1,305</td>
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<td>EUR/EUR</td>
<td>1,178</td>
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<tr>
<td>OES</td>
<td>905</td>
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<td>PNL</td>
<td>841</td>
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<tr>
<td>Enel/Enel</td>
<td>652</td>
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<tr>
<td>Gas Transporte</td>
<td>481</td>
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<tr>
<td>Accion</td>
<td>320</td>
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<tr>
<td>EEB</td>
<td>308</td>
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<tr>
<td>EETT</td>
<td>200</td>
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<td>Odebrech</td>
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<tr>
<td>Other</td>
<td>1,228</td>
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<td>Total</td>
<td>$10,928</td>
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## Citigroup Teams

<table>
<thead>
<tr>
<th>Team One: Coverage</th>
<th>Team Two: Trading</th>
<th>Team Three: Mergers and Acquisitions</th>
<th>Team Four: Liability Portfolio / Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jim Welty</td>
<td>Rick Stuckey</td>
<td>Robert Hoglund</td>
<td>Tom Stolt</td>
</tr>
<tr>
<td>Dean Keller</td>
<td>Elana Mahon</td>
<td>Greg Polle</td>
<td>(212) 818-8527</td>
</tr>
<tr>
<td>Igor Zelenski</td>
<td>Murray Barnes</td>
<td>Bob Martin</td>
<td>(212) 816-2683</td>
</tr>
<tr>
<td>Damien Mitchell</td>
<td>Kara Edwards</td>
<td>Paul Smith</td>
<td>(212) 816-7844</td>
</tr>
<tr>
<td>Michael DeWolfe</td>
<td>Perry Pizzato</td>
<td>Roger Wood</td>
<td>(212) 816-4709</td>
</tr>
<tr>
<td>Emily Chiu</td>
<td>Cliff Veron</td>
<td>Kirk Andrews</td>
<td>(212) 816-1838</td>
</tr>
<tr>
<td>David Matula</td>
<td>Jo-Ann Williams</td>
<td>Ian Sommer</td>
<td>(212) 819-3180</td>
</tr>
<tr>
<td>Sebastian Arango</td>
<td>Don Bendemagel</td>
<td>Adam Dickey</td>
<td>(212) 816-6714</td>
</tr>
<tr>
<td></td>
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<tr>
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<td>(212) 818-8082</td>
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<td>Rick Caplan</td>
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<tr>
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<td>(212) 816-5586</td>
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<tr>
<td></td>
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<td></td>
<td>Lydia Junak</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(713) 854-3447</td>
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<tr>
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<td>John Mugno</td>
</tr>
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<td></td>
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<td>(212) 816-6286</td>
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<tr>
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<td></td>
<td>Michael Nepveux</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(712) 854-2887</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Igor Zelenski</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(212) 816-0894</td>
</tr>
<tr>
<td></td>
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<td>Rob Jonkai</td>
</tr>
<tr>
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<td>(212) 816-8572</td>
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<tr>
<td></td>
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<td></td>
<td>Amy Picou</td>
</tr>
<tr>
<td></td>
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<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Shirley Elliott</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(713) 854-2866</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Julie Dwy</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(713) 854-2884</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Brendan Mackay</td>
</tr>
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<td></td>
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<td>(713) 854-2865</td>
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<tr>
<td></td>
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<td></td>
<td>Tero Tiikanen</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(713) 854-5911</td>
</tr>
</tbody>
</table>

**Notes:**
- Teams are listed in alphabetical order.
- Phone numbers are provided for each team member.
- Contact information is organized by team for easy reference.

**Confidential Information:**
- The document is marked as confidential, indicating that it contains sensitive information.
- The page number is 72.
Appendix II - Financial Market Reaction
S&P Rating Actions

As a result of Enron's recent difficulties, its credit rating has been lowered from BBB to BBB-

- The downgrade reflects Standard & Poor's determination that Enron's plan to employ asset sales and other means to repair its damaged balance sheet will be insufficient to restore its long-term credit quality to the historical BBB-level.

- The negative outlook reflects the uncertainties that surround the company and its credit quality in the short run due to the potential for further events to develop in the capital markets.

To resolve the CreditWatch listing, S&P will monitor the following factors closely:

- Counterparty attitudes
- Short-term liquidity concerns
- Disclosure standards
- Asset sales and equity injections
- Concurrently, S&P lowered Enron's short-term debt rating to A-3, the lowest short-term grade, from A-2.

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CITI-SPSI 0033067
Moody's Action

Moody's downgraded Enron to Baa2 from Baa1 on October 29, 2001.

- Moody's actions were prompted by Enron's deterioration in financial flexibility due to the significant write-downs as well as equity charges in previously undisclosed partnership investments.
  - The resulting loss in investor confidence has led to a halving of the company's stock and difficulty in rolling over commercial paper facilities.
- Moody's analysis of the developing situation will focus on management's success in lining up further liquidity support and on their ability to retain credit availability from their major counterparties.
- Moody's will also review management's asset sale plans and valuations and timing and risks associated with those transactions.
- Additionally, the rating agency will review Enron's off-balance sheet transactions to ascertain the extent to which the company will be able to meet any shortfalls with equity or with additional debt.
Fitch's Action

Fitch downgraded Enron to BBB- from BBB on November 5, 2001.

- Fitch's actions reflect the difficulties Enron faces in managing its liquidity position in the face of an erosion in investor confidence.

- The investor reaction follows the recognition of a substantial diminution in value of its global merchant investments, which were partly financed with an aggressive use of off-balance sheet vehicles.

- Fitch believes that Enron should be able to manage through this challenging environment, ultimately recognizing the values of the company's core businesses.

- Fitch would consider further downgrades if Enron were unable to make progress in reducing debt, if its wholesale marketing and trading business were to show signs of material deterioration, or if expenses and charges related to the disposition of non-core businesses and investments exceed present estimations.

- At the same time, Fitch downgraded Enron's commercial paper to F3 from F2.
## GLOBAL LOANS APPROVAL MEMORANDUM

**MEMO DATE: NOVEMBER 7, 2001**

<table>
<thead>
<tr>
<th>Lender</th>
<th>Co-Agent</th>
<th>Agent-only</th>
<th>Bookrunner</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### A. KEY STATISTICS

**Borrower:**
- A. Transwestern Pipeline Company
- B. Northern Natural Gas Company

**Guarantor:**
- A. Enron Corp
- B. Enron Corp

**Citibank Commitment (SMN):**
- A. $330MM
- B. $275MM

**Total:** $605MM

**Deal Size (SMN):**
- A. $550MM (with the ability to upsiz to $650MM)
- B. $450MM (with the ability to upsiz to $550MM)

**JW Amount (SMN):**
- N/A

**BIE Amount (SMN):**
- N/A

**Facilities(MMN) Type Tenor:**
- $1,000/364-day RC
- Facilities (with the ability to upsiz to $1,205MM)

**Legal Vehicle:**
- Citibank, NA

**Origination Unit:**
- Houston-GEM

**Control Unit:**
- Houston-GEM

**Expected Launch Date:**
- 10/31/01

**Expected Closing Date:**
- 11/6/01

**Co-Bookrunner(s) / Amount:**
- SSB: $500MM
- JP Morgan: $400MM

**Sell Down Date:**
- N/A

**Co-Administrative Agent / Amount:**
- JPMorgan: $400MM
- Citibank: $500MM

**Syndication Agent / Amount:**
- N/A

**Paying Agent / Amount:**
- Citibank: $500MM

**Commitment Fee of 50 bps**

<table>
<thead>
<tr>
<th>Undrawn Pricing</th>
<th>Drawn Pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td>50 bps</td>
<td>LIBOR Margin of 250 bps Base rate margin of 150 bps</td>
</tr>
</tbody>
</table>

**Deal Leader:**
- Chris Lyons
  - Tel: 713-654-2962

**Backup Contact:**
- Michael Neveaux
  - Tel: 713-654-2887

---

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---

**CITI-SPS 0033072**
<table>
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<th>LT Unsecured</th>
<th>RR for Facility</th>
<th>Adverse Classification</th>
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<tbody>
<tr>
<td>Reference:</td>
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<td></td>
</tr>
<tr>
<td>A. BBB/Baa2</td>
<td>4</td>
<td>AA, or Aa</td>
</tr>
<tr>
<td>B. BBB/Baa2</td>
<td>4</td>
<td>NA</td>
</tr>
<tr>
<td>Enron Corp.: BBB/Baa2 (neg. outlook)</td>
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<td>8</td>
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</table>

**Purpose:**

We are requesting approval for a $600 million participation as "Co-Arranger" to $1.9 billion of 364-day senior secured revolving credit facilities for Transwestern Pipeline Company ("Transwestern") and Northern Natural Pipeline Company ("Northern Natural") and collectively with Transwestern, the "Borrowers," both of which are wholly-owned subsidiaries of Enron Corp. The Borrowers will have the right to upsize the aggregate Facilities to $1.2 billion. However, if they exercise this option, neither Citibank nor Chase is obligated to increase its commitment. The increase would be affected by bringing in a new lender or lenders. The amount of the Facilities will be split as follows: $550 million (with option to increase to $650 million) at Transwestern and $450 million (with option to increase to $550 million) at Northern Natural. The Facilities will be secured by all assets of the Borrowers including capital stock. Additionally, Enron will refinance the Citibank funded $250MM prepay due December 27, 2001 as a separate tranche under our $600 million commitment in the new Facilities.

The Facilities are to be used for working capital and loans to Enron Corp, providing current liquidity, given Enron's current inability to access the capital markets.

Since December of 2000, Enron Corporation ("Enron") has lost approximately $2.2 billion (or 62%) of its market capitalization. This was aggravated by the departure of Skilling (CEO) in August, and heightened by several recent announcements including several walk-downs/switch impairments, SEC review into potential conflict issues with LJM partnership, and replacement of CFO Andy Fastow. As a result, the rating agencies placed Enron on negative outlook and Enron's bonds traded down. Enron notified us as its agent bank on its Revolving Credit Facility that it would not be able to place its Commercial Paper and would be drawing on its backup facilities. On 10/25/01, Enron drew down 100% of its combined $3.0 billion 364-day and 5-year backup facilities in order to repay commercial paper ($2.2 billion), with the remainder used to preserve liquidity. At that time, Enron's corporate bonds dropped even further to C- and given Enron's inability to access the capital markets, Enron requested that its two lead banks (Citibank and Chase) provide a short term liquidity facility, as a measure to both re-insure market confidence and provide interim liquidity, while Enron tries to re-enter the capital markets.

Enron publicly announced the commitment of $1.0 billion of Facilities on Thursday, 11/1/01. In addition, Enron plans to have senior management follow up with its investors on a "Road Show" later in the week, hoping to re-enter the commercial paper markets.

We believe that the Facility:

1. allows Enron to continue to maintain liquidity within its trading operations (and reducing associated margin requirements by counterparties); and
2. possibly restores confidence in Enron capital markets and stability in Enron's credit ratings.

**Approvals:**

Approval Level Required: Level 1

**Deal Team:**

<table>
<thead>
<tr>
<th>Global Loans</th>
<th>Origination</th>
<th>Research</th>
<th>Risk Manager</th>
<th>Loan Investor</th>
<th>Credit Admin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chris Lyons</td>
<td>713-654-2862</td>
<td>Michael Neveux</td>
<td>Shirley Elliott</td>
<td>Tom Stott</td>
<td>Sean Portrait</td>
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</table>

**Summary:**

**Exposure Summary**

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<tr>
<th>Facility Description</th>
<th>Current</th>
<th>Proposed</th>
<th>Change</th>
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<tr>
<td>3600MM Secured C Facility</td>
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<td>650</td>
<td>650</td>
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(CITI-SPSI 0033073)
Financial Covenants (List):

1. Prohibition of additional debt
2. Limitation on liens and asset sales
3. Minimum Tangible Net Worth of $750MM
4. Prohibition on intercompany advances when
   - Default has occurred at either the Borrower or
     Guarantor
   - The sum of Borrower's cash and availability under the
     Facility is less than $200MM or
   - When Guarantor or the Borrowers are no longer
     investment grade.

CPC Documentation Exceptions:

1. Transaction Summary

   - Borrowers: Northern Natural Gas Pipeline Company ("PNG")
     Transwestern Pipeline Company ("TW")
   - Ratings: BBB/Baa2 (Senior unsecured)
     BBB/Baa2 (Senior unsecured)
   - Amount: $450MM
     $550MM
   - Upfront Option: $550MM
     $650MM
   - Citi Commitment: $270MM
     $330MM
   - Reference Prepaid: $112.5MM
     $137.5MM
   - Guarantor: Enron Corp.
     Enron Corp.
   - Term: 364 days
     364 days
   - Collateral:
     - Pledge of stock of PNG
       - Pledge of stock of TW
     - Lien on all assets (subject to agreed exceptions)
       - Lien on all assets (subject to agreed exceptions)
     - Pledge of unsecured intercompany note from
       Enron
       - Pledge of unsecured intercompany note from
         Enron
   - Undrawn Pricing: 50 bps
     50 bps
   - Drawn Pricing: LIBOR+250 bps or Base Rate+150 bps
     LIBOR+250 bps or Base Rate+150 bps
Key Borrower Covenants:

- Minimum Tangible Net Worth of $750MM (actual at 9/30/01: $1.08776MM)
- Prohibition of additional debt (subject to agreed exceptions)
- Limitation on fees and asset sales
- Prohibition on intercompany advances when (i) a default has occurred at either the Borrower or Guarantor, (ii) the sum of Borrower’s cash and availability under the Facility is less than $100MM, or (iii) when Guarantor or the Borrower is no longer investment grade.
- Minimum Tangible Net Worth of $750MM (actual at 9/30/01: $1.08776MM)
- Prohibition of additional debt (subject to agreed exceptions)
- Limitation on fees and asset sales
- Prohibition on intercompany advances when (i) a default has occurred at either the Borrower or Guarantor, (ii) the sum of Borrower’s cash and availability under the Facility is less than $100MM, or (iii) when Guarantor or the Borrower is no longer investment grade.

Mandatory prepayment:

- Required by an amount equal to net cash proceeds from asset sales, equity issuances or capital markets transactions (subject to agreed exceptions) at NNG
- Required by an amount equal to net cash proceeds from asset sales, equity issuances or capital markets transactions (subject to agreed exceptions) at TW

Events of Default:

- Failure to pay principal or interest when due (5-day grace period)
- Failure to comply with covenants (5-day grace period)
- Cross default to Debt of Borrower greater than $100MM
- Event of Default under Enron's $1.75 billion 364-day revolver or Enron's $1.25 billion multi-year revolver
- Bankruptcy or insolvency of Enron
- Enron ceases to own directly or indirectly 100% of Borrower
- Failure to create a valid and perfected security interest in collateral (subject to agreed exceptions)
- Failure to pay principal or interest when due (5-day grace period)
- Failure to comply with covenants (5-day grace period)
- Cross default to Debt of Borrower greater than $100MM
- Event of Default under Enron's $1.75 billion 364-day revolver or Enron's $1.25 billion multi-year revolver
- Bankruptcy or insolvency of Enron
- Enron ceases to own directly or indirectly 100% of Borrower
- Failure to create a valid and perfected security interest in collateral (subject to agreed exceptions)

If the Borrowers exercise the option to increase the facility size, neither Citibank nor Chase is obligated to increase its commitment. The increase would be affected by bringing in a new lender or lenders.

The Enron Guarantee will include the representations and warranties, covenants and defaults contained in Enron’s revolving credit agreements and will also require the maintenance of corporate separateness between Enron and the Borrowers.

2. Key Structural Features

A bankruptcy remote structure will be established for each Borrower and the Borrower’s parent using a “Golden Share” structure.

The key elements of this structure are as follows:

1. A new class of equity securities will be issued by each Borrower and the Borrower's parent and held by a third-party trustee for the benefit of Citibank, N.A. and The Chase Manhattan Bank. The affirmative vote of such securities is required to file a voluntary bankruptcy petition.

2. The trustee will take the voting instructions from Citibank and Chase so that the banks would be able to block a voluntary bankruptcy filing.

3. Each Borrower and the Borrower’s parent will be required to adhere to "separateness" covenants.

These elements are designed to (a) present a voluntary bankruptcy of any of the Borrowers and their parent and (b) limit the likelihood of a consolidation of the Borrowers into the Enron bankruptcy estate should Enron file.

3. Collateral
A. Going Concern – Value of Pipeline stock

<table>
<thead>
<tr>
<th></th>
<th>NNG</th>
<th>TW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated firm value:</td>
<td>$2.2B</td>
<td>$1.59</td>
</tr>
<tr>
<td>Discount rate:</td>
<td>6.7%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Loan/Value:</td>
<td>(500+400)/2,200= 43.2%</td>
<td>550/500= 36.7%</td>
</tr>
<tr>
<td>Loan/Value (if exercise option exercised):</td>
<td>(500+550)/2,200= 47.7%</td>
<td>650/500= 43.3%</td>
</tr>
</tbody>
</table>

The estimated firm value was established using company projections and a discount rate of 6.7% for both NNG and TW. The discount rate was deemed appropriate due to the high probability of achieving projected cash flows due to the nature of the Borrower’s revenue contracts. The estimated equity value equalled to a 1X 2000 EBITDA multiple for Transwestern and an 8X multiple for Northern Natural, which are consistent with the comparables.

Our loan to value ratios are reasonable even if the Company optimizes the credit facilities to a total of $1.2B.

B. Liquidation

The key assets are (i) shipper contracts, (ii) accounts receivable, and (iii) property, plant & equipment, which collectively represent the value of a federally regulated geographical gas pipeline oligopoly.

Shipper Contracts

Importantly, we will have the assignment of all shipper contracts. A breakdown of the top 10 shippers on each system is as follows:

<table>
<thead>
<tr>
<th></th>
<th>NNG</th>
<th>TW</th>
</tr>
</thead>
<tbody>
<tr>
<td>MinniGasco</td>
<td>Baa1</td>
<td>$584</td>
</tr>
<tr>
<td>Utilcorp</td>
<td>Baa3</td>
<td>55</td>
</tr>
<tr>
<td>Northern States Power</td>
<td>A1</td>
<td>45</td>
</tr>
<tr>
<td>Mid American Energy</td>
<td>A3</td>
<td>44</td>
</tr>
<tr>
<td>Nicor Gas Company</td>
<td>NR</td>
<td>16</td>
</tr>
<tr>
<td>ANR Pipeline</td>
<td>Baa1</td>
<td>12</td>
</tr>
<tr>
<td>Northern States Power/Wa</td>
<td>A1</td>
<td>10</td>
</tr>
<tr>
<td>IES Utilities</td>
<td>A2</td>
<td>9</td>
</tr>
<tr>
<td>Wisconsin Gas</td>
<td>Aa2</td>
<td>9</td>
</tr>
<tr>
<td>Reliant Energy</td>
<td>Baa2</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>$291</td>
<td>(Receives 60% of LTM Revenues)</td>
</tr>
</tbody>
</table>

Over the next year, no contract expires on either system. Over the next 3 years, contracts representing about 12% of NNG total revenues expire, although the company believes these will be renewed. No contracts on TW expire over the next 3 years. We note the revenue concentration at Southern California Gas, however this contract runs through 1996. The company reports that Southern California Gas has always performed under its contracts, one of which is to take gas at the California border and the other is to put gas into the pipeline in the gas producing fields. PG&E is now pre-paying for the transportation service.

Accounts Receivable

The following views were provided by the company as of 9/30/01:

<table>
<thead>
<tr>
<th></th>
<th>NNG</th>
<th>TW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Accounts Receivable</td>
<td>$25</td>
<td>$16</td>
</tr>
</tbody>
</table>

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Lessees: Provence 15 6
Net Accounts Receivable $14 $10

These pipelines report relatively small receivables balances at month end due to billing practices. As noted elsewhere in this memo, approximately 50% of revenues are comprised of demand charges which are billed on the 1st of each month and due by the 10th of that same month. The remaining 10% of revenues - commodity charges for the actual movement of natural gas - are billed on the 10th of the following month and due by the 25th of that month. The month-end receivables balance represents the portion of both the demand and transportation charges which were not paid by the due date but are still in the 30-day aging category. The company reports that its bad debt expense is negligible and that receivables nearly always collect within 30 days.

Accounts payable also age within 30 days and represent primarily monthly operations and maintenance expenditures.

Property, Plant & Equipment

The following values were provided by the company as of 9/30/01. (This does not include all PP&E.)

(# in millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>NNG</th>
<th>TW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compressor Stations</td>
<td>$405</td>
<td>$261</td>
</tr>
<tr>
<td>Pipelines</td>
<td>628</td>
<td>398</td>
</tr>
<tr>
<td>Storage</td>
<td>109</td>
<td>2.08</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1140</td>
<td>$529</td>
</tr>
</tbody>
</table>

**Key Statistics**

<table>
<thead>
<tr>
<th></th>
<th>NNG</th>
<th>TW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miles of pipe</td>
<td>18,500</td>
<td>2,000</td>
</tr>
<tr>
<td># of Compressor Stations</td>
<td>85</td>
<td>31</td>
</tr>
<tr>
<td># of Storage Facilities</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td># of states</td>
<td>15</td>
<td>6</td>
</tr>
</tbody>
</table>

4. Perfection / Preference Issues

Prior to Closing, we intend to file UCC-1's with the Secretary of the State of Delaware (where the pipeline companies are incorporated) as well as the Secretary of State of each state through which the pipelines pass. Pursuant to the UCC, our security interest will be perfected in all personal property of the two Borrowers that can be perfected by filing under the UCC, which includes shop contracts, receivables, inventory, pipe, compressors and other equipment. The net book value of pipes, compressors and receivables at NNG is $2,825MM, $2,432MM and $258MM respectively at 9/30/01. These same values at TW are $3,184MM, $2,813MM and $199MM respectively. We plan to deliver the UCC-1's tomorrow (11/15) or Tuesday (11/19) and obtain the signatures/stamped UCC-1 by the end of the week – November 9.

We perfect on the value of the Borrowers stock by taking physical possession at Closing. SSB's M&A team has valued NNG at approximately $2.2 billion and TW at $1.5 billion.

With respect to the real property – gas storage facilities, easements, rights-of-way, and any parcels of land – the timing of perfection is more problematic. Our thought is that the real property with the highest value that we can get to immediately (i.e. within 10 days of Closing) are the three gas storage fields on the NNG system which have a net book value $105MM. Enron thinks that the description of real property rights relating to at least a portion of these facilities is available now. Ideally, these items would be taken and perfected either before Closing or within the 10-day period following Closing. In addition, we can be perfected as to all of the real property in some states, such as Texas, either before Closing or within the 10-day period following Closing.

5. Collateral Filing and Perfection Timetable

**Monday (11/11) – Tuesday (11/12)**

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Send UCC-1's covering all pipeline personal property to Secretary of State of Delaware and Secretaries of States through which the pipelines pass.

Tuesday (11/10) - Thursday (11/13)

Hand collected suggested copies of UCC-1's with designated couriers. We would have all filings in place and become immediately perfected when the collateral is granted to us - at Closing.

Collateral covered by these filings:

<table>
<thead>
<tr>
<th>(S's in millions)</th>
<th>NNG</th>
<th>TW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock</td>
<td>$2,200</td>
<td>$1,500</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>29</td>
<td>16</td>
</tr>
<tr>
<td>Compressors</td>
<td>450</td>
<td>382</td>
</tr>
<tr>
<td>Pipe</td>
<td>800</td>
<td>495</td>
</tr>
<tr>
<td>Shopper Contracts</td>
<td>147</td>
<td>96</td>
</tr>
<tr>
<td>Loan Amount</td>
<td>$550</td>
<td>$550</td>
</tr>
</tbody>
</table>

Valuing the shipper contracts is somewhat difficult given our belief that in an Enron or Pipeline bankruptcy, the pipes would continue to operate as they are regulated utilities and the only source of gas for many municipalities. Continuing to operate would require normal operations expenditures as well as maintenance CAPEX. Consequently, we thought a reasonable proxy for the value of the shipper contracts is 2001 EBITDA – maintenance CAPEX.

6. Ways Out

(i) Refinancing

If Enron is able to stabilize its financial position over the next 12 months and it regains access to the public capital markets, then our bank facilities should be able to be refinanced.

(ii) Sale of Pipelines

If the overall Enron situation deteriorates to the point which requires us to foreclose on the stock of the pipelines (assuming our bankruptcy remote structure holds up), then we would be able to market the pipelines as separate operations. Given the demand for gas in the California market, it would seem that Transwestern would be an attractive asset for any number of potential bidders. Although Northern's market is a hot growth market like California, it nevertheless serves a number of important metropolitan areas (Omaha, Chicago, Minneapolis) and has stable cash flow. With a loan-to-value ratio of only 50%, there would seem to be ample cushion. Moreover, we would not need FERC approval to sell the stock.

(iii) Liquidation of Collateral

In the event of a pipeline or Enron default and our bankruptcy remote structure does not hold up such that the pipelines are consolidated into an Enron bankruptcy, our ability to foreclose on the stock would be difficult. Consequently, we would foreclose on the physical assets secured by our liens and mortgages. Because each of the pipelines is a regulated utility, the FERC would not allow us to sell pieces of the pipelines. The most likely scenario is that we would have to wait for a Chapter 11 reorganization and then cashflow our way out.

(iv) Cash Flow

In the event that we are forced to rely solely on the cash flows of the Borrowers to repay the loan, our base case scenario projects that we would be paid off in 2014 for NNG and 2015 for TW. Our sensitivity case projects that we would be paid off in 2016 for NNG and 2014 for TW.

7. Syndication Strategy

Although our total commitment in this transaction was approved as a book and hold, we would consider syndicating the facility after Enron's financial condition has stabilized. That will likely require the company to execute several near term asset sales and convincing demonstrate that its trading operation remains healthy. The company plans to brief lenders in detail about its financing plan at a bank meeting Friday, November 9. We will be better able to assess bank market support for Enron following that meeting. However, we have had a number of reverse inquiries concerning participation in the pipeline credit facilities following the announcement of these facilities. These inquiries have come from several of Enron's tier 1 banks which have been very loyal and supportive.
Any potential syndication would likely commence early next year and would also likely include extending the maturity of the existing $1.75 billion 364-day facility which matures in April 2002. We would also recommend that Enron secure the $1.75 billion revolver and we are currently evaluating potential collateral.

We believe that some portion of our pipeline credits could be syndicated given the quality of the pipeline operations and collateral as well as attractive pricing. While the pipes are rated BBB/Baa2, we have priced the facilities at a BB level (I+250 bps) with the ability to adjust through market flex.

**Company/Borrower**

Enron and its subsidiaries operate domestic interstate natural gas pipelines extending from Texas to the Canadian border and across the southern United States from Florida to California. Included among Enron's domestic interstate natural gas pipeline operations are Northern Natural Gas Company and Transwestern Pipeline. Each pipeline serves customers in a specific geographical area: Northern, the upper Midwest; and Transwestern, principally the California market and pipeline interconnects on the east end of the Transwestern system. Northern and Transwestern are interstate pipelines and are subject to the regulatory jurisdiction of the Federal Energy Regulatory Commission (the "FERC").

**FERC Regulation**

Enron's interstate natural gas pipeline companies are subject to the regulatory jurisdiction of the FERC under the Natural Gas Act ("NGA") with respect to accounts and records, the addition of facilities, the extension of services in some cases, the abandonment of services and facilities, the curtailment of gas deliveries and other matters. The FERC also has jurisdiction over the rates and charges for the transportation of natural gas in interstate commerce and the sale by a natural gas company of natural gas in interstate commerce for resale. Northern and Transwestern hold the required certificates of public convenience and necessity issued by the FERC authorizing them to construct and operate all of their pipelines, facilities and properties for which certificates are required in order to transport and sell natural gas for resale in interstate commerce.

As necessary Northern and Transwestern file applications with the FERC for changes in their rates and charges designed to allow them to recover substantially all their costs of providing service to transportation customers, including a reasonable rate of return. These rates are normally allowed to become effective after a suspension period and in certain cases are subject to refund under applicable law, until such time as the FERC issues an order on the allowable level of rates.

In order for costs to be eligible for recovery in the tariff, the FERC must agree that the service is necessary. Pipelines typically demonstrate the necessity of capital expenditures by having prospective shippers sign contracts to use the capacity. Enron Corp. and Enron Transportation Services in 2000 billed Transwestern and Northern Natural $3 million and $55.5 million, respectively, for administrative expenses that are recoverable from customers.

Under current FERC rate design policy, pipelines are permitted to recover in the demand component of their rates all fixed costs, including income taxes and return on equity, allocated to firm customers. Since a pipeline recovers demand costs regardless of whether gas is ever transported, the straight-line variable rate design has reduced the volatility of the revenue stream to pipelines.

Each of these pipeline companies charges a "postage stamp" tariff to shippers. This means that shippers pay the same rate for capacity regardless of distance and reimbursement for actual costs, which may vary with distance. The average tariff at Transwestern is $0.25 per MMBTU and at Northern Natural $0.50 per MMBTU versus a $2 per MMBTU recent average for natural gas at the wellhead.

Shippers may buy capacity in the pipeline under short and long-term contracts, buying either firm or interruptible service. Firm Transportation is an option acquired by shippers for a fixed fee to ensure that they can move gas through the pipeline on peak demand days.

**Pipeline Description**

<table>
<thead>
<tr>
<th>Company</th>
<th>Description</th>
<th>In-Service Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transwestern</td>
<td></td>
<td>1959</td>
</tr>
<tr>
<td>Northern Natural</td>
<td></td>
<td>1940s</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Service area:</th>
<th>West Texas to California Border, bi-directional</th>
<th>Texas and Oklahoma to Minnesota, Michigan and Illinois</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity:</td>
<td>West (East) = 1.1 Tqbd, East (West) = 0.8 Tqbd</td>
<td>North (South) = 4.5 Tqbd, South (North) = 3.5 Tqbd</td>
</tr>
<tr>
<td>2000 throughput:</td>
<td>1.647 Tqbd</td>
<td>7.685 Tqbd</td>
</tr>
<tr>
<td>Utilization rate:</td>
<td>19%</td>
<td>78% (Seasonal)</td>
</tr>
<tr>
<td>Last major rate case:</td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>% Capacity subscribed through 2003:</td>
<td>85% (West)</td>
<td>56% (North)</td>
</tr>
<tr>
<td>% Capacity subscribed through 2003:</td>
<td>95% (East)</td>
<td>77% (South)</td>
</tr>
<tr>
<td>% Capacity subscribed through 2003:</td>
<td>82% (West)</td>
<td>50% (North)</td>
</tr>
<tr>
<td>% Transmission Revenues from capacity reservation changes:</td>
<td>90%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Northern Natural Gas Company

Through its approximately 14,500-mile natural gas pipeline system stretching from the Permian Basin in Texas to the Great Lakes, Northern transports natural gas to points in its traditional market area of Illinois, Iowa, Kansas, Michigan, Minnesota, Nebraska, South Dakota and Wisconsin. Gas is transported to town border stations for consumption and resale to non-affiliated gas utilities and municipalities and to other pipeline companies and gas marketers. Northern also transports gas at various points outside its traditional market area in the production areas of Colorado, Kansas, New Mexico, Oklahoma, Texas and North Dakota for utilities, end-users and other pipeline and marketing companies. Northern provides transportation and storage services to approximately 90 utility customers and end-users in the upper Midwestern United States. Most of Northern’s revenues are comprised of monthly demand charges that are based on contracted capacity rather than throughput.

Northern Natural had a capacity utilization of about 78% based upon total capacity available of 4.5 Tqbd (North section) and 1.6 Tqbd (South section) during 2000. 85% of Northern’s gas transmission revenues arise from demand charges, which are essentially for reserving the capacity in the pipeline; this revenue is received whether the capacity is used or not. If the capacity is not used, Northern can sell available capacity in addition to receiving the demand charge for that capacity. Approximately 56% of the North section and 72% of the South section are contracted out to 2003. In addition, 50% of the North sections demand contracts and 60% of the South sections demand charges are fixed through 2005. The next rate case for Northern Natural is in 2003.

Northern’s customers have traditionally tended to sign contracts that expire when the next rate case is expected. Customers are mainly local distribution companies and wish to pay as close to the current FERC-approved tariff as possible.

In Northern’s market area, natural gas is an energy source available for traditional residential, commercial and industrial uses. Northern’s throughput totaled approximately 1.251 trillion British thermal units (“Ttu”) in 2000. Northern also operates three natural gas storage facilities and two liquefied natural gas storage peaking units. These storage facilities provide Northern the operational capacity to balance its system on a daily basis and assist in meeting customers’ heating and power generation requirements.

Northern competes with other interstate pipelines in the transportation and storage of natural gas, including Natural Gas Pipeline (Kinder Morgan) and Northern Border LP. Northern’s newest competitor is the Alliance Pipeline, which has a total capacity of 1.327 Ttus. Alliance carries “wet gas” to the Ausable gas processing plant west of Chicago, Ill. Liquids are stripped from the gas and the dry gas introduced into the gas distribution system. Alliance began commercial service on December 1, 2000 and its dry gas competes with Northern on the eastern fringe of the Northern system.

The economic impact of these competitors on Northern is limited since in its service area it charges a “postage stamp” tariff, which does not vary with distance. Duplicating its facilities, except for the largest markets, would be expensive. Northern has been unable to satisfy demand in its service area from gas put in the pipeline in its field area and taking gas off other pipelines is in the ordinary course of business.
Northern Natural Gas Historical EBITDA:

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmission Revenue</td>
<td>$479</td>
<td>$449</td>
<td>$445</td>
</tr>
<tr>
<td>Gas and liquids sales</td>
<td>7</td>
<td>35</td>
<td>56</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>Costs</strong></td>
<td><strong>$489</strong></td>
<td><strong>$491</strong></td>
<td><strong>$505</strong></td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td><strong>$282</strong></td>
<td><strong>$251</strong></td>
<td><strong>$265</strong></td>
</tr>
</tbody>
</table>

Transmission revenues are approximately 85% capacity reservation fees and 15% commodity charges, which are incurred as the gas is moved. The decrease in recent years of transmission revenues is due to the warmer than average winters experienced in Northern’s service region. Gas and liquids sales in 1999–2000 reflect the sale of working gas from the storage caverns; this is the maximum possible for technical reasons. To maintain pressure in those storage facilities, Northern signed System Balancing Agreements with other pipelines. Operating expenses rose primarily due to a rise in the cost of gas and liquids sales ($10 million) and because about $14 million worth of gas is owed annually to Sempra and TransCanada under these System Balancing Agreements (“SBA’s”) that continue through 2003 (with declining annual payments). These SBAs are essentially volume exchanges over time and do not involve cash outlays unless Northern elects to replace the working gas; it also could renew the SBAs.

Northern Natural Gas Company Financial Projections (MM)

<table>
<thead>
<tr>
<th></th>
<th>2001E</th>
<th>2002E</th>
<th>2003E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmission Revenue</td>
<td>$454</td>
<td>$443</td>
<td>$452</td>
</tr>
<tr>
<td>Gas and liquids sales</td>
<td>33</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td>Other</td>
<td>13</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td><strong>Costs</strong></td>
<td><strong>$489</strong></td>
<td><strong>$489</strong></td>
<td><strong>$489</strong></td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td><strong>$237</strong></td>
<td><strong>$231</strong></td>
<td><strong>$243</strong></td>
</tr>
</tbody>
</table>

Gas transmission revenues remain relatively constant as do costs. These transmission revenues are highly likely to be achieved given that 85% of the revenues arise from demand charges and contracts do not expire until 2003. Total EBITDA decreases in 2001E because the company is not able to benefit from gas and liquids sales as it did in the prior two years.

Northern Loan Analysis (520MM Loan)

Valuation
The NBA loan values Northern at around $2.2 billion. This equates to an 8.0x 2000 EBITDA multiple. As a result, the total debt (our loan and the existing $500 million) to-value ratio is 43% using the low end of the valuation range. At its last rate case (1998), Northern had similar leverage. This degree of leverage, consequently, should not create any FERC issues according to the company.

Northern has three debt issues totaling $500 million that have bullet maturities in 2005, 2006 and 2011. The payoff analysis for the new loan assumes these obligations are met. The Payoff Date assumes that none of these bonds are refinanced.
Management Case

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006-11</th>
<th>Average</th>
<th>Loan Payoff Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>231</td>
<td>232</td>
<td>233</td>
<td>234</td>
<td>236</td>
<td>232</td>
<td>2011</td>
</tr>
<tr>
<td>EBITDA/Interest</td>
<td>3.4x</td>
<td>3.5x</td>
<td>3.6x</td>
<td>3.6x</td>
<td>3.6x</td>
<td>3.6x</td>
<td></td>
</tr>
<tr>
<td>Debt/EBITDA</td>
<td>4.7x</td>
<td>4.6x</td>
<td>3.9x</td>
<td>3.5x</td>
<td>3.5x</td>
<td>3.7x</td>
<td></td>
</tr>
</tbody>
</table>

The management projections are reasonable and highly likely to be achieved. The growth in gas transmission revenues, and thus EBITDA, reflects an assumption of approximately 2% per year growth in the market area. This is reasonable.

Citibank Loan Base Case

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006-11</th>
<th>Average</th>
<th>Loan Payoff Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>231</td>
<td>232</td>
<td>233</td>
<td>234</td>
<td>236</td>
<td>232</td>
<td>2014</td>
</tr>
<tr>
<td>EBITDA/Interest</td>
<td>3.5x</td>
<td>3.5x</td>
<td>3.5x</td>
<td>3.5x</td>
<td>3.5x</td>
<td>3.5x</td>
<td></td>
</tr>
<tr>
<td>Debt/EBITDA</td>
<td>4.7x</td>
<td>4.6x</td>
<td>3.9x</td>
<td>3.5x</td>
<td>3.5x</td>
<td>3.7x</td>
<td></td>
</tr>
</tbody>
</table>

The main differences between the management projections and the Citibank Loan Base Case is the exclusion of $10 million of other revenues (this is described as unidentified "stretch" revenue in the operating plan) and a growth rate in gas transmission revenues of 1% per year.

Citibank Loan Sensitivity Case

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006-11</th>
<th>Average</th>
<th>Loan Payoff Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>231</td>
<td>232</td>
<td>233</td>
<td>234</td>
<td>236</td>
<td>232</td>
<td>2016</td>
</tr>
<tr>
<td>EBITDA/Interest</td>
<td>3.5x</td>
<td>3.5x</td>
<td>3.5x</td>
<td>3.5x</td>
<td>3.5x</td>
<td>3.5x</td>
<td></td>
</tr>
<tr>
<td>Debt/EBITDA</td>
<td>4.7x</td>
<td>4.6x</td>
<td>4.0x</td>
<td>3.5x</td>
<td>3.5x</td>
<td>3.7x</td>
<td></td>
</tr>
</tbody>
</table>

The main differences between the Citibank sensitivity case and the Management projections are the exclusion of $10 million of other revenues (this is described as unidentified "stretch" revenue in the operating plan) and a holding EBITDA flat at approximately $253.5 million. Since so much of the revenues are contractual and the costs recoverable from rate payers if reasonable, this is very conservative.

Transwestern Pipeline Company

Transwestern is an interstate pipeline engaged in the transportation of natural gas. Through its approximately 2,500-mile pipeline system, Transwestern transports natural gas from West Texas, Oklahoma, eastern New Mexico and the San Juan Basin in northwestern New Mexico and southern Colorado primarily to the California market and to markets on the east end of its system. Transwestern has access to two significant gas basins for its gas supply: the San Juan Basin in West Texas and eastern New Mexico and the Anadarko Basin in the Texas and Oklahoma Panhandles. Additionally, gas from the Rocky Mountain Basin can access Transwestern through pipeline interconnections. Transwestern's peak delivery capacity was approximately 1.1 billion cubic feet ("Bcf") per day in 2000.

Transwestern and its customers agreed to contract rates through 2006 and agreed that Transwestern would not be required to file a new rate case for rates to be effective prior to November 1, 2006. Transwestern's current firm capacity for both west and east flow is fully subscribed under a combination of short-term and long-term contracts. Relatively small increments of operational capacity are available from time to time and are generally sold on a daily or short-term basis.

Transwestern's mainline includes a lateral pipeline to the San Juan Basin which allows Transwestern to access San Juan Basin gas supplies. Via Transwestern's San Juan lateral pipeline, the San Juan Basin gas may be delivered to California markets as well as markets on the east end of Transwestern's system. This bi-directional flow capability enhances pipeline utilization. Transwestern added bi-directional flow capability in 1995 to increase system flexibility and utilization. Transwestern has firm transportation service on the east end of its system and transports Permian, Anadarko and San Juan Basin supplies into Texas, Oklahoma and the Midwest United States. More recently, Transwestern has modified its operations to enhance its ability to supply the California market. In May 2000, Transwestern completed an expansion, which increased delivery capability to California by 140 million cubic feet ("MMcf") per day. Transwestern is pursuing additional expansions to its pipeline of approximately 50 MMcf per day and 100 MMcf per day with expected completions in 2001 and 2002, respectively. Transwestern competes with several interstate pipelines in the California market and in its markets on the east end of its system.
Transwestern's competitor in delivering to the California area is the El Paso Natural Gas Pipeline, which runs parallel south of Transwestern. El Paso is fully subscribed and is allocating space among shippers. As such, the El Paso system does not pose a major threat to Transwestern's growth potential.

Transwestern Historical EBITDA (SMI):

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Throughput (Btu/d)</td>
<td>1,508</td>
<td>1,452</td>
<td>1,837</td>
</tr>
<tr>
<td>Transmission Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gas and liquids sales</td>
<td>145 $</td>
<td>142 $</td>
<td>150 $</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
<td>10</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>157 $</td>
<td>156 $</td>
<td>176 $</td>
</tr>
<tr>
<td>Costs (excluding DDA)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>45 $</td>
<td>49</td>
<td>51</td>
</tr>
<tr>
<td>EBITDA</td>
<td>122 $</td>
<td>107</td>
<td>125</td>
</tr>
</tbody>
</table>

Transmission revenues are approximately 50% capacity reservation fees and 10% commodity charges, which are incurred as the gas is moved. Gas and liquids sales arise from volumes that Transwestern sells from volumes given to it by producers in excess of pipeline fuel requirements. This number will vary with both throughput and the price of natural gas. The $13 million of other revenue in 1998 was the sale of "free pack," which is now provided by shippers.

Transwestern Company Financial Projections (SMI):

<table>
<thead>
<tr>
<th></th>
<th>2001E</th>
<th>2002E</th>
<th>2003E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmission Revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gas and liquids sold</td>
<td>105 $</td>
<td>121 $</td>
<td>166 $</td>
</tr>
<tr>
<td>Other</td>
<td>37</td>
<td>30</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>202 $</td>
<td>201 $</td>
<td>219 $</td>
</tr>
<tr>
<td>Costs (excluding DDA)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>54</td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>EBITDA</td>
<td>148 $</td>
<td>137</td>
<td>155</td>
</tr>
</tbody>
</table>

Gas transmission revenues rise under the impact of new expansions and increased throughput. These revenues are highly likely to be achieved. In 2002, $171 million of revenues arises from capacity payments. Nonetheless, the loan has been tested, and pays out fully in 2014, if the gas transmission revenue level is maintained at the 2002 level. Revenue for gas and liquids sold has been hedged at fixed prices for 2002 and 2003. Using Calbank $3/MMBTU natural gas price assumptions, this revenue would fall to $22 million. The Calbank Loan Sensitivity Case (see below) incorporates this assumption, as well as an unspecified 10% reduction in Ebitda.

Transwestern Loan Analysis ($500MM Loan)

Valuation

The M&A team values Transwestern at $1.5 - 1.7 billion. This equates to a 10x 2000 EBITDA multiple. As a result, the loan to value is 47%, using the low end of the valuation range. At its last rate case (1994), Transwestern had similar leverage and this leverage, consequently, should not create any FERC issues according to the company.

The Payoff Date assumes that no bonds can be placed for Transwestern, the proceeds of which could repay the loan. This is conservative, especially since Transwestern has issued long-term debt in the past.

Management Case

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006-11</th>
<th>Loan Payoff Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>124</td>
<td>149</td>
<td>165</td>
<td>175</td>
<td>170</td>
<td>2014</td>
</tr>
<tr>
<td>EBITDA/Int</td>
<td>2.6x</td>
<td>3.4x</td>
<td>4.6x</td>
<td>4.5x</td>
<td>4.5x</td>
<td></td>
</tr>
<tr>
<td>Owner/EBITDA</td>
<td>4.7x</td>
<td>4.3x</td>
<td>3.9x</td>
<td>3.6x</td>
<td>3.6x</td>
<td></td>
</tr>
</tbody>
</table>

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The Management Case assumes a 2.7% growth rate in gas transmission revenues and $30-$35 million per year of revenue from gas sales.

### Citibank Loan Base Case

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008-11</th>
<th>Loan Payoff Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>1.5</td>
<td>1.5</td>
<td>1.7</td>
<td>1.5</td>
<td>1.8</td>
<td>14.0</td>
</tr>
<tr>
<td>EBITDA/MgmtDebt</td>
<td>4.7</td>
<td>4.5</td>
<td>4.5</td>
<td>4.6</td>
<td>4.6</td>
<td>2013</td>
</tr>
</tbody>
</table>

The differences between the Management projections and the Loan Base Case is the reduction in revenues from gas sales by following lending guidelines for natural gas prices and reducing the growth rate in transmission revenues to 1% per year.

### Citibank Loan Sensitivity Case

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010-11</th>
<th>Loan Payoff Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>1.2</td>
<td>1.4</td>
<td>1.3</td>
<td>1.5</td>
<td>1.6</td>
<td>1.5</td>
<td>1.6</td>
<td>1.5</td>
<td>1.5</td>
<td>2014</td>
</tr>
<tr>
<td>EBITDA/MgmtDebt</td>
<td>3.4</td>
<td>3.6</td>
<td>3.3</td>
<td>3.6</td>
<td>3.5</td>
<td>3.6</td>
<td>3.5</td>
<td>3.6</td>
<td>3.6</td>
<td>2014</td>
</tr>
<tr>
<td>Debt/EBITDA</td>
<td>4.7</td>
<td>4.8</td>
<td>4.5</td>
<td>4.6</td>
<td>4.5</td>
<td>4.6</td>
<td>4.5</td>
<td>4.6</td>
<td>4.6</td>
<td>2014</td>
</tr>
</tbody>
</table>
### Other Balance Sheet Information:

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>Northern Natural</th>
<th>TRANSMISSIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>1,256,000</td>
<td>1,235,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>1,245,000</td>
<td>1,225,000</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,235,000</td>
<td>1,215,000</td>
</tr>
<tr>
<td>Other</td>
<td>1,225,000</td>
<td>1,205,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,256,000</td>
<td>1,235,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Long-Term Debt</th>
<th>Northern Natural</th>
<th>TRANSMISSIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable</td>
<td>1,256,000</td>
<td>1,235,000</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>1,256,000</td>
<td>1,235,000</td>
</tr>
</tbody>
</table>

**Total Assets**: 2,512,000

### BALANCE SHEET DISCUSSION:

**Price Risk Management Activities**: Assets and liabilities from price risk management activities have appeared on the balance sheet for Northern Natural and for Transwestern.

- **Northern Natural**: Price risk management assets and liabilities have arisen due to trading and non-trading activities. Northern Natural enters into swap and natural gas commodity price swaps to hedge the impact of fluctuations in interest rates on future debt issuance and the impact of market fluctuations of commodity prices on transport contracts.

- **Transwestern**: Transwestern utilizes financial instruments and natural gas commodity price swaps for non-trading purposes to hedge the impact of market fluctuations of commodity prices on contractual commitments. Since Transwestern's fuel needs are less than shippers provide for, they have natural gas to sell. Hedge accounting is utilized in non-trading activities where there is a high degree of correlation between price movements in the derivative and the item designated as being hedged.

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**CITI-SPSI 0033085**
Regulatory Assets and Liabilities: Regulation by the FERC, SFAS No. 71 "Accounting for the Effects of Certain Types of Regulation" recognizes the economic effects of regulation. Accordingly, Transwestern and Northern Natural have recorded regulatory assets and liabilities related to such operations. Transwestern evaluates the applicability of regulatory accounting and the recoverability of these assets and liabilities through rate or other contractual mechanisms on an ongoing basis. Regulatory assets represent recoverable costs that are not required for gas transportation; pipeline owning costs are an example. Regulatory assets are usually recovered over a defined time period, whereas items in the rate base receive a return indefinitely.

Accounts Receivable:
- Associated Companies: These accounts receivable would be normal trade receivables with those companies which fall under the Enron umbrella.
- Trade: Transwestern, through Enron, has entered into agreements which provide for the sale of trade accounts receivable with limited recourse provisions. At December 31, 2000 and 1999, Transwestern had sold receivables of $130MM and $10MM, respectively. Northern, at the same dates, had sold receivables of $46MM and $444MM, respectively. No receivables have been sold this year.

Note receivable from parent Company: Transwestern and Northern Natural are included in Enron's cash management program and based on the companies' cash availability or requirements, advances are made either to or from Enron. The net result of all of cash flows is reflected as "note receivable from parent company" on the balance sheet. The companies receive (or pay) interest on its note receivable with Enron, which for 2000 was 0% on the note balance at December 31, 1997 and 9.5% on the note balance accumulated after 1997. This interest was not included in the loan or valuation analysis.

Transportation and exchange gas receivable/payable: Shippers schedule their volumes into Northern's pipeline system with subsequent deliveries to various markets. To the extent that actual receipts on Northern's system and actual deliveries off the system vary from scheduled volumes, imbalance receivables from and payables to the shippers are created. Such imbalances are valued at market index rates and recorded as "Transportation and exchange gas receivable/payable" on the Balance Sheet with an offsetting entry to operating and maintenance expense on the Statements of income.

Working Capital: Working capital changes for the companies were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Northern Natural</th>
<th>Transwestern</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
<td>2000</td>
</tr>
<tr>
<td>Working Capital</td>
<td>(29,535)</td>
<td>28,500</td>
</tr>
<tr>
<td>Change from prior year</td>
<td>(1,509)</td>
<td>10,061</td>
</tr>
</tbody>
</table>

Working capital is calculated as current assets less current liabilities. In this calculation, the Note Receivable from Parent Company and the current portion of long-term debt payable are excluded. Working capital remains stable and a small portion of total balance sheet size of about $2 billion for Northern Natural and $1.3 billion for Transwestern.

Cooper Liability:
Embedded within the "Other Current Liabilities" line item for Northern is a $4.5 million inventory sale reserve. This reserve is for an inventory stake that could be reversed if Enron does not purchase a certain amount of equipment from Cooper.

Cash Flow Discussion:
By definition, the cash flows statement reconciles the income statement and the balance sheet. The most significant items in the cash flow statement are the note receivable from parent company, capex, issuance and repayment of debt.

<table>
<thead>
<tr>
<th></th>
<th>Northern Natural</th>
<th>Transwestern</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
<td>2000</td>
</tr>
<tr>
<td>Note receivable from parent company</td>
<td>(94,122)</td>
<td>(113,745)</td>
</tr>
<tr>
<td>Additions to PPE</td>
<td>(20,117)</td>
<td>(33,930)</td>
</tr>
<tr>
<td>Issuance of long-term debt</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Repayment of long-term debt</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Pipeline Safety Legislation:

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The Office of Pipeline Safety will likely issue a Pipeline Integrity Rule for natural gas pipelines by the end of 2001. 64% of Enron's 25,000 miles of pipeline will require inspection to ensure coverage of high consequence areas. In February 2001, the US Senate passed and the House appears to support a bill directing DOT to require inspections of pipelines every five years for high consequence areas.

Enron plans to internally inspect 15,000 miles of pipeline within the next ten years. The project cost and time frame for Transwestern and Northern Natural Gas Pipeline are as follows (in millions, in 2001 dollars). These costs are expected to be recovered from rate payers over time.

<table>
<thead>
<tr>
<th>Asset</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transwestern</td>
<td>6</td>
<td>15</td>
<td>15</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>35</td>
</tr>
</tbody>
</table>

On September 14, 2001, the FERC issued a statement of policy which describes the need for electric, gas, and oil companies to adopt new procedures, update existing procedures, and install facilities to further safeguard the electric power transmission grid and gas and oil pipeline systems. The Commission has assumed companies which fall under its regulation that they will approve applications to recover prudently incurred costs necessary to further safeguard the reliability and security of the energy supply infrastructure in response to the heightened state of alert due to the September 11 events.

Revenues Information:
Northern Natural:

The following table illustrates the top ten revenue producers for Northern Natural, accounting for approximately 55% of revenues.

<table>
<thead>
<tr>
<th>Customer</th>
<th>Contract #</th>
<th>Total Revenue</th>
<th>Expiration Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Energy Minneapolis</td>
<td>0021349</td>
<td>86,654,105</td>
<td>10/21/07</td>
</tr>
<tr>
<td>Ulitco, Inc.</td>
<td>0023614</td>
<td>42,398,585</td>
<td>10/31/03</td>
</tr>
<tr>
<td>Northern States Power Company</td>
<td>0023258</td>
<td>34,267,567</td>
<td>10/31/07</td>
</tr>
<tr>
<td>Midamerican Energy Company</td>
<td>0021305</td>
<td>20,689,205</td>
<td>10/31/95</td>
</tr>
<tr>
<td>Metropolitan Utilities District</td>
<td>0021385</td>
<td>17,665,534</td>
<td>10/21/06</td>
</tr>
<tr>
<td>Retail Energy Minneapolis</td>
<td>0020798</td>
<td>15,002,154</td>
<td>10/21/07</td>
</tr>
<tr>
<td>Wisconsin Gas Company</td>
<td>0021662</td>
<td>8,996,840</td>
<td>10/21/05</td>
</tr>
<tr>
<td>ANR Pipeline Company</td>
<td>0022054</td>
<td>6,039,546</td>
<td>10/31/03</td>
</tr>
<tr>
<td>Northern States Power Co of Wisco</td>
<td>0022559</td>
<td>6,074,288</td>
<td>10/31/97</td>
</tr>
<tr>
<td>Midamerican Energy Company</td>
<td>002344</td>
<td>8,010,582</td>
<td>11/30/13</td>
</tr>
<tr>
<td>NICOR Gas Company</td>
<td>0021527</td>
<td>7,488,892</td>
<td>10/31/04</td>
</tr>
<tr>
<td>IES Utilities, Inc.</td>
<td>0022252</td>
<td>7,260,562</td>
<td>10/31/03</td>
</tr>
<tr>
<td></td>
<td></td>
<td>246,307,940</td>
<td></td>
</tr>
</tbody>
</table>

Although the Ulitco and ANR contracts expire in 2003, the company expects them to be renewed. Ulitco takes gas off Northern Natural at over 100 points and that infrastructure cannot be readily duplicated. ANR uses gas off Northern Natural for deliveries to Wisconsin since the ANR system is constrained.

The following table illustrates the top revenue producing contracts, which account for about 55% of revenues.

<table>
<thead>
<tr>
<th>Customer</th>
<th>Contract #</th>
<th>Total Revenue</th>
<th>Expiration Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Energy Minneapolis</td>
<td>0021349</td>
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</tr>
<tr>
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<td>0021385</td>
<td>17,665,534</td>
<td>10/21/06</td>
</tr>
<tr>
<td>Retail Energy Minneapolis</td>
<td>0020798</td>
<td>15,002,154</td>
<td>10/21/07</td>
</tr>
<tr>
<td>Wisconsin Gas Company</td>
<td>0021662</td>
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<td>0022054</td>
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<td>10/31/04</td>
</tr>
<tr>
<td>IES Utilities, Inc.</td>
<td>0022252</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>246,307,940</td>
<td></td>
</tr>
</tbody>
</table>
**Transwestern Pipeline Company**

Top Revenue Producing Long-Term Transportation Contracts

<table>
<thead>
<tr>
<th>Customer</th>
<th>Contract #</th>
<th>Total Revenue</th>
<th>Expiration Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern California Gas Company</td>
<td>081255</td>
<td>48,395,271</td>
<td>10/31/06</td>
</tr>
<tr>
<td>Pacific Gas and Electric Company</td>
<td>21195</td>
<td>18,956,725</td>
<td>3/31/07</td>
</tr>
<tr>
<td>Southern California Gas Company</td>
<td>20715</td>
<td>7,745,209</td>
<td>10/31/05</td>
</tr>
<tr>
<td>Pacific Gas and Electric Company</td>
<td>21175</td>
<td>6,774,214</td>
<td>3/31/05</td>
</tr>
<tr>
<td>BP Energy Company</td>
<td>25071</td>
<td>5,748,750</td>
<td>11/30/06</td>
</tr>
<tr>
<td>Burlington Resources Trading Inc.</td>
<td>25025</td>
<td>4,209,600</td>
<td>11/30/06</td>
</tr>
<tr>
<td>Agave Energy Co.</td>
<td>26490</td>
<td>3,577,000</td>
<td>10/31/05</td>
</tr>
<tr>
<td>Duke Energy Trading and Marketing</td>
<td>26372</td>
<td>3,075,165</td>
<td>3/31/07</td>
</tr>
<tr>
<td>El Paso Energy Marketing Company</td>
<td>26078</td>
<td>3,050,650</td>
<td>3/31/07</td>
</tr>
<tr>
<td>El Paso Energy Marketing Company</td>
<td>26894</td>
<td>2,802,500</td>
<td>10/31/05</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>103,698,084</strong></td>
<td></td>
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</tbody>
</table>

The Agave Energy contract (2% of gas transmission revenues), which is the only one to expire prior to October 31, 2005 is with a gas producer. Renewal is expected.

**Enron 9/30/01 Update of Enron Corp**

Enron has recently expanded the reporting of its financial results by both providing additional segments and expanding financial and operating information in the attached tables. Enron's business segments are as follows:

- Wholesale Services
  - Americas
  - Europe and Other Commodity Markets
- Retail Services
- Transportation and Distribution
  - Natural Gas Pipelines
  - Portland General
  - Global Assets
- Broadband Services
- Corporate and Other

**Wholesale Services**

Total income before interest, minority interests and taxes (EBIT) increased 28 percent to $754 million in the third quarter of 2001, compared to $595 million in the third quarter of last year. Total wholesale physical volumes increased 65 percent to 8.2 trillion British thermal units equivalent per day (Tib/d) in the recent quarter.

- **Americas** - This segment consists of Enron's gas and power market-making operations and merchant energy activities in North and South America. EBIT from this segment grew 31 percent to $701 million in the recent quarter from $536 million a year ago, driven by strong results from the North American natural gas and power businesses. Natural gas volumes increased 8 percent to 26.7 Tib/d, and power volumes increased 77 percent to 290 million megawatt-hours (MWh).

- **Europe and Other Commodity Markets** - This segment includes Enron's European gas and power operations and Enron's other commodities businesses, such as metals, coal, crude and liquids, weather, forest products and steel. For the third quarter of 2001, EBIT for the segment remained unchanged at $33 million compared to last year. Although physical volumes increased for each commodity in the segment, the low level of volatility in the gas and power markets caused profitability to remain flat.

**Retail Services**

Enron's Retail Services product offerings include pricing and delivery of natural gas and power, as well as demand side management services to minimize energy costs for business consumers in North America and Europe. In the third quarter of 2001, Retail Services generated EBIT of $71 million, compared to $27 million a year ago. Retail Services continues to successfully penetrate markets with standard, scalable products to reduce consumers' total energy costs. Enron recently added new business with large consumers, including Wal-Mart, Northrop Grumman, the City of Chicago, Equity Office Properties and Wendy's in the U.S. and Sainsbury and Guinness Brewery in the U.K. To date in 2001, Enron has completed over 30
transactions with large consumers, Enron is also successfully extending its retail energy products to small business customers, completing over 55,000 transactions in the first nine months of this year.

Transportation and Distribution
The Transportation and Distribution group includes Natural Gas Pipelines, Portland General and Global Assets.

- Natural Gas Pipelines - This segment provided $65 million of IBT in the current quarter, up slightly from the same quarter last year. Pipeline expansions are underway in high growth areas and include a 438 million cubic feet per day (MMcf/d) expansion by Florida Gas Transmission and a 150 MMcf/d expansion by Transwestern.

- Portland General - Portland General Electric, an electric utility in the northwestern U.S., reported an IBT loss of $17 million compared to IBT of $74 million in the same quarter a year ago. Portland General entered into power contracts in prior periods to ensure adequate supply for the recent quarter at prices that were significantly higher than actual settled prices during the third quarter of 2001. Although the rate mechanism in place anticipated and substantially mitigated the effect of the higher purchased power costs, only an amount in excess of a defined baseline was recoverable from ratepayers. Increased power cost recovery was incorporated into Portland General's new fifteen-month rate structure, which became effective October 1, 2001 and included an average 40 percent rate increase.

During Q4, Enron announced a definitive agreement to sell Portland General to Northwest Natural Gas for approximately $1.9 billion and the assumption of approximately $1.1 billion in Portland General debt. The proposed transaction, which is subject to customary regulatory approvals, is expected to close by late 2002.

Global Assets - The Global Assets segment includes assets not part of Enron’s wholesale or retail energy operations. Major assets included in this segment are Daito, an electric utility in Brazil; Daito, a power plant in India; TGS, a natural gas pipeline in Argentina, Azuric and the Enron Wind operations. For the third quarter of 2001, IBT for the segment remained unchanged at $19 million as compared to last year.

Broadband Services: Enron makes markets for bandwidth, IP and storage products and bundles such products for comprehensive network management services. IBT losses were $60 million in the current quarter compared to a $20 million loss in the third quarter of last year. This quarter’s results include significantly lower investment-related income and lower operating costs.

Corporate and Other: Corporate and Other reported an IBT loss of $1 million for the quarter compared to $1 million loss a year ago. Corporate and Other represents the unallocated portion of expenses related to general corporate functions.

NON-RECURRING ITEMS
Enron’s results in the third quarter of 2001 include after-tax non-recurring charges of $1.01 billion, or $(1.11) per diluted share, consisting of:

- $267 million related to asset impairments recorded by Azuric Corp. These impairments primarily reflect Azuric’s planned disposition of its North American and certain South American service-related businesses;
- $100 million associated with the restructuring of Broadband Services, including severance costs, loss on the sale of inventory and an impairment to reflect the reduced value of Enron’s current services business; and
- $54 million related to losses associated with certain investments, principally Enron’s interest in The New Power Company, broadband and technology investments, and early termination during the third quarter of certain structured finance arrangements with a previously disclosed entity ($204 million income write-down and $1.2 billion shareholders’ equity

<table>
<thead>
<tr>
<th>STORY</th>
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<tbody>
<tr>
<td>Borrower:</td>
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<td>Guarantee:</td>
</tr>
<tr>
<td>Amount:</td>
</tr>
<tr>
<td>Term:</td>
</tr>
</tbody>
</table>

CONFIDENTIAL Citi-SPSI 0033089
D. RISKS AND MITIGANTS

Risk: Bankruptcy of Enron - Given the significant cash shortfall which is primarily associated with Enron's hefty amortization schedule over the next 12 months, and the current lack of access to capital markets, there is a strong probability that Enron's corporate credit ratings (currently Baa3/BBB- with negative outlook) may be downgraded to below investment grade. Due to the significant counterparty exposure related to its trading business, if Enron's ratings fall below investment grade, Enron would be required to post sizable Letters of Credit, regardless of the strength of Enron's trading book and net position. Additionally, Enron has two significant structured transactions (Starlin and Gypsy) that are essentially tied to Enron's credit rating, which would require defeasance of approximately $3.3 billion of debt. One view is that even if Enron is able to maintain investment grade ratings, Enron could be out of cash in late November/December due to sizable maturities (MIBB in 4/2011). Additionally, Enron may have additional pressure on its liquidity due to both a slowdown in trading volumes as a result of trading counterparties reduce exposure and as counterparties force Enron into unfavorable positions.

Mitigants:

- The bankruptcy remote vehicle and the corporate separateness covenants should mitigate the risks of a voluntary bankruptcy by the borrowers and substantive consolidation with Enron in its own bankruptcy. If substantive consolidation occurs, however, the stock collateral would be negated, and we would rely on the pledge of all hard assets of the Borrowers.
- In addition, the security interest of the pledge of capital stock provides a senior claim to Enron's corporate unsecured debt.
- If the debt is not collateralized, there are sufficient cash flows in the pipelines to support total debt and Enron credit support is currently not being viewed as a source of debt repayment.
- Pipelines could be sold in short time period. Strong valuation multiples continue to exist today. The identified pipelines are valued on a DCF basis, but can be equated to having an 8x or 10x EBITDA multiple.

Risk: Structural issues - If Enron files for Bankruptcy protection, there is a chance that the pipeline companies would be substantially consolidated with Enron. Although we believe this risk is remote, if this were to happen the pledge of stock collateral would be negated and we would look to the hard assets for collateral. There is a preference risk with respect to the
collateral that we are taking to secure the facility. This risk increases with respect to security interests that are obtained more than ten days after closing. There may not be sufficient collateral in the receivables to repay the facility.

**Mitigants:**
- Our external counsel, Shearman & Sterling, has advised us that the probability of "Substantive Consolidation" should be less than 10%.
- Our analysis indicates that the pipeline companies and their parent are solvent; this would avoid bankruptcy preference risk.
- We will perfect our security in most of the collateral within ten days of closing; this would avoid bankruptcy preference risk as to the collateral.

**Risk:** Deteriorating cash flows at the Pipelines are not sufficient to repay debt

**Mitigants:**
- FERC regulated pipelines with long historical operations – Transwestern has been in operations for over 40 years, Northern for nearly 60 years.
- Contracted capacity payments are 90% of Transwestern’s revenues; and 80% of Northern’s revenues.
- Loan pays off if 2002 contracts are maintained.
- Expansion can be undertaken if preceded by agreement with shippers and approved by FERC

### ADDITIONAL RISKS OF THE PIPELINES:

<table>
<thead>
<tr>
<th>RISKS</th>
<th>TRANSWESTERN</th>
<th>MITIGANTS</th>
<th>NORTHERN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Default on loan or non-payment</td>
<td>Stable Predictable EBITDA: Capacity charges account for 90% of revenue. Coverage ratios sufficiently robust to permit a decline in firm shippers at next rate setting.</td>
<td>Stable Predictable EBITDA: Capacity charges account for 85% of revenues. This is a very important mid-Western pipeline that enjoy a near-monopoly service with many local gas distribution companies. Impact of Alliance pipeline and Northern Border expansions have already been felt in northern and eastern portions of the service area. Postage stamp tariff structure and large number of delivery points work to protect Northern’s position.</td>
<td></td>
</tr>
<tr>
<td>Competition from other or new pipelines</td>
<td>Many proposals to add capacity to California market but these may bring gas from other supply basins. San Juan basin and other suppliers to Transwestern will need to compete using withholding prices. El Paso, the closest competitor is full and allocating space to firm shippers.</td>
<td>Same</td>
<td></td>
</tr>
<tr>
<td>FERC Regulation</td>
<td>Expansion capital expenditures are not usually undertaken unless the new capacity is deemed necessary. Necessity is typically demonstrated by shippers signing up for firm transportation service and committing to pay whether or not gas is actually shipped.</td>
<td>Too much leverage might induce FERC to lower tariffs since the cost of debt is less than the target ROE. Pro-forma for this transaction, book leverage will be approximately 49%. Debt can also be amortized if needed. At the test rate case, book leverage was 42%, which it should be at the next rate case.</td>
<td></td>
</tr>
<tr>
<td>The pipelines could become too leveraged</td>
<td>Too much leverage might induce FERC to lower tariffs since the cost of debt is less than the target ROE. Similar to Transwestern, except that the age of the pipeline and lack of expansion capital expenditures may attract even FERC scrutiny. At the test rate case, book leverage was 42%. If the next rate case is in 2003, book leverage should be below 49%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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CONFIDENTIAL

CITI-SPSI 0033091
The Cash Management System of Transwestern and Northern is consolidated with that of Enron Corp.

Pending Litigation

Cash is commingled at Enron with cash from other Enron businesses. This is important for Enron since these pipeline companies are an important source of cash. If a cash sweep becomes necessary, an appropriate mechanism could be put in place.

Enron Transportation Services' general counsel has informed us that there is no pending or threatened material (greater than $300,000) environmental lawsuits or investigation.

An Administrative Law Judge recently decided favorably on Transwestern's interlocutory trading. At trial is a $10.5MM tariff payment. FERC will act as an appellate court.

New Pipeline Safety legislation will be very expensive and could reduce Pipelines' returns.

Viewmont expects to conduct the proposed tests and inspections for about $35 million during 2002 - 2004; expect recovery through rates if legislation is enacted

E. RETURNS TO CITICORP

During 2000, total revenues from this relationship were $501 million. Year-to-date, revenues have been $35.4 million. $12 million on up-front fees were earned on this transaction.

F. MANAGEMENT AND RELATIONSHIP BACKGROUND

Citicorp enjoys a strong relationship with Enron Corp. William T. Fox, III, Head of Global Energy and Mining for Citibank, has a relationship with Enron dating back 20 years. Enron considers Citi to be one of its most respected top tier banks. This is evidenced by our role in the current financing.

ENRON CORP MANAGEMENT BACKGROUND:

Enron's long-time Chairman of the Board, Ken Lay, recently resumed the role of CEO after Jeff Skilling abruptly departed in mid-August. In addition, Andy Fastow announced a leave of absence on October 24, 2001. Jeff McMahon has been named CFO. McMahon had been serving as chairman and CEO of Enron's Industrial Markets group. From 1998 to 2000, McMahon was Enron's treasurer.

ENRON TRANSPORTATION SERVICES MANAGEMENT BACKGROUND:

Rod Haystead, Sr VP and CFO of Enron Global Services (which includes the pipelines), has served in various positions in all of Enron's pipeline companies beginning in 1979. Areas of experience include strategic planning, financial planning, business development, finance, and administration. Mr. Haystead reports directly to Stan Horton, Chairman and CEO of Enron Global Services.


G. SECURITY/COLLATERAL

Citi will have a first priority perfected security interest securing the obligations under the Facility and the Guarantees in (i) all capital stock of the Borrower pledged by its bankruptcy-remote parent, (ii) an unsecured subordinated intercompany note by Enron Corp, payable to the order of the Borrower ("Intercompany Note"), and (iii) substantially all other assets of the Borrower.
<table>
<thead>
<tr>
<th></th>
<th>Transwestern</th>
<th>Northern Natural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refinance</td>
<td>Relancing entire $650MM in bond market would maintain financial ratios within FERC parameters.</td>
<td>A large portion of the new debt could be refinanced in the bond market while maintaining target FERC ratios.</td>
</tr>
<tr>
<td>Sell</td>
<td>Enterprise value of $1.3 billion is twice the $550 million of debt.</td>
<td>$1.35 billion of debt vs. enterprise value of $2.0 billion.</td>
</tr>
<tr>
<td>Date repayment</td>
<td>2010 if cash swept beginning 1/1/03</td>
<td>2012 if cash swept beginning 1/1/03</td>
</tr>
</tbody>
</table>
July 9, 2002

Ms. Jane C. Sherburne, Esquire
Deputy General Counsel
Litigation and Compliance
Citigroup Inc.
1101 Pennsylvania Avenue, NW
Suite 530
Washington, DC 20004

Via Fax at 202-223-3699

Dear Jane:

There are a number of additional facts that the Subcommittee needs to obtain before our hearing on July 23. Please provide the following:

A list of all prepay transactions Citigroup entered into with Enron. Provide the name of the transaction, date, commodity, and amount of each transaction. Furthermore, provide the total amount of fees that Citigroup earned in connection with each transaction, including, but not limited to, up-front structuring and arrangement fees and the implied interest rate earned on each transaction.

Why did Citigroup set up Delta in the Cayman Islands?

Does Citigroup pay all fees associated with Delta Energy Corporation (Delta)? Does Citigroup pay any fees or costs for the administration or management of Delta to Givens Hall, Schroders or Maples and Calder, separate from fees related to specific transactions Delta enters into with Citigroup?

When did Schroders take on the administrative functions of Delta?

On what assets of Delta, if any, does Citigroup hold a lien?

Who had responsibility for Salomon Smith Barney’s obligations as an underwriter of the Yosemite I notes? What due diligence was undertaken prior to the sale of the Yosemite notes in the 144A transaction?

Who prepared the September 20, 1999, Salomon Smith Barney presentation to Enron

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United States Senate
COMMITTEE ON
GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6260

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entitled “Capitalization” [CITI-SPSI 0031094 - 0031098]? Citigroup representatives confirmed to Subcommittee Staff that this likely was presented to and discussed at the "Investment Grade Commitment Committee." Confirm that this is the case. If this precise document was not presented, was the information embodied in the document presented?

Reconcile the capitalization table on page 19 (stated to be “as of June 30, 1999”) of the Yosemite offering circular to the capitalization table set forth in the materials referred to in the preceding paragraph as well as the balance sheet set forth in Enron’s 10-Q for the quarter ended June 30, 1999.

What consideration was given to disclosure in the Yosemite I Offering Memorandum of the chart entitled “SSB Additional Known Structures” ($6 billion in off the book financings) included in the September 20, 1999 presentation [CITI-SPSI 0031097]? The official position, title, and department (group, division, etc.) of Citigroup that the following individuals work for currently (as of July 2002) and worked for during the period(s) indicated next to the individual’s name:

A. Steve Wagman (September 2000 and May 2001)
B. Azfar Hashmi (September 28, 2000)
C. William Fox (April 1999; April 2001; September 2001; and October 2001)
D. Thomas Stott (April 1999; April 2001; and October 2001)
E. Alberto J. Verne (September 2001 and October 2001)
F. James P. Reilly (December 1998; April 1999; September 2001; and October 2001)
G. Michael W. Neyraux (October 2001)
H. Lydia G. June (October 2001)
I. Steve Baillie (April 1999)
J. David B. Gorte (December 1998)
K. Timothy Swanson (May 2001 and June 2001)
L. Rick Caplan (May 2001)
M. Amanda Angelini (May 2001)
N. Steve Incontro (May 2001)
O. James Fryese (June 2001)
P. Alfred W. Griffia (November 2001)
Q. Amy K. Pincu (November 2001)

In addition, as we have previously discussed, we need to schedule phone calls to complete our interview of James Reilly and discuss the Travelers insurance matter.

Please contact me if you have any questions and to schedule the calls (202-224-9505). Thank you for your assistance.

Sincerely,

Bob Roach
July 17, 2002

By Telecopy

The Honorable Carl Levin
Chairman
The Honorable Susan Collins
Ranking Minority Member
United States Senate
Committee on Governmental Affairs
Permanent Subcommittee on Investigations
Washington, D.C. 20515-6115

Citigroup: Subpoena E02469

Dear Chairman Levin and Senator Collins:

In response to the Subpoena issued by the Committee dated July 2, 2002, and faxed to me on July 9, 2002, please find enclosed a summary document that is responsive to the questions posed under requests 1 and 2, at Schedule A.

The document we are enclosing includes client sensitive and proprietary information that is maintained confidentially by Citigroup. Citigroup requests that the Committee treat these documents, and all other information provided by Citigroup, confidentially.

Sincerely yours,

Jane C. Sherburne
Deputy General Counsel

Enclosures

cc: Robert Roach, Chief Investigator
    Kim Cordell, Staff Director to the Minority
Summary In Lieu of Production of Document

The following are the names of Citigroup, Inc. clients or counterparties that engaged in pre-paid forward transactions with a special purpose vehicle and a description of (1) the number of transactions; (2) identities of any special purpose vehicles used by the client or counterparty; and (3) whether or not price risk was hedged with Citigroup:

Arkla Exploration Company (1992):
(1) One transaction
(2) International Commodity Merchants
(3) Undetermined (documents have not yet been located)

Amerada Hess Corporation (1993):
(1) One transaction
(2) Delta Energy Corporation
(3) Price risk hedged on the NYMEX, not with Citibank.

Enron Corporation: (1) Transactions identified below, as follows:

- December 1993
  (2) Vega Energy Corporation
  (3) Price risk hedged on NYMEX

- September 1994
  (2) Delta Energy Corporation
  (3) Some price risk hedged with Citibank

- December 1998
  (2) Delta Energy Corporation
  (3) Price risk not hedged with Citibank

- June 1999
  (2) No SPV was used; Toronto Dominion was a counterparty
  (3) Citibank was counterparty to hedges with Toronto Dominion

- November 1999
  (2) No SPV was used; Toronto Dominion and Royal Bank of Scotland served as counterparties
  (3) All three bank counterparties engaged in price risk hedges
Citigroup Response to July 2 Subpoena
Senate Permanent Subcommittee on Investigations

- December 1999
  (2) Delta Energy Corporation
  (3) Price risk hedged with Citibank
- February 2000
  (2) Delta Energy Corporation
  (3) Price risk hedged with Citibank
- August 2000
  (2) Delta Energy Corporation
  (3) Price risk hedged with Citibank
- May 2001
  (2) Delta Energy Corporation
  (3) Price risk hedged with Citibank
- June 2001
  (2) Delta Energy Corporation
  (3) Price risk hedged with Citibank

With respect to request 1(c), for which we have interpreted "a financing structure similar to Yosemite" to mean a credit linked note with a prepaid placed in the trust structure, Citigroup did not execute a financing structure similar to Yosemite for any client other than Enron. Citigroup made presentations regarding financing structures similar to Yosemite (referred to generically as "credit linked notes") to the following companies:

| Williams Cos. | Kerr-McGee       |
| El Paso      | NiSource         |
| Mirant       | PG&E Corporation |
| Dynegy       | Devon Energy     |
| AEP          | Dominion         |
| Reliant      | Duke Energy      |
| Equitable Resources | Phillips 66   |

Jane C. Sherburne
Deputy General Counsel
July 22, 2002

Mr. Robert L. Roach
Counsel to the Majority
Permanent Subcommittee on Investigations
Senate Government Affairs Committee
199 Russell Senate Office Building
Washington, DC 20510

Dear Rob:

This letter is in further response to the questions you asked in your letter of July 9, 2002.

The fees received by Citibank in connection with prepaid transactions with Enron are as follows:

- In December 1993, Citibank entered into a $150MM 18-month crude oil prepaid forward involving HPL Resources Company, a wholly owned subsidiary of Enron.
  - Fees at closing: 27.5 bps up front; 55 bps on $45MM and 15 bps on $105MM, ongoing borrowing spread.

- In September 1994, Citibank entered into a $125MM 18-month crude oil prepaid forward involving Enron Cashing Oil Marketing, a wholly owned subsidiary of Enron.
  - Fees at closing: 35 bps up front; 50 bps ongoing borrowing spread.

- In December 1998, Citibank entered into a $500MM, three-year prepaid forward natural gas and crude oil sale involving Enron.
  - Structuring fee: $2.5MM; ongoing borrowing spread 52 bps.

- In June 1999, Citibank entered into a 90-day, cash-settled $250MM crude oil prepaid forward sale involving Enron. In September 1999, the prepaid was increased to $337.5MM and its maturity was extended to December 1999.

These fees at closing represent what Citibank anticipated it would make over the life of the transaction. Of course certain transactions were settled early and not all expected fees were realized.
Fees at closing: 40 bps up front; $100,000 swap fee; 55 bps ongoing borrowing spread; $100,000 restructuring fee.

- In December 1999, Citibank entered into a 180-day, cash-settled $100MM crude oil prepaid forward sale involving Enron.
  Fees at closing: $200,000 up front; 65 bps ongoing borrowing spread.

- In June 2001, Citibank entered into a 180-day, cash-settled $250MM gas prepaid forward sale involving Enron.
  Fees at closing: $500,000 up front; 60 bps ongoing borrowing spread. Breakage fee of $300,000.

Yosemite and ECLNs

- In November 1999, Citibank entered into a five-year, cash-settled $800MM crude oil prepaid forward sale involving Enron in connection with the Yosemite I transaction.

- In February 2000, Citibank entered into a seven-year, cash-settled $200MM crude oil prepaid forward sale involving Enron in connection with the Yosemite II transaction.

- In August 2000, Citibank entered into a five-year, cash-settled $475MM crude oil prepaid forward sale involving Enron in connection with the ECLN I transaction.

- In May 2001, Citibank entered into five-year, cash-settled crude oil prepaid forward sales of $475MM, £109.5MM and €170MM involving Enron in connection with the ECLN II, ECLN Sterling and ECLN Euro transactions.

With respect to the credit-linked notes transactions (i.e., the Yosemite and ECLN transactions), the Company did not earn any separate fee or other compensation in connection with the prepaids. Rather, the Company was compensated for the prepaids through the general structuring fee or overall expected revenue associated with each deal. In the Yosemite transactions, the Company earned an overall structuring fee of $1.5MM (Yosemite I) and $0.5MM (Yosemite II), which compensated the Company for structuring the entire transaction (including, among other things, the Trust, the Citibank Swap and the prepaid). The Company did not receive any structuring fees with respect to the ECLN transactions. However, we understand that compensating the Company for its structuring efforts was taken into account in pricing the yield on the certificates to be issued by the Trusts and 100% of which would be purchased by Citibank. The certificates in the ECLN transactions had yields of 9% (ECLN I), 8.5% (ECLN II), 8.5% (ECLN Sterling), and 7.5% (ECLN Euro) per annum, respectively. The total structuring fee – of which the prepaids were only a part – together with the certificate yield realized by the Company in connection with these transactions, are as follows: Yosemite I $7.37MM; Yosemite II $1.97MM; ECLN I $484,361; and ECLN II $352,716. Thus, the fees earned by the Company associated with the prepaids would be only a fraction of these amounts.
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Why did Citigroup set up Delta in the Cayman Islands? A: Like many special purpose entities, Delta was established in the Cayman Islands because it is a tax neutral jurisdiction.

Does Citigroup pay all fees associated with Delta Energy Corporation (Delta)? A: No.

Does Citigroup pay any fees or costs for the administration or management of Delta to Givens Hall, Schroders or Maples and Calder, separate from fees related to specific transactions Delta enters into with Citigroup? A: Yes. Citibank paid fees to Givens Hall (and later Schroders) for yearly administrative costs relating to Delta. Enron paid fees to Maples and Calder for its work on behalf of Delta in connection with certain transactions. Following the Enron bankruptcy, Citi paid Maples and Calder a fee for legal services performed in connection with the unwind of the Yosemite and ECLN transactions.

When did Schroders take on the administrative functions of Delta? A: Givens Hall was the administrator of Delta at the time of the ECLN I transaction in August 2000. By the time of the ECLN II transaction in May 2001, Schroders had taken over the administrative functions of Delta.

On what assets of Delta, if any, does Citigroup hold a lien? A: Citigroup currently holds no lien on the assets of Delta. In each of the prepaid transactions in which Delta was involved, Citibank held a lien on Delta’s assets for the life of the transaction.

Who had responsibility for Salomon Smith Barney’s obligations as an underwriter of the Yosemite I notes? What due diligence was undertaken prior to the sale of the Yosemite notes in the 144A transaction? A: The investment banking division of SSB, and its outside counsel, undertook due diligence in connection with the sale of the Yosemite I notes. SSB reviewed the business and financial statements of Enron. The due diligence review process performed by SSB was substantially consistent with the due diligence review process that it would have performed if the securities were offered in a registered transaction. SSB received an opinion from Enron’s outside counsel and a comfort letter from Enron’s auditor. We refer you to the attached Index of Closing Documents for Yosemite Securities Trust I Notes that details the Opinions and other documents obtained in connection with this transaction.

The official position, title, and department (group, division, etc.) of Citigroup that the following individuals work for currently (as of July 2002) and worked for during the period(s) indicated next to the individual’s name:

A. Steve Wagman (September 2000 and May 2001)
   Now: Managing Director, Corporate Derivatives
   Marketing
   September 2000: Director, Corporate Derivatives
   Marketing
   May 2001: Managing Director
B. Afsar Hashmi (September 28, 2000)
   Now: Associate
   September 2000: Associate

C. William Fox (April 1999; April 2001; September 2001; and
   October 2001)
   Now: Managing Director/Industry Head, U.S. Energy and
   Mining
   April 1999 - October 2001: Executive

D. Thomas Scott (April 1999; April 2001; and October 2001)
   Now: Managing Director/Risk Manager, GSIB
   April 1999 - April 2001: Specialist
   October 2001: Risk Manager

E. Alberto J. Verme (September 2001 and October 2001)
   Now: Managing Director, Head of Global Power and
   Energy
   September - October 2001: Same

F. James F. Reilly (December 1998; April 1999; September 2001; and
   October 2001)
   Now: Managing Director Power & Energy Group
   December 1998 - April 1999: Executive
   September 2001: Managing Director

G. Michael W. Nepveux (October 2001)
   Now: Sr. Banker/Manager, U.S. Energy (Houston)
   October 2001: Sr. Banker I

H. Lydia G. Janek (October 2001)
   Now: Sr. Banker/Managing Director, U.S. Energy
   (Houston)
   October 2001: Sr. Banker II

I. Steve Baillie (April 1999)
   Now: No longer at Citi
   April 1999: Banker

J. David B. Gorte (December 1998)
   Now: No longer at Citi
   December 1998: Specialist, Licensing Group

* Note: We understand that the historical information recorded here reflects what is
available from the Citigroup HR database. It is somewhat limited and does not
provide full titles. If necessary, we could obtain these through direct conversations
with the relevant individuals.
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K. Timothy Swanson (May 2001 and June 2001)
   Now: Associate
   May - June 2001: Associate

L. Rick Caplan (May 2001)
   New: Managing Director and Co-head/North American
        Credit Derivatives and Global Portfolio Solutions
   May 2001: Managing Director, Credit Derivatives

M. Aminda Angelini (May 2001)
   Now: Vice President, Credit Derivatives
   May 2001: Same

N. Steve Incentro (May 2001)
   Now: Vice President, Credit Derivatives
   May 2001: Same

O. James Furse (June 2001)
   Now: Managing Director, Derivatives Trading
   June 2001: Same

P. Alfred W. Griffin (November 2001)
   Now: Associate, Capital Structuring Group
   November 2001: Same

Q. Amy K. Finn (November 2001)
   Now: Banker, U.S. Energy (Houston)
   November 2001: Same

Please let me know if you have any further questions.

Sincerely yours,

[Signature]

Jake C. Sheburne
Deputy General Counsel

Attachment

cc: Kim Costello, Minority Staff Director (w/attachment)
CLOSING DOCUMENTS

YOSEMITE SECURITIES TRUST I
$750,000,000 8.25% Series 1999-A Linked Eares Obligations (LEOs)
$75,000,000 Certificates

November 18, 1999

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CONFIDENTIAL
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- Euro Investment Interest Proceeds Account
- Euro Investment Principal Proceeds Account
- Permitted Investment Principal Proceeds Account
- Wire Transfer Certificate

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- Exhibit A - Form of Certificate
- Exhibit B - Form of Transfer Certificate
- Yosemite Securities Trust 1 Indenture[1.2]
- Exhibit A - Form of Rule 144A Note
- Exhibit B - Form of Regulation S Global Note
- Exhibit C - Form of Regulation S Certificate
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CONFIDENTIAL
CITI-SPSI 0003623
July 25, 2002

Mr. Sanford I. Weill
Chairman and Chief Executive Officer
Citigroup, Inc.
399 Park Avenue
New York, N.Y. 10043

Dear Mr. Weill:

Earlier this week the Permanent Subcommittee on Investigations held a hearing on the role of financial institutions like yours in the collapse of the Enron Corporation. One of the very troubling factual issues that emerged was Citigroup’s use of a Special Purpose Vehicle (SPV), Delta Energy Corporation (Delta), as a pass-through entity established in the Cayman Islands for Enron’s “prepays” in which Citigroup participated. Citigroup witnesses told us that while Delta was established by Citigroup while Citigroup paid for Delta’s legal and administrative fees, and while Delta was used exclusively for Citigroup’s purposes, nonetheless it was not effectively controlled by Citigroup. Substantial evidence the Subcommittee reviewed indicates otherwise. When we asked the Citigroup witnesses whether they would make available all of the documentation involving the establishment, administration and activities of Delta, the witnesses said they would have to consult legal counsel.

We ask that you personally, no later than 12 P.M. Monday afternoon, July 29th, answer the following questions on behalf of Citigroup, in affidavit form, and return them to the Subcommittee office, SR-199, and 2) instruct/direct your agents, attorneys and all other parties acting on Citigroup’s behalf responsible for the formation, operation, administration or management of Delta (including but not limited to Maples & Calder, Schroder Cayman Bank and Trust Company and all entities that have a beneficial or controlling interest in, or agency relationship with, Delta) to make available to the Subcommittee all documents related to the ownership, formation, operation, administration or management of Delta, and all documents that address or indicate Citigroup’s relationship to Delta.

QUESTIONS: (Please note that any reference to Citigroup is intended to include any entity related to Citigroup or Citigroup’s agents.)

1) Did Citigroup establish Delta and, if so, when, for what purpose and why in the Cayman Islands?

2) Does Citigroup directly or indirectly own Delta, and if it doesn’t, who does?
Mr. Sanford I. Weill  
July 25, 2002  
Page Two

3) If the owner of Delta is a charitable trust, does Citigroup own the charitable trust, and if it doesn’t, who does?

4) Who serves on the Board of Directors of Delta and the entity that owns Delta?

5) Who is the agent for Delta and who is the agent for the entity that owns Delta?

6) Does Citigroup pay for:

   Delta’s administrative fees? Registration fees? Attorney fees? Transactions fees?

7) When a non-Citigroup entity does business with Delta, with whom does the entity conduct the negotiations — a Citigroup employee or a Delta employee?

8) What obligations do any of the attorneys, trustees, administrators, directors, or beneficial owners of Delta have to Citigroup with respect to Delta and separate and apart from Delta?

9) Does Citigroup effectively control Delta?

If you have any questions about this request, please contact either or us or have your staff contact Robert Roach, Counsel and Chief Investigator of the Subcommittee at 202-224-9505.

Sincerely,

Susan Collins  
Ranking Member  
Permanent Subcommittee on Investigations

Carl Levin  
Chairman

CL:lg
July 29, 2002

By Telexcopy and First Class Mail

The Honorable Carl Levin
Chairman
The Honorable Susan Collins
Ranking Minority Member
United States Senate
Committee on Governmental Affairs
Permanent Subcommittee on Investigations
Washington, D.C. 20515-6115

Dear Chairman Levin and Senator Collins:

I am writing in response to your letter to Sanford Weill of July 25, 2002.

Citigroup has cooperated with the Subcommittee's inquiry by providing witnesses for interviews and testimony, producing thousands of pages of documents, responding to subpoenas, and providing answers to questions presented informally by your staffs. In our continuing effort to be cooperative, we are providing you with the enclosed affidavit of Mr. Weill.

As Mr. Weill's affidavit makes clear, he does not have personal knowledge of the matters about which you are inquiring. However, in order to provide you with answers to the specific questions raised in your letter, Mr. Weill asked Ms. Barbara Yasline, the Chief Financial Officer of Citigroup's Corporate and Investment Bank, to review the matter further. Her response, which Mr. Weill is submitting on behalf of Citigroup, is presented in an affidavit appended to this.
Hon. Carl Levin  
Hon. Susan Collins  
May 15, 2002  
Page 2

Additionally, to further aid the Subcommittee and to avoid delays that may be associated with obtaining documents from Delta through normal channels available to the Subcommittee, we have informed the Cayman Island entities referenced in your letter that Citigroup has no objection to their making available to the Subcommittee the documents in which you are interested related to Delta.

If you or your staffs have questions about these submissions, please do not hesitate to contact me.

Sincerely yours,

[Signature]

Jane C. Sherburne  
Deputy General Counsel

Enclosures
AFFIDAVIT

STATE OF NEW YORK  

COUNTY OF NEW YORK  

SANFORD I. WEILL, being sworn, states:

1. I am the Chief Executive Officer and Chairman of Citigroup, Inc. ("Citigroup"). It is the intention of Citigroup to continue to cooperate with the inquiry of the Senate Permanent Subcommittee on Investigations. To that end, I am responding to the July 25, 2002 letter addressed to me from Chairman Levin and Senator Collins.

2. Citigroup has over 270,000 employees and engages in millions of transactions every year. I have no personal knowledge of any of the transactions or entities raised in the Subcommittee’s July 25 letter. Indeed, I understand that Delta Energy Corporation was established by Citibank in December 1993, five years prior to the merger between Citicorp and Travelers.

3. In order to be as helpful as possible to the Subcommittee, I have directed Barbara Yastine, the Chief Financial Officer of Citigroup’s Corporate and Investment Bank, to review this matter and provide the information sought by the Subcommittee. On behalf of Citigroup, I attach hereto, as Exhibit A, Ms. Yastine’s affidavit, which sets forth responses to the specific questions raised in the Subcommittee’s letter.

[Signature]
Sanford I. Weill

Subscribed and sworn to before me this 29th day of July, 2002.

[Signature]
Notary Public

JOHN D. McGREGOR
Notary Public State of New York
Notary Public Supreme Court
County of New York

JUNE 4, 2002
AFFIDAVIT

STATE OF NEW YORK  

COUNTY OF NEW YORK  

BARBARA YASTINE, being sworn, states:

1. I am the Chief Financial Officer of the Corporate and Investment Bank, which consists of Salomon Smith Barney and certain corporate businesses of Citibank.

2. At the request and direction of Sanford I. Weill, Citigroup's Chairman and Chief Executive Officer, I am setting forth below, based on my information and belief after reasonable inquiry, responses to the July 25, 2002 letter from Chairman Levin and Senator Collins of the Senate Permanent Subcommittee on Investigations on behalf of Citigroup:

1) Did Citigroup establish Delta and, if so, when, for what purpose and why in the Cayman Islands?

In December 1993, Citibank asked a Cayman Islands law firm to incorporate Delta Energy Corporation ("Delta") as an unaffiliated Cayman Islands Limited Liability Company, for the purpose of serving as a counterparty in a physically settled prepaid commodities forward transaction involving Amundson Hess. At the time of Delta's formation, a counterparty was necessary because regulations limited Citibank's ability to receive delivery of physical commodities, such as oil and natural gas. Delta was established in the Cayman Islands in order to achieve tax neutral treatment of this transaction.

2) Does Citigroup directly or indirectly own Delta, and if it doesn't, who does?

Citigroup does not directly or indirectly own Delta. Delta is owned by Grand Commodities Corporation ("GCC"). The sole shareholder of GCC is Given Hall Bank and Trust ("Given Hall"). Given Hall placed its entire interest in GCC into a charitable trust known as GCC Trust.
3) If the owner of Delta is a charitable trust, does Citigroup own the charitable trust, and if it doesn't, who does?

Citigroup does not own GCC Trust. GCC Trust exists for the benefit of any qualifying charity, with the default being the National Council of Voluntary Organisations, a Cayman Islands charitable organization.

4) Who serves on the Board of Directors of Delta and the entity that owns Delta?

Corporate Services Limited is Delta's current sole director and GCC's current sole director. Neither Corporate Services Limited nor any prior directors has any affiliation with Citigroup.

5) Who is the agent for Delta and who is the agent for the entity that owns Delta?

The administrative agent for Delta has been Givens Hall since Delta's formation. The administrative agent for GCC has also been Givens Hall since GCC's formation. Maples and Calder, a Cayman Islands law firm, has been legal counsel to Delta and GCC since Delta's and GCC's formation. None of these entities is an affiliate of Citigroup.

6) Does Citigroup pay for:

- Delta's administrative fees?
- Registration fees?
- Attorney fees?
- Transaction fees?

Delta's fees were paid in a variety of ways. Citibank has paid fees to Givens Hall for certain administrative costs—excluding registration fees—relating to Delta. In certain of the prepaid transactions structured by Citibank, Citibank paid the transaction expenses. In others, either the counterparty paid the transaction expenses, or Delta earned a "spread" on the swaps. With respect to attorney fees, prior to the Enron bankruptcy, these were paid in part by Citibank. Additionally, following the Enron bankruptcy, Citibank paid Delta's legal fees for services performed in connection with the unwinding of the Yosemite and ECLN transactions.

7) When a non-Citigroup entity does business with Delta, with whom does the entity conduct the negotiations—a Citigroup employee or a Delta employee?

Typically, SPEs do not engage directly in transaction negotiations; in the case of Delta, the non-Citibank entity that is engaging in transactions with Delta would conduct the transaction negotiations with Citibank. Delta's outside counsel would review transaction documents. Every transaction, after it has been negotiated, would be submitted to the board of directors of Delta for final approval.
What obligations do any of the attorneys, trustees, administrators, directors, or beneficial owners of Delta have to Citigroup with respect to Delta and separate and apart from Delta?

The attorneys, trustees, administrators, directors or beneficial owners of Delta have no obligations to Citibank with respect to Delta, except as specifically contracted for in a particular transaction involving both Delta and Citibank. I am not aware that any of the attorneys, trustees, administrators, directors or beneficial owners of Delta have any obligations to Citibank. Some of the same attorneys, trustees, administrators, directors and beneficial owners may have been involved in other Citibank transactions, and therefore may have obligations to Citibank arising out of those other transactions.

Does Citigroup effectively control Delta?

Citigroup does not control Delta. Delta was established at Citibank's request in 1993 as a special purpose entity (SPE) with the express intention of making it independent of, and unaffiliated with, Citibank under relevant legal and regulatory standpoints.

In order to accomplish that result, Delta was established in such a way that Citibank has no ownership in or personnel affiliated with Delta. Delta has an independent board of directors that controls Delta and is responsible for running its business. Moreover, Delta's Memorandum of Association expressly authorizes Delta to engage in any lawful business, as approved by its directors. Although Citibank, like any company that creates an SPE, did not contemplate that Delta would complete transactions that did not involve Citibank, Delta is not obliged to enter into transactions with Citibank.
Thus, from a legal and regulatory perspective, Citibank understood Delta to be independent of, and not controlled by, Citibank. Although some of the facts described in the responses above (e.g., payment of fees) might seem to imply some level of control as that term is ordinarily understood in common usage, these are customary characteristics of independent SPEs and do not, in fact, demonstrate control under relevant legal or regulatory standards. SPEs are used routinely in structured transactions sponsored by a wide range of institutions and corporations.

Subscribed and sworn to before me this 29th day of July, 2002.

[Signature]

Notary Public

[Notary Public Seal]

[Name]

Notary Public, State of New York

[Commission Expires June 4, 2003]
August 7, 2002

By Telecopy and First Class Mail

The Honorable Carl Levin
Chairman
The Honorable Susan M. Collins
Ranking Minority Member
United States Senate
Committee on Governmental Affairs
Permanent Subcommittee on Investigations
Washington, D.C. 20515-0115

Dear Chairman Levin and Senator Collins:

In light of your recent hearing in which you examined certain Enron-related structured financings, we thought you might be interested in steps Citigroup is taking to ensure that the balance sheet effect of structured financings is transparent to investors. These measures, together with an announcement that Citigroup will begin expensing options in January, are set forth in the enclosed letter from Sandy Weill to Citigroup employees.

Sincerely yours,

Jane C. Sherburne

Enclosure
To: All Employees
From: Sandy Weill
Date: August 7, 2002
Re: Progress Report

In my last letter to you, I told you we were reviewing and would continue to review, our business practices to ensure they adhere to the new standards that are emerging and that we continue to be a leader in defining and adopting higher standards. As I described, recent events have pointed out two key lessons: we must do everything we can to identify, eliminate or manage conflicts of interest -- real or perceived -- as they arise, and we need constantly to strengthen transparency through meaningful disclosure. As the financial services industry gets increasingly complex, we need to reemphasize these basic values.

As you know, we are changing the way we do research and taking the lead to build stronger walls to separate research from investment banking. By being the first firm to voluntarily embrace the Slutsky principles, we have precluded investment bankers from having any say in analyst compensation and previewing reports. We also called on regulators to pass rules that would preclude analysts from going on investment banking pitches and road shows. And we were the first firm to voluntarily adopt the SEC’s proposal for analysts to certify that the views expressed in their research accurately reflect their personal views and that they have not been compensated, directly or indirectly, for expressing a specific recommendation. The sooner these reforms are adopted as industry-wide rules, the better.

Also, I cannot over-emphasize the importance we place on our senior management’s “blood oath” commitment to hold ¼ of any stock or options we receive for as long as we’re running the company. This is the toughest Stock Ownership Commitment in the corporate world today. Because we are committed to the long-run health of our company, we are constantly looking for ways to run the company better. With that in mind, today, I wanted to discuss with you four important new developments.

**Affirming our SEC Filings**

Today, our CFO Todd Thomson and I signed an oath certifying the accuracy of the disclosure in our financial reports. It is only right that CFOs and the company’s most senior financial officer stand behind their companies’ financial disclosures and therefore we welcomed the opportunity to demonstrate our confidence in the integrity of the disclosures we provide.

**Expensing Options**

Beginning in January, we will account for all stock options for management, employees and members of our Board as an expense. Investors have made clear that they want options accounted for in this manner, and we at Citigroup continue to place a high priority on our responsibilities to our shareholders. For 2003, we estimate the impact of this decision will be approximately $0.03 per share and when fully phased in over the next five years, we estimate the impact will be approximately $0.08 per share.
New Board Committee on Governance

Our Board has decided that we should create a new Board level committee to focus on corporate governance. All of the members of the new committee will be independent directors. As you may know, today, both the Personnel, Compensation and Directors Committee and the Audit Committee of the Board are 100% comprised of independent directors. This new committee strengthens our commitment to the highest standards of corporate governance.

New Initiatives in our Structured Finance Business

While it is the responsibility of each and every corporation to ensure that its financial statements fairly represent its true financial condition and of its auditors to provide an independent verification of the financial statements, unfortunately, recent events suggest that these safeguards have not always worked as they should. The industry’s practices need to change rapidly and we want to be a leader in defining these new higher standards. We support the various legislative and regulatory initiatives designed to increase transparency.

At Citigroup, we are committed to greater transparency in the disclosure of structured finance transactions and we are answering the call from Washington and from investors by adopting strong initiatives ourselves.

Quite simply, if a company does not agree to record a material financing as debt on its balance sheet, Citigroup will only execute the transaction if the company agrees to publicly disclose its impact to investors.

Starting immediately, we will only do these transactions for clients that agree to make prompt disclosure of the details of the transaction including management’s analysis of the net effect the transaction has on the financial condition of the company, the nature and amount of the obligations, and a description of events that may cause an obligation to arise, increase or become accelerated. In addition, we will only do these transactions for clients that agree to provide the complete set of transaction documents to their chief financial officer, chief legal officer and independent auditors. We believe our new policy will encourage companies to provide greater transparency than currently required by law and help restore investor confidence in our financial markets.

For Citigroup itself, our second quarter 10 Q already goes beyond legal and regulatory requirements in providing enhanced disclosure of Citigroup's securitization activities. Going forward, we will, of course, follow the same practices we are asking our clients to follow.

Citigroup has always strived to be at the forefront of progressive industry change. I believe that the actions we are taking in these four key areas underscore our commitment to transparency, accountability and full disclosure to the investment community.

We continue to review practices and policies and take action to make changes where appropriate. And of course, I will continue to keep you informed. I continue to deeply believe in the future of our company and, on behalf of management and the Board of Directors, let me reiterate how proud we are of your integrity, commitment and high performance. Thank you for your ongoing support.
Overview

This memo is intended to provide an overview of the procedures for a legal entity established to own certain prepaid oil and natural gas forward sales contracts.

What is a Prepaid Contract

A Prepaid Contract is a transaction through which ECTR is prepaid by a third party for future oil/natural gas deliveries. The counterparty in these transactions is typically a larger bank. The term ranges from 1 - 5 years.

Purpose of Prepaid Contracts

The purpose of the Prepaid Contract is to provide cash flow to Enron Corp in order to meet its cash flow objectives. They are not intended to be income generating transactions.

Accounting for Prepaid Contracts

1. Company Setup

Before a prepaid contract is closed, it needs to be determined whether a new legal entity should be created or one of the current prepaid legal entities should be reused. If a new legal entity is to be established, several items are processed. They are:

- Have the new corporate entity given a name and Co. #
- Have a bank account established through Corporate Treasury
- Have an MSA company established through the Control Group
- Have MSA access granted to responsible accountants
- Have an API company established through the Control Group
- Have the chart of accounts established for the GL through the Control Group
- Have the ECTR Legal Dept issue the stock certificate
- Have Taxpacs established through Corporate Tax Dept
- Notify the ERMS book administrators and provide them with an amortization schedule for the discount
- Provide a copy of the discount amortization schedule to ECTR Cash Flow Group

Note: These items should be completed one week prior to the anticipated closing date of the deal.

2. Monthly Activities

Each month, the Prepaid Company must go to the market and purchase the hydrocarbons necessary to fulfill its contractual obligation to the counterparty. Long term supply contracts are also used to provide (these hydrocarbons). The responsible accounting group should receive invoices, verify, and initiate the payment for these hydrocarbons. This group book keeps the invoices to the appropriate payable account and ensures that the coding on the check request/transfer form will clear the payable.

Your Personal Best Makes Enron Best
Communicate Facts Any Friendly Better Faster, Simpler

Permanent Subcommittee on Investigations
EXHIBIT #193a
From time to time, traders feel that they have an opportunity to make a margin on trades and will use the prepaid companies to house these trades. The responsible accounting group should treat any purchases as stated in the above previous paragraph. For any sales, an invoice should be prepared, booked to the appropriate receivable account, and sent to the customer for payment. When payment is received it is the accounting group's responsibility to make sure the payment is applied to the correct receivable account and customer.

ERMS accounting will be responsible for booking a swap with the prepaid company to move any positive or negative gross margin to ERMS.

The gross margin of these companies should always be very close to zero. A simple test is as follows:

\[
\text{Sales (4921 or 4830) + Cost of Sales (5023 or 8000) - Swaps (4922)} = 0
\]

Note: The numbers in parentheses represent the account major for the respective categories.

ERMS accounting will also be responsible for the amortization of the deferred asset created by the discount associated with the cash flow received. For example, if the gross amount of the prepay is $200M and discounted cash received is $150M, the discount to be amortized is $50M.

**Accounting Entries for Prepaid Hydrocarbon Transactions - Setup**

Entries to be made on the Prepaid Hydrocarbon Co's Books

1. Original receipt of cash:

   | (Cash)      | 1310-999 | XXXX |
   | (Misc. Exp) | 4285-999 | XXXX |
   | (Sales)     | 4921-999 | XXXX |

   This entry shows the application of cash for the transaction fee and prepaid sales income.

2. Swap the value of the prepaid sales to Co. 364 (ERMS):

   | (Swap Income) | 4922-364 | XXXX |
   | (Interco. A/R) | 1485-364 | XXXX |

Entries to be made on ERMS's Books

1. Receipt of Hydrocarbon revenue swap from the Prepaid Hydrocarbon Co.:

   | (Interco. A/R) | 1480-AAA | XXXX |
   | (Swap Income)  | 4923-AAA | XXXX |

2. Book the discount to be amortized over the life of the transaction:

   | (ST MTM Liability) | 2420-310 | XXXX |
   | (LT MTM Liability) | 2530-310 | XXXX |
   | (MTM Income)       | 4922-999 | XXXX |

   The balance sheet side of this entry must be divided between LT and ST.
3. Input the value of the Prepaid transaction liability into the appropriate risk book:

<table>
<thead>
<tr>
<th>(MTM Income)</th>
<th>6000/8033</th>
<th>XXXX</th>
<th>XXXX</th>
</tr>
</thead>
<tbody>
<tr>
<td>(ST MTM Liability)</td>
<td>2320-120</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>(LT MTM Liability)</td>
<td>1490-364</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

   XXXX

This entry will be made by the accounting person responsible for booking MTM income for the applicable risk book. Again, the balance sheet accounts must be divided between LT and ST.

Accounting Entries for Prepaid Hydrocarbon Transactions - Monthly Entries

Entries to be made on the Prepaid Hydrocarbon Co.'s Books

1. To record the purchase of hydrocarbons to fulfill the contract and accrue the payable:

   (Purchases) | XXXX
   (Acct. Payable) | 2320-120

2. To record the swap from the Co. 364 risk book to cover the cost of purchasing the hydrocarbons:

   (Intercr. AVR) | XXXX
   (Swap Income) | 4922-384

Entries to be made on Co. 364

1. Swap the annuity value from the risk book to the Prepaid Hydrocarbon Co.:

   (Swap Income) | 4922-AAA
   (Intercr. AVR) | 1490-AAA

2. Amortize the Prepaid transaction discount:

   (MTM Income) | 4922-999
   (ST MTM Liability) | 2420-310

3. Reclass the first month of LT discount to the ST discount account:

   (ST MTM Liability) | 2420-310
   (LT MTM Liability) | 2530-310

4. Record the monthly annuity value rolling out of the risk book:

   (ST MTM Liability) | 2420-310
   (MTM Income) | 4922-999

   XXXX

   XXXX

   XXXX

   XXXX

NOTE: This entry will be made by the person responsible for booking MTM for the risk book.

EC 001537019
5. Reclass one month of LT liability to the ST liability to replace the current month rolling off:

<table>
<thead>
<tr>
<th>LT MTM Liability</th>
<th>2530-310</th>
<th>XXXX</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST</td>
<td>2420-310</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

NOTE: This entry will be made by the person responsible for booking MTM for the risk book.

**Miscellaneous Notable Items**

An amortization schedule needs to be prepared for the discount associated with the prepayment. This schedule needs to be provided to the ERMS book administrators and to the ECGR Cash Flow Group.

In order to reconcile the Daily Position Report (DPR) to the general ledger for the applicable risk book, the amount of the unamortized discount must be subtracted from the DPR (the traders use the DPR to judge their income position). This is due to the fact that these transactions are undertaken for cash flow purposes, therefore the traders are not responsible for the cost of obtaining the funds (the discount). When reconciling between the Max Exposure Report, DPR, and General Ledger it will be similar to the following:

\[
\text{Max Exposure} + \text{Unamortized Discount} = \text{DPR} \\
\text{DPR} - \text{Unamortized Discount} = \text{GL}
\]

The intercompany accounts (1460-XXX) between ERMS and the prepaid hydrocarbon company should never be settled in cash until the term of the prepaid contract has expired. The original balance in these accounts should be the discounted amount of the prepayment. It will be amortized down as the monthly settlements are liquidated out of ERMS's risk books and passed to the prepaid companies via the Intercompany account. At the end of the prepaid term, a cash settlement needs to be made between the ERMS and the prepaid company to clear any remaining balances. This remaining balance represents the ERMS traders' profit or loss during the term of the prepayment. If the traders lost money, the prepaid company did not receive enough cash to cover the purchases it made and must be reimbursed for this amount. If the traders made money, the prepaid company received more cash than it needed to pay for its purchases and should forward the excess cash to ERMS. For example, Enron receives $1,000 from XYZ Bank as a prepayment representing 100 SBSLS @ $10.00. If the ERMS traders purchase the crude at $9.50/SBSL they have made $1.00/SBSL. The entries would be as follows (Please note that this example does not take into effect the discounting of cash flows):

**Receipt of Cash (Income Effect = $0.00)**

<table>
<thead>
<tr>
<th>Prepaid Company</th>
<th>1310-999</th>
<th>4921-999</th>
<th>1,000</th>
<th>1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4922-384</td>
<td>1460-364</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td><strong>ERMS:</strong></td>
<td>1460-XXX</td>
<td>4923-XXX</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>4923-999</td>
<td>2420-310</td>
<td>1,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

EC 001537020

---

Your Personal Best Makes Enron Best
Communicate- Facts Are Friendly
Better, Faster, Simpler
### Monthly Entry (Income Effect = $100,00)

<table>
<thead>
<tr>
<th>Prepaid Company</th>
<th>8053-999</th>
<th>1310-999</th>
<th>1460-364</th>
<th>4922-364</th>
<th>ERMS: 4922-XXX</th>
<th>1460-XXX</th>
<th>2420-310</th>
<th>4923-999</th>
<th>$900</th>
<th>$800</th>
<th>$900</th>
<th>$900</th>
<th>$1,000</th>
<th>$1,000</th>
</tr>
</thead>
</table>

### End of Term Settlement (Income Effect = $0.00)

<table>
<thead>
<tr>
<th>Prepaid Company</th>
<th>1460-364</th>
<th>1310-999</th>
<th>ERMS: 1310-999</th>
<th>1460-XXX</th>
<th>$100</th>
<th>$100</th>
<th>$100</th>
</tr>
</thead>
</table>

Note that the absolute value of the income effect in the example is equal to the absolute value of the balance in the intercompany (1460) accounts before settlement. If the intercompany balance on the prepaid company's ledger is a debit/credit balance this denotes that the ERMS traders lost/made money on the deal.

This memo is only a guideline. Each deal has its own unique characteristics. Be sure to research any items that do not seem to be applicable to the above explanations.
Enron Corp Bank Presentation

November 19, 2001

Waldorf Astoria
New York, NY

PRIVILEGED AND CONFIDENTIAL
Agenda

- Introduction - What Happened?  Jeff McMahon, Chief Financial Officer
- Enron and Dynegy Merger  Greg Whalley, President & COO
- Business Review  Greg Whalley, President & COO
- Risk Assessment & Controls  Rick Buy, Chief Risk Officer
- Debt Issues  Jeff McMahon, Chief Financial Officer
- Next Steps  Ray Bowen, Treasurer
- Question and Answer Session  Jeff McMahon, Chief Financial Officer
- Panel
What Happened?
What Happened?

Current Situation

- Complete loss of investor and creditor confidence
  - Management
  - Performance of the business
  - Financial markets
- No access to capital
  - Short-term
  - Long-term
- Trade credit markets nervous
- Current maturities greatly exceed operating cash flow
  - Revolving credit facility matures May 2002 - $1.75B
  - Osprey Trust must be defeased September 2002 - $2.6B
  - Other bank maturities
- Too much leverage tied to stock price
  - Osprey
  - Martin
  - Equity forwards

RESULT:
Enron Has a Liquidity Problem
What Happened?

**Cause**

- Series of bad investments
  - Azurix
  - Broadband
  - Elektro
  - Dabhol
  - Merchant investments

- Overlevered
  - Failed asset / liability management program
  - Large use of Enron stock
  - No significant equity issuances

- Related party transactions
  - Conflicts of interest
  - Slow to address investor concerns
  - Overused
  - Possible control failure

- Failure of management to respond quickly
What Happened?

**Enron Daily Share Price**

- September 11 Tragedy
- 3Q Earnings
- WSJ Articles Begin
- Bond Spreads Gap
- SEC inquiry Begins
- CP Market Disappears
- CPO Replaced
- RC Drawdown
- Loss of Investor Confidence
- PIPE Financing Announced
- Merger Announced

---

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- 6 -


EC600180230
### What Happened?

**Shareholder Equity Activity 12/99 to 9/01**

<table>
<thead>
<tr>
<th></th>
<th>$MM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>December 1999 Shareholder Equity</strong></td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td></td>
</tr>
<tr>
<td>Net Income - Recurring</td>
<td>2,507</td>
</tr>
<tr>
<td>Net Income - Non-recurring</td>
<td></td>
</tr>
<tr>
<td>Azurix</td>
<td>(613)</td>
</tr>
<tr>
<td>Broadband Services</td>
<td>(180)</td>
</tr>
<tr>
<td>Investing Activities</td>
<td>(644)</td>
</tr>
<tr>
<td>Other</td>
<td>20</td>
</tr>
<tr>
<td>Non-recurring Total</td>
<td>(1,317)</td>
</tr>
<tr>
<td><strong>Net Income Total</strong></td>
<td>1,190</td>
</tr>
<tr>
<td><strong>Share Related</strong></td>
<td></td>
</tr>
<tr>
<td>Dividends Declared</td>
<td>(766)</td>
</tr>
<tr>
<td>Shares Purchased</td>
<td>(1,569)</td>
</tr>
<tr>
<td>Shares/Contingent Shares Issued to Reaptor</td>
<td>998</td>
</tr>
<tr>
<td>Repurchase of Contingent Shares</td>
<td>(1,270)</td>
</tr>
<tr>
<td>Equity Issuances for Business Acquisitions</td>
<td>409</td>
</tr>
<tr>
<td>Equity Issuances for Benefits / Options</td>
<td>1,514</td>
</tr>
<tr>
<td><strong>Share Related Total</strong></td>
<td>(694)</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
</tr>
<tr>
<td>Other Comprehensive Income / CTA</td>
<td>(1,038)</td>
</tr>
<tr>
<td>All Other</td>
<td>499</td>
</tr>
<tr>
<td><strong>September 2001 Shareholder Equity - Estimate</strong></td>
<td>9,490</td>
</tr>
</tbody>
</table>

Subject to restatement pending the filing of Enron 9/30/01 10Q

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What Happened?

**How to Solve It**

<table>
<thead>
<tr>
<th>Issues</th>
<th>Actions Implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term</td>
<td>Revolver drawdown</td>
</tr>
<tr>
<td></td>
<td>$1.0B secured facility</td>
</tr>
<tr>
<td></td>
<td>$1.5B Northern Natural Gas preferred</td>
</tr>
<tr>
<td></td>
<td>Private equity initiative</td>
</tr>
<tr>
<td>Medium-term</td>
<td>Accelerated asset sale program</td>
</tr>
<tr>
<td></td>
<td>Restructure maturities</td>
</tr>
<tr>
<td></td>
<td>Improve rating outlook</td>
</tr>
<tr>
<td></td>
<td>Liquidate finance vehicles</td>
</tr>
<tr>
<td></td>
<td>Sell assets</td>
</tr>
<tr>
<td>Long-term</td>
<td>Change in management</td>
</tr>
<tr>
<td></td>
<td>Restructured business focus</td>
</tr>
<tr>
<td></td>
<td>Engaged corporate governance advisors</td>
</tr>
<tr>
<td></td>
<td>Restructured finance department</td>
</tr>
<tr>
<td></td>
<td>Rebuild investor confidence</td>
</tr>
<tr>
<td></td>
<td>Asset / Liability management program</td>
</tr>
<tr>
<td></td>
<td>Management focus</td>
</tr>
<tr>
<td></td>
<td>Strategic equity solutions</td>
</tr>
</tbody>
</table>
What Happened?

**Historical Organization Chart**

Office of the Chairman
Ken Ley
Jeff Skilling

Wholesale
Greg Whalley
Mark Frenert
Dave Delaney
John Leverato

T & D
Sten Heron

EES
Lou Pai

International Assets
Joe Sutton

EBS
Ken Rice

Azurix
Rebecca

Mark

Finance
Andy Festow - CFO
Ben Gilson - Treasurer

- Dabhol
- Elektro
- Broadband
- Wessex

Current Exxon Employee
No Longer with the Company

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What Happened?
Pro Forma Combined Company ($MM) - 12/31/02E

<table>
<thead>
<tr>
<th></th>
<th>Dynegy Standalone</th>
<th>Enron Standalone</th>
<th>Merger Adjustments</th>
<th>Pro Forma NewCo (1)</th>
<th>Asset Sales Sensitivities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash &amp; Equivalents</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>1,559</td>
<td></td>
<td>1,579</td>
<td>1,579</td>
<td></td>
</tr>
<tr>
<td><strong>Balance Sheet Debt</strong></td>
<td>4,665</td>
<td>12,067</td>
<td>(1,000)</td>
<td>15,692</td>
<td>14,992 13,692</td>
</tr>
<tr>
<td>Off-Balance Sheet Debt</td>
<td>2,105</td>
<td>1,080</td>
<td>3,186</td>
<td>3,186</td>
<td></td>
</tr>
<tr>
<td>Convertible Preferred</td>
<td>-</td>
<td>1,500</td>
<td>-</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Hedgeable Preferred</td>
<td>248</td>
<td>903</td>
<td>1,149</td>
<td>1,149</td>
<td></td>
</tr>
<tr>
<td>Minority Interest</td>
<td>1,203</td>
<td>2,387</td>
<td>3,087</td>
<td>3,087</td>
<td></td>
</tr>
<tr>
<td>Shareholders' Equity</td>
<td>5,198</td>
<td>9,500</td>
<td>3,005</td>
<td>17,661</td>
<td></td>
</tr>
<tr>
<td><strong>Total Book Capitalization</strong></td>
<td>13,312</td>
<td>27,457</td>
<td>628</td>
<td>41,274</td>
<td></td>
</tr>
</tbody>
</table>

| Adjusted Ratios        |                   |                  |                     |                     |                          |
| Net Debt / Net Book Cap.| 48.30%            | 44.80%           | 43.80%              | 42.30%              |
| EBITDA / Fixed Charges  | 4.8x              | 3.9x             | 4.5x                | 4.7x                |
| FFO / Fixed Charges     | 5.6x              | 3.4x             | 4.5x                | 4.4x                |
| FFO / Net Debt          | 25.00%            | 21.50%           | 25.30%              | 27.20%              |

(1) Includes $500 MM of synergies

Source: Dynegy Presentation – November 2001
Enron and Dynegy Merger

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Enron and Dynegy Merger

- #1 wholesale natural gas and power franchises
  - Through the Q3, gas sales exceeded 40 Bcf per day and power sales exceeded 500 million megawatt hours
- Principal energy market makers and liquidity providers
  - EnronOnline + Dynegydirect
- Intellectual capital leveraging core asset positions
- Complementary physical and financial capabilities
  - Combined revenues exceeded $200B and $90B in assets
- Comprehensive energy delivery networks
  - Includes more than 22,000 megawatts of generating capacity
- Diverse pipelines and generation assets
  - Includes more than 25,000 miles of pipelines

Enron and Dynegy Merger

Transaction Overview

- Stock for stock merger
  - Fixed conversion ratio of 0.2685 ENE per DYN share
  - Resultant ownership profile – Enron 36%; Dynegy 64%

- Dynegy purchased preferred stock for $1.5B, exchangeable for ENE common stock and convertible into 100% of Northern Natural preferred equity under certain circumstances
  - Funded via ChevronTexaco’s $1.5B purchase of preferred stock in Dynegy
  - ChevronTexaco’s preferred is convertible into common equity of Dynegy at a 5% discount to $35.966 (the 5-day average price as of November 2, 2001) per share

- Commitment by ChevronTexaco to infuse an additional $1.0B upon close of the merger
Enron and Dynegy Merger

**Merger Agreement**

- **Agreement**
  - Expected to close in the 3rd quarter of 2002
  - Required approvals – FERC, HSR, SEC and Enron and Dynegy shareholders

- **Termination Provisions**
  - Material Adverse Change Clause (MAC)
  - Litigation Cap
    - $3.5B Cap, MAC clause enforceable thereafter

- **Interim Covenants**
  - Debt
    - May refinance existing debt plus incur an additional $1.0B in addition to the recent $1.0B Chase / Citi financing
  - Equity
    - Enron is entitled to issue up to $2.0B of new equity
      - Or additional equity as necessary to prevent a downgrade below investment grade

These slides are meant as an overview of the principle terms of the Merger Agreement and, as summarized, are qualified as to the terms of the Merger Agreement.
Enron and Dynegy Merger
Financial Highlights of the New Dynegy

- Significant balance sheet strength
- Less leverage with fewer off-balance sheet transactions
- Strong free cash flow to support future growth
Enron and Dynegy Merger

Credit Strengths

- #1 wholesale gas and power industry position

- Diversified earnings stream
  - Stable free cash flow from assets (midstream, pipes, T&D)
  - Significant recurring earnings / cash flow (wholesale)
  - Profitable C&I / Retail business
  - G&A savings

- ChevronTexaco strategic relationship and support

- Commitment to maintain investment grade ratings

- Conservative financial policy and practices
Enron and Dynegy Merger

**Combined Company – 2001 Estimate ($MM)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Midstream</td>
<td>280</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Illinois T&amp;D</td>
<td>396</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>676</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Enron</strong></td>
<td></td>
<td>286</td>
<td>(272)</td>
<td>(427)</td>
<td></td>
</tr>
<tr>
<td>Pipelines</td>
<td>484</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portland General</td>
<td>377</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Assets</td>
<td>236</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>1,097</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>1,773</td>
<td>4,471</td>
<td>286</td>
<td>(769)</td>
<td></td>
</tr>
</tbody>
</table>

**NewCo EBITDA TOTAL = 55,821**

- Includes $550MM of EBITDA attributable to generation assets.
- Note: Numbers subject to restatement pending filing of Enron 9Q/2001 10Q

Source: Dynegy Presentation November 2001
Enron Business Review

9 Mo. 2001 EBITDA By Core Business ($MM)

Core Businesses

Wholesale Services
- Marketing and Delivery of Commodities Worldwide

Transportation & Distribution
- Pipelines

Retail Energy
- Energy Outsourcing to Commercial and Industrial Customers

Non-Core Businesses
- Portland General, Global Assets, Broadband

Businesses Under Review
- Other wholesale commodity businesses outside of gas, power, and coal

Notes: Core Businesses only
EBITDA = Operating Income - O&A
Subject to review pending the filing of Enron '93/001 10Q
Enron Business Review

Enron Wholesale Services

> Wholesale Services

- Americas
  - North America Natural Gas and Power
- Europe & Other Commodity Markets
  - Europe Natural Gas and Power

![Graph showing EBITDA (SMM)]

- 2000: $1,752
- 9 Mo. 2001: $2,160

Subject to restatement pending the filing of Enron 10Q

Note: Excludes Global Assets, which is now Non-Core

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Enron Business Review

Enron Wholesale Services

- Enron infrastructure gives greater access to market information than its competitors

- The infrastructure involves:
  - ownership of assets
  - controlled access to assets
  - asset management agreement

- Gas volumes on EnronOnline were greater than NYMEX in September 2001

- Enron's wholesale business continues to operate successfully despite the crisis of confidence in the investor community
Enron Business Review

Enron's Leading Market Position

Physical Settlements in Bcf/d

- Enron's market share makes it critical to the stable operation of the power and gas trading markets
- Enron is the key liquidity provider/market maker for gas and power

Source: Gas Daily, Power Markets Week, Company Reports

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Enron Business Review

Enron Energy Services

- Medium / Long term natural gas and electricity outsourcing supply for clients
- Identification and installation of energy efficient equipment which allows clients to reduce consumption
- Business is focused in US / UK / Canada
- Target market focused on large consumers (Fortune 2500 companies) as well as small consumers

EDITDA ($MM)

<table>
<thead>
<tr>
<th>Year</th>
<th>EDITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$6.0</td>
</tr>
<tr>
<td>9 Mo, 2001</td>
<td>$200.0</td>
</tr>
<tr>
<td>(2000)</td>
<td>$0.0</td>
</tr>
</tbody>
</table>

Total Contract Value Growth ($B)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Contract Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>$1.2</td>
</tr>
<tr>
<td>1998</td>
<td>$3.8</td>
</tr>
<tr>
<td>1999</td>
<td>$8.5</td>
</tr>
<tr>
<td>2000</td>
<td>$16.1</td>
</tr>
<tr>
<td>2001E</td>
<td>$30.0</td>
</tr>
</tbody>
</table>

Subject to restatement pending the filing of Enron 9/30/01 10Q

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Enron Business Review

**Business Issues**

- **Dabhol**
  - DPC continues to pursue remedies against Maharashtra State Electricity Board (MSEB), the Government of Maharashtra (GOM) and the Government of India (GOI)
  - Procedural hearings in separate arbitrations against GOM and GOI are scheduled for this month
  - Project lenders considering approval of the termination notice to MSEB. DPC is currently forbidden by the Bombay High Court from serving the Termination Notice
  - Enron has made its first claim against its political risk policies

- **California**
  - Edison exposure approx. $150MM, PG&E gross exposure approx. $521MM

- **Effect of current events on wholesale business**
  - Liquidity
  - Counterparty activity
  - Transaction activity
Risk Assessment and Controls

Risk Assessment & Control Group ("RAC")

- Enron Board of Directors
- Office of the Chairman
  - Ken Lay, Greg Whalley
  - & Mark Frevert
- EVP / Chief Risk Officer
  - Rick Buy

- Underwriting
  - Dave Gorte
- Portfolio
  - Rick Carson
- Credit Risk Management
  - Bill Bradford
- Market Risk Management
  - Ted Murphy / David Port
- London RAC Team
  - Ted Murphy

PRIVILEGED AND CONFIDENTIAL - 31 -
Risk Assessment and Controls

Responsibilities

- Market Risk Management
  - Identify and evaluate complex global risk issues
  - Provide oversight and advice to the risk administration and risk technology processes

- Credit Risk Management
  - Credit review of over 7,000 transactions daily and review over 15,000 counterparties worldwide
  - Actively monitor and manage portfolio credit exposure associated with worldwide trading activities

- Underwriting
  - Ensure that risks for merchant capital transactions are identified and, where possible, mitigated
  - Value investments by modeling transaction risks using standard valuation processes

- Portfolio
  - Provide due diligence review to identify financial and administrative risks in proposed transactions
  - Ongoing asset management and compliance
Risk Assessment and Controls
What Went Wrong and Remedies

What Went Wrong?
- Large strategic transactions were NOT subject to RAC scrutiny
  - Azurix
  - EBS
  - India
  - The New Power Company
- RAC's role was to HIGHLIGHT THE RISKS for senior management and
  Board of Director decision making
- Related party transactions approved by the Board of Directors

Remedies
- ALL transactions will be subject to RAC review
- Approval policy expected to be altered at December 2001 board meeting to
  require Board of Director override of RAC decisions

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Risk Assessment and Controls

Credit Controls

How Do We Quantify and Control Credit?

- Standard credit analysis
- Strong documentation process
- Monitor and maintain collateral
- Monitor portfolio credit quality
- Perform simulations of price curve movements to estimate how credit exposure and required margin is impacted
- Actively maintain a credit reserve
  Actual reserve as of 9/28/2001 was $583MM
- Maintain credit insurance (base level of protection)
- Systems, systems, systems
Risk Assessment and Controls

Credit Controls – continued

What Are the Issues Facing Us?

- Downgrade to BBB-  
  - No real issue except confidence factor
- Downgrade below investment grade  
  - Requires the replacement of cash by L/C’s  
  - Collateral thresholds (credit limits collapse to zero)  
  - Incremental margin posted under contractual margin agreements would be approximately $1.6B  
  - Nervous counterparties  
  - Calls for margin  
  - Reduced trading by some players
- Adequacy of cash for margin call and L/C replacement
Risk Assessment and Controls

Credit Controls - continued

What Does Our Credit Portfolio Look Like?

- 15,000 counterparties including retail
- 3,500 active wholesale counterparties
  - Investment Grade 68%
  - Non-Investment Grade 32%
- $15B of net credit exposures

Net exposure by E-Rating (in $MM)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>As1/As1</td>
<td>AAA/AA+</td>
<td>777</td>
<td>793</td>
</tr>
<tr>
<td>2</td>
<td>As2/As3/As1</td>
<td>AA/AA-/A-</td>
<td>1,751</td>
<td>1,815</td>
</tr>
<tr>
<td>3</td>
<td>A2/A3</td>
<td>A-/A+</td>
<td>1,728</td>
<td>2,196</td>
</tr>
<tr>
<td>4</td>
<td>Ba1/Ba2</td>
<td>BB+</td>
<td>4,872</td>
<td>4,125</td>
</tr>
<tr>
<td>5</td>
<td>Ba3</td>
<td>BB-</td>
<td>1,034</td>
<td>1,000</td>
</tr>
<tr>
<td>6</td>
<td>Ba1</td>
<td>BB+</td>
<td>1,050</td>
<td>903</td>
</tr>
<tr>
<td>7</td>
<td>Ba2</td>
<td>BB</td>
<td>976</td>
<td>532</td>
</tr>
<tr>
<td>8</td>
<td>Ba3</td>
<td>BB-</td>
<td>922</td>
<td>490</td>
</tr>
<tr>
<td>9</td>
<td>B1/B2</td>
<td>B+/B-</td>
<td>1,205</td>
<td>1,446</td>
</tr>
<tr>
<td>10</td>
<td>B3</td>
<td>B-</td>
<td>399</td>
<td>330</td>
</tr>
<tr>
<td>11</td>
<td>Ca/Ca/Ca/C</td>
<td>CCC</td>
<td>136</td>
<td>237</td>
</tr>
<tr>
<td>12</td>
<td>D</td>
<td></td>
<td>538</td>
<td>790</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>14,968</td>
<td>14,160</td>
</tr>
</tbody>
</table>

PRIVILEGED AND CONFIDENTIAL
Risk Assessment and Controls

**Counterparty Behavior**

**How Are We Doing?**

- Cash collateral converted to L/C's is manageable
- Industry's extension of credit to Enron has been reduced but stable
- Effort completed to reduce counterparty exposure to Enron through assignment of trades and "ring" trades
- Cash has been needed to replace credit
Risk Assessment and Controls

Trading - Are Our Controls Effective?

Backtesting of Enron Corp. aggregate VaR
12 Months Ended November 14, 2001
Debt Issues

**Enron Debt (SMM)**

**WHOLESALE SERVICES**
- Commodity Transactions with financial institutions ($4,922)
- FAS 140s ($1,253)

**RETAIL**
- FAS 140s ($281)

**TRANSPORTATION & DISTRIBUTION**
- FAS 140s ($90)

**OFF BALANCE SHEET**
- Share Trust ($3,352)
- Structured Asset ($1,532)
- Unconsolidated Affiliates ($10,733)

Business unit obligations are not legal obligors. The chart does not consolidate business units into corporate.
# Debt Issues
## Enron Corp Recovery Plan

<table>
<thead>
<tr>
<th>As of September 30, 2001</th>
<th>Minority</th>
<th>Preferred</th>
<th>Other</th>
<th>Proforma</th>
<th>Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>Interest</td>
<td>Stock</td>
<td>Equity</td>
<td>Obligations</td>
<td>Total Capital</td>
</tr>
<tr>
<td>Current Book</td>
<td>11,977</td>
<td>$2,387</td>
<td>$903</td>
<td>$9,400</td>
<td>$715</td>
</tr>
</tbody>
</table>

**Pipeline Financing**
- $750

**Draw on Rev less CPs**
- $1,000

**Dynegy Preferred**
- ($1,503)

**Private Equity**
- ($906)

**Asset Sales**
- Contracted
  - ($5,793)
- Other Anticipated
  - ($1,942)
  - ($203)

**Securitization Potential Exposure**
- Martin / Amurit
  - $395
- Opsoy
  - $685
- Opsoy Equity
  - ($1,020)
- FAS 140a
  - $325
  - ($117)

**Committed Stock Repurchases**
- $548
- ($848)

**Potential Equity Reduction**
- International Assets
  - 777
- Broadband Networks
  - 777
  - ($500)

**Revised Total**
- $8,084
- $2,387
- $903
- $7,256
- $715
- $19,345
- 50%

---

1. Assumes 1.0x NAV multiple for Waco.
2. Assumes Opsoy assets worth 75% of book value less Enron debt obligations included in beginning debt balance.
3. BB debt / (BB debt + Preferred Stock + Shareholder's Equity).
4. Includes assets sales plus debt assumptions.
5. (BB debt + Other Obligations) / Total Capital.

*Subject to restatement pending the filing of Enron 9/30/01 10-Q*

PRIVILEGED AND CONFIDENTIAL

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### Debt Issues

#### New Facility Terms and Conditions

| **Borrower:** | Transwestern Pipeline Company ($550MM)  
|              | Northern Natural Gas Company ($450MM) |
| **Guarantor:** | Enron Corp |
| **Facilities:** | Secured Revolving Credit Facilities |
| **Use of Proceeds:** | General Corporate Purposes |
| **Maturity:** | 364 days after the Closing Date |
| **Accordian Feature:** | Provides for increase of $200MM |
| **Security:** | Capital Stock of Borrower  
|              | Unsecured subordinated note of Enron Corp  
|              | All assets of Borrower |
| **Covenants:** | Tangible Net Worth $750MM for both borrowers  
|              | Corp. Guarantee – reflects revolver (maximum debt-to-capital 65%) |

*PRIVILEGED AND CONFIDENTIAL*
Debt Issues

Northern Natural Gas Preferred

- Dynegy purchased $1.5B of NNG Preferred on November 13, 2001
- Dynegy has the option to purchase equity of NNG if merger agreement is terminated
Debt Issues

Private Equity

- Potential structure
  - Transwestern preferred similar to Northern Natural Gas

- Timing
  - Prior to year-end

- Sources
  - Traditional private equity
  - Strategic private investors
# Debt Issues

## Estimated Asset Sales through Year-End 2002

<table>
<thead>
<tr>
<th>Contracted</th>
<th>Cash Flow In (SM$)</th>
<th>Expected Sale Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>EGEIP India</td>
<td>300</td>
<td>Dec-01</td>
</tr>
<tr>
<td>CEG Rio</td>
<td>250</td>
<td>Dec-01</td>
</tr>
<tr>
<td>EcoElectric</td>
<td>250</td>
<td>Dec-01</td>
</tr>
<tr>
<td>Portland General (1)</td>
<td>1,800</td>
<td>2nd Half 02</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,650</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Anticipated Sales</th>
<th>Cash Flow In (SM$)</th>
<th>Expected Sale Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enron Wind</td>
<td></td>
<td>1st Half 02</td>
</tr>
<tr>
<td>SK Enron</td>
<td></td>
<td>1st Half 02</td>
</tr>
<tr>
<td>Gaspart</td>
<td></td>
<td>1st Half 02</td>
</tr>
<tr>
<td>Other International</td>
<td></td>
<td>2nd Half 02</td>
</tr>
<tr>
<td>Other Merchant</td>
<td></td>
<td>Year 02</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,850</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,500</strong></td>
<td></td>
</tr>
</tbody>
</table>

(1) In addition, $1.1B of debt reduction on consolidated balance sheet
## Debt Issues

### Debt Maturities Through 2002 (SMM)

<table>
<thead>
<tr>
<th></th>
<th>Q4 2001</th>
<th>Q1 2002</th>
<th>Q2 2002</th>
<th>Q3 2002</th>
<th>Q4 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current CP</td>
<td>230</td>
<td>349</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Balance Sheet Debt</td>
<td>55</td>
<td>27</td>
<td>2,125</td>
<td>163</td>
<td>1,000</td>
</tr>
<tr>
<td>Preferred Stock</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Minority Interest</td>
<td>690</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Structured</td>
<td>35</td>
<td>41</td>
<td>33</td>
<td>2,760</td>
<td>34</td>
</tr>
<tr>
<td>Securitizations / FAS 140a</td>
<td>22</td>
<td>379</td>
<td>540</td>
<td>190</td>
<td>309</td>
</tr>
<tr>
<td>Equity Forward Purchases</td>
<td>173</td>
<td>-</td>
<td>-</td>
<td>131</td>
<td>-</td>
</tr>
<tr>
<td>Leases</td>
<td>11</td>
<td>57</td>
<td>309</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Commodity Transactions</td>
<td>274</td>
<td>557</td>
<td>213</td>
<td>150</td>
<td>314</td>
</tr>
<tr>
<td><strong>TOTAL THROUGH 2002</strong></td>
<td><strong>1,490</strong></td>
<td><strong>1,410</strong></td>
<td><strong>3,220</strong></td>
<td><strong>3,414</strong></td>
<td><strong>1,662</strong></td>
</tr>
</tbody>
</table>

### Major Maturities

<table>
<thead>
<tr>
<th></th>
<th>Current CP</th>
<th>Rawhide</th>
<th>Revolver</th>
<th>New Enron Building</th>
<th>Osprey</th>
<th>Pipeline Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>230</td>
<td>690</td>
<td>1,750</td>
<td>285</td>
<td>2,436</td>
<td>1,000</td>
</tr>
</tbody>
</table>

**PRIVILEGED AND CONFIDENTIAL**
### Debt Issues

**Debt Maturities 2003 – 2005 ($MM)**

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Sheet Debt</td>
<td>1,551</td>
<td>2,054</td>
<td>2,611</td>
</tr>
<tr>
<td>Preferred Stock</td>
<td>-</td>
<td>103</td>
<td>-</td>
</tr>
<tr>
<td>Minority Interest</td>
<td>-</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Structured</td>
<td>1,053</td>
<td>162</td>
<td>179</td>
</tr>
<tr>
<td>Securitizations / FAS 140s</td>
<td>193</td>
<td>379</td>
<td>88</td>
</tr>
<tr>
<td>Equity Forward Purchases</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Leases</td>
<td>46</td>
<td>13</td>
<td>149</td>
</tr>
<tr>
<td>Commodity Transactions</td>
<td>607</td>
<td>1,364</td>
<td>840</td>
</tr>
<tr>
<td><strong>TOTAL 2003 - 2005</strong></td>
<td><strong>3,450</strong></td>
<td><strong>4,575</strong></td>
<td><strong>4,367</strong></td>
</tr>
<tr>
<td><strong>TECTION 2003 - 2005</strong></td>
<td><strong>12,392</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# Debt Issues

## Cash Flow Summary – Based on Preliminary 2002 Plan ($MM)

<table>
<thead>
<tr>
<th></th>
<th>Q1 '02</th>
<th>Q2 '02</th>
<th>Q3 '02</th>
<th>Q4 '02</th>
<th>Total '02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flow from Operations</td>
<td>300</td>
<td>750</td>
<td>750</td>
<td>750</td>
<td>3,000</td>
</tr>
<tr>
<td>Debt Reduction Expense</td>
<td>(100)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>(922)</td>
<td>(943)</td>
<td>(253)</td>
<td>(194)</td>
<td>(965)</td>
</tr>
<tr>
<td>Sale of Investments</td>
<td>680</td>
<td>675</td>
<td>685</td>
<td>466</td>
<td>1,906</td>
</tr>
<tr>
<td>Amortization of Debt and Other Obligations</td>
<td>(2,249)</td>
<td>(1,410)</td>
<td>(3,200)</td>
<td>(3,414)</td>
<td>(1,801)</td>
</tr>
<tr>
<td>Collateral Activity</td>
<td>750</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Pipeline Financing net</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dynegy Preferred Equity</td>
<td>1,200</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Private Equity</td>
<td>820</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Surplus (Deficit)</strong></td>
<td>613</td>
<td>(228)</td>
<td>(2,148)</td>
<td>(2,983)</td>
<td>(3,022)</td>
</tr>
<tr>
<td><strong>Cash Balance - Beginning of Period</strong></td>
<td>1,201</td>
<td>1,214</td>
<td>1,389</td>
<td>(712)</td>
<td>(1,145)</td>
</tr>
<tr>
<td><strong>Scheduled Remaining Cash</strong></td>
<td>1,814</td>
<td>1,386</td>
<td>(763)</td>
<td>(3,143)</td>
<td>(2,209)</td>
</tr>
<tr>
<td><strong>Adjustments:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perform/Refinancing Bank-Meet/SS 144s</td>
<td>920</td>
<td>349</td>
<td>2,055</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Perform Osprey Maturities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Adjusted Remaining Cash Balance (with Refinances)</strong></td>
<td>2,634</td>
<td>3,634</td>
<td>2,632</td>
<td>2,596</td>
<td>3,423</td>
</tr>
</tbody>
</table>

(1) Cash in Q1/Q3 is 9/30/01 balance.
<table>
<thead>
<tr>
<th></th>
<th>Q4 2001</th>
<th>Q1 2002</th>
<th>Q2 2002</th>
<th>Q3 2002</th>
<th>Q4 2002</th>
<th>Q4 2003</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core LC Instruments</td>
<td>282</td>
<td>194</td>
<td>90</td>
<td>29</td>
<td>40</td>
<td>985</td>
<td>(2)</td>
</tr>
<tr>
<td>EMTL LC Instruments</td>
<td>126</td>
<td>125</td>
<td>2</td>
<td>11</td>
<td>11</td>
<td>127</td>
<td>(3)</td>
</tr>
<tr>
<td>Trade LCs</td>
<td>114</td>
<td>28</td>
<td>20</td>
<td>19</td>
<td>19</td>
<td>172</td>
<td>(4)</td>
</tr>
<tr>
<td><strong>Total per Quarter</strong></td>
<td>522</td>
<td>242</td>
<td>131</td>
<td>109</td>
<td>109</td>
<td>995</td>
<td>(5)</td>
</tr>
</tbody>
</table>
Debt Issues

Minority Interests

- Rationale
  - Cost effective financing and favorable balance sheet impact

- Where on the Balance Sheet?
  - minority interest

<table>
<thead>
<tr>
<th>Deal Name</th>
<th>Asset Description</th>
<th>Total Funded Amount (MM)</th>
<th>Maturity Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rawrdo</td>
<td>Backstop credit facility</td>
<td>690</td>
<td>Mar-03</td>
</tr>
<tr>
<td>Zephyrus</td>
<td>Preferred interest in Enron receivables</td>
<td>500</td>
<td>Nov-05</td>
</tr>
<tr>
<td>Choctaw</td>
<td>Preferred interest in Enron receivables</td>
<td>500</td>
<td>May-04</td>
</tr>
</tbody>
</table>

**TOTAL** 1,690
Debt Issues

**Minority Interests - Rawhide**

- Enron demand Loans no longer Permitted Investments following downgrade by S&P to BBB-. The demand loans are an inter-company obligation and therefore no cross default to the Revolvers.

- Failure to repay the demand loans was a Termination Event which has started the 9 business-day Purchase Option Period (to November 26, 2001) and is an event of default on the inter-company loan from Sundance to Ponderosa.

- Extension Requested to allow time to absorb information from the bank meeting and to develop an acceptable restructuring plan
  - Extend the start of the Liquidation Start Date to December 14, 2001.
  - Agree to not pre-pay any debt not scheduled to mature during the extension period.
Debt Issues

Structured Financings - Share Trusts - Osprey

- Purpose
  - Deconsolidation of non-core business
  - Bridge for sale of non-core assets in an off-balance sheet manner

- Capital Structure
  - $2.438M of 144a notes held by investors
  - $220M of certificates held by institutional investors and LIM 2

- Repayment
  - Enron obligation to pay when due:
    - Enron Mandatory Convertible Preferred Stock
    - Enron Remarketing Agreement
    - Sales of assets
    - Enron obligation to top off

- Trigger Event
  - An Enron senior unsecured rating below Baa3 or BBB- concurrent with an Enron Corp stock closing price below $9.78/share
## Debt Issues

### Osprey Major Assets

<table>
<thead>
<tr>
<th>Asset</th>
<th>Whitewing Book Value 9/30/01 (MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International</strong></td>
<td></td>
</tr>
<tr>
<td>European Power Projects</td>
<td></td>
</tr>
<tr>
<td>Sarlux (46% ownership)</td>
<td>353</td>
</tr>
<tr>
<td>Tralka (22% ownership)</td>
<td>112</td>
</tr>
<tr>
<td>Nowa Sarzyna (50% ownership)</td>
<td>17</td>
</tr>
<tr>
<td>Arcos Turbines (100% ownership)</td>
<td>186</td>
</tr>
<tr>
<td><strong>Total Europe</strong></td>
<td>666</td>
</tr>
<tr>
<td>South American Gas Distribution</td>
<td></td>
</tr>
<tr>
<td>Elektro (24% ownership)</td>
<td>480</td>
</tr>
<tr>
<td>Promigas (43% ownership)</td>
<td>156</td>
</tr>
<tr>
<td><strong>Total South America</strong></td>
<td>636</td>
</tr>
<tr>
<td><strong>Domestic</strong></td>
<td></td>
</tr>
<tr>
<td>Merchant Assets</td>
<td>561</td>
</tr>
<tr>
<td>Yosemite I, II Certificates</td>
<td>52</td>
</tr>
<tr>
<td>American Coal Senior Note</td>
<td>77</td>
</tr>
<tr>
<td>EES Joint Venture</td>
<td>53</td>
</tr>
<tr>
<td>Canadian Turbines</td>
<td>39</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>7</td>
</tr>
<tr>
<td><strong>Total Domestic</strong></td>
<td>789</td>
</tr>
<tr>
<td><strong>TOTAL OSPREY ASSETS</strong></td>
<td>$2,093</td>
</tr>
</tbody>
</table>

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### Debt Issues

**Osprey Sensitivity Analysis As of 9/30/01 ($MM)**

<table>
<thead>
<tr>
<th>Asset Value Percentage</th>
<th>100%</th>
<th>75%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Osprey Debt &amp; Equity</td>
<td>2,666</td>
<td>2,666</td>
</tr>
<tr>
<td>Asset Value Merchant</td>
<td>2,083</td>
<td>1,570</td>
</tr>
<tr>
<td>Cash exposure</td>
<td>563</td>
<td>1,086</td>
</tr>
<tr>
<td>P/L exposure</td>
<td>(251)</td>
<td>(774)</td>
</tr>
<tr>
<td>Equity exposure</td>
<td>(1,251)</td>
<td>(1,774)</td>
</tr>
</tbody>
</table>

1 Assumes ENE share price $10
Debt Issues

**Structured Financings - Share Trusts - Marlin**

- **Purpose**
  - Allowed for the funding of the Wessex acquisition on a non-dilutive off-credit basis to Enron

- **Capital Structure**
  - $915MM in notes held by 144a investors
  - $125MM in Trust Certificates held by institutional investors

- **Repayment**
  - Enron obligation to pay when due:
    - Enron Mandatory Convertible Preferred Stock
    - Enron Remarketing Agreement
  - Sales of assets
  - Enron obligation to top off

- **Trigger Event**
  - An Enron senior unsecured rating below Baa3 or BBB- concurrent with an Enron Corp stock closing price below $34.13/share
Debt Issues
Marlin/Azurix Value Analysis As of 9/30/01 ($MM)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ENE Investment in Marlin &amp; Azurix</strong></td>
<td></td>
</tr>
<tr>
<td>Wessex RAB (1.0x Multiple)</td>
<td>2,000</td>
</tr>
<tr>
<td>Other Assets*</td>
<td>300</td>
</tr>
<tr>
<td><strong>AZX Asset Value</strong></td>
<td>2,300</td>
</tr>
<tr>
<td>Azurix Debt (9/30/01)</td>
<td>1,971</td>
</tr>
<tr>
<td>Marlin Debt</td>
<td>915</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,886</td>
</tr>
<tr>
<td>Marlin Repayment Exposure</td>
<td>(586)</td>
</tr>
<tr>
<td>Add Back ENE Preferred</td>
<td>191</td>
</tr>
<tr>
<td><strong>ENE Top Up Obligation</strong></td>
<td>(955)</td>
</tr>
<tr>
<td><strong>ENE P/L Exposure</strong></td>
<td>(855)</td>
</tr>
<tr>
<td><strong>Equity Exposure</strong></td>
<td>(855)</td>
</tr>
</tbody>
</table>
Debt Issues
FAS 125/140 and TRS Structures

- Transaction rationale:
  - Bridge for ultimate sale of non-core assets
  - Generates cash flow for reinvestment

- Where on the balance sheet:
  - Out of the money portion of Total Return Swap value recognized in Price Risk Management Assets/Liabilities
### Debt Issues
#### FAS 125/140 and TRS Structures ($MM)

<table>
<thead>
<tr>
<th>Deal Name</th>
<th>Asset Description</th>
<th>Total Funded Amount</th>
<th>Total Asset (1) Value</th>
<th>Maturity Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hawaii</td>
<td>Multi-asset credit facility</td>
<td>455</td>
<td></td>
<td>November'02</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>July'02</td>
</tr>
<tr>
<td>Riverside</td>
<td>Equity in Teasdale Power</td>
<td>76</td>
<td></td>
<td>January'02</td>
</tr>
<tr>
<td>ETOL</td>
<td>Equity in Teasdale Operations Ltd.</td>
<td>291</td>
<td></td>
<td>December'13</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cerebus</td>
<td>Equity in EOG shares</td>
<td>517</td>
<td></td>
<td>June'02</td>
</tr>
<tr>
<td>Service Co.</td>
<td>Equity in Service Co.</td>
<td>25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nikita - EOTT</td>
<td>Equity in EOTT</td>
<td>80</td>
<td></td>
<td>November'03</td>
</tr>
<tr>
<td>Comhusker</td>
<td>Equity in QF Powerplant</td>
<td>222</td>
<td></td>
<td>September'03</td>
</tr>
<tr>
<td>Motown</td>
<td>Equity in QF Powerplant</td>
<td>63</td>
<td></td>
<td>March'02</td>
</tr>
<tr>
<td>Stapshot</td>
<td>Canadian Newsprint Mill</td>
<td>358</td>
<td></td>
<td>June'05</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>2,087</strong></td>
<td><strong>20,870</strong></td>
<td></td>
</tr>
</tbody>
</table>

As of 9/30/01  
(1) Valuations based on P&L or publicly traded assets

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Debt Issues

Commodity Transactions with Financial Institutions

- Rationale
  - Asset / Liability management of the commodity risk portfolio
  - Monetize profit on commodity risk portfolio and transfer associated credit risk

- Contracts
  - Monetize future cash flow and transfer counterparty credit risk to lenders
  - Monetize future cash flow with lenders and Enron buys credit protection on counterparties
  - Monetize future cash flow with lenders and buy credit protection on Enron's counterparties

- Where on the Balance Sheet?
  - Reported in Price Risk Management Liabilities

---

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### Debt Issues

#### Commodity Transactions with Financial Institutions

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Terms</th>
<th>Current Amount (MM$)</th>
<th>Funding Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gas 1</td>
<td>Dec-01</td>
<td>19</td>
<td>Bank - amortizing</td>
</tr>
<tr>
<td>Gas 2</td>
<td>Mar-02</td>
<td>350</td>
<td>Bank - non-amortizing</td>
</tr>
<tr>
<td>Gas 3</td>
<td>Jun-02</td>
<td>46</td>
<td>Bank - amortizing</td>
</tr>
<tr>
<td>Gas 4</td>
<td>Jun-04</td>
<td>308</td>
<td>Bank - amortizing</td>
</tr>
<tr>
<td>Gas 5</td>
<td>Jun-05</td>
<td>533</td>
<td>Bank - amortizing</td>
</tr>
<tr>
<td>Gas 6</td>
<td>Nov-05</td>
<td>299</td>
<td>Bank - amortizing</td>
</tr>
<tr>
<td>Gas 7</td>
<td>May-08</td>
<td>33</td>
<td>Bank - amortizing</td>
</tr>
<tr>
<td>Gas 8</td>
<td>Apr-11</td>
<td>258</td>
<td>Bank - amortizing</td>
</tr>
<tr>
<td><strong>Total Gas</strong></td>
<td></td>
<td><strong>1,446</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Terms</th>
<th>Current Amount (MM$)</th>
<th>Funding Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas</td>
<td>May-12</td>
<td>10</td>
<td>Bank - amortizing</td>
</tr>
<tr>
<td><strong>Total Power</strong>:</td>
<td></td>
<td><strong>211</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Terms</th>
<th>Current Amount (MM$)</th>
<th>Funding Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude 1</td>
<td>Dec-01</td>
<td>198</td>
<td>Bank - NA</td>
</tr>
<tr>
<td>Crude 2</td>
<td>Oct-02</td>
<td>150</td>
<td>Bank - non-amortizing</td>
</tr>
<tr>
<td>Crude 3</td>
<td>Nov-02</td>
<td>75</td>
<td>Bank - amortizing</td>
</tr>
<tr>
<td>Crude 4</td>
<td>Oct-04</td>
<td>800</td>
<td>US Dollar Yosemite I - non-amortizing</td>
</tr>
<tr>
<td>Crude 5</td>
<td>Jul-05</td>
<td>475</td>
<td>US Dollar CLN I - non-amortizing</td>
</tr>
<tr>
<td>Crude 6</td>
<td>Apr-06</td>
<td>475</td>
<td>US Dollar CLN II - non-amortizing</td>
</tr>
<tr>
<td>Crude 7</td>
<td>Apr-06</td>
<td>182</td>
<td>Sterling CLN II - non-amortizing</td>
</tr>
<tr>
<td>Crude 8</td>
<td>Apr-06</td>
<td>155</td>
<td>Euro CLN II - non-amortizing</td>
</tr>
<tr>
<td>Crude 9</td>
<td>Feb-07</td>
<td>305</td>
<td>Sterling Yosemite II - non-amortizing</td>
</tr>
<tr>
<td><strong>Total Crude</strong>:</td>
<td></td>
<td><strong>2,735</strong></td>
<td></td>
</tr>
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</table>

**Note:** 
- GDP 1.00 = USD 1.4761 and EUR 1.00 = USD 0.8110
- *Amounts stated in USD*
## Debt Issues

### Rating Agency Update

<table>
<thead>
<tr>
<th>Agency</th>
<th>Type of Debt</th>
<th>Rating</th>
<th>Outlook</th>
</tr>
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<tbody>
<tr>
<td>Moody's</td>
<td>Senior Unsecured</td>
<td>Baa3</td>
<td>Review for Downgrade</td>
</tr>
<tr>
<td></td>
<td>Debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard &amp;</td>
<td>Senior Unsecured</td>
<td>BBB-</td>
<td>Negative Watch</td>
</tr>
<tr>
<td>Poors</td>
<td>Debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fitch</td>
<td>Senior Unsecured</td>
<td>BBB-</td>
<td>Evolving</td>
</tr>
<tr>
<td></td>
<td>Debt</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Debt Issues

8K Disclosure

- Restatement
  - JEDI
  - LJM 1
  - Accounting error $1.2B

- Related party transactions
  - LJM 1
  - LJM 2
  - ChewCo

- Special committee investigation

- SEC investigation
### Debt Issues

#### Restatements – Net Income ($MM)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income as reported</td>
<td>105</td>
<td>703</td>
<td>893</td>
<td>979</td>
<td>425</td>
<td>404</td>
<td>(618)</td>
</tr>
<tr>
<td>Restatements:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidation of JEDi and Chewco</td>
<td>(45)</td>
<td>(107)</td>
<td>(153)</td>
<td>(91)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consolidation of LJM1 subsidiary</td>
<td>-</td>
<td>-</td>
<td>(95)</td>
<td>(8)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Raptor equity adjustment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Prior year proposed audit adjustments and reclassifications</td>
<td>(51)</td>
<td>(6)</td>
<td>(2)</td>
<td>(33)</td>
<td>17</td>
<td>5</td>
<td>(17)</td>
</tr>
<tr>
<td>Net income restated</td>
<td>9</td>
<td>590</td>
<td>643</td>
<td>847</td>
<td>442</td>
<td>409</td>
<td>(635)</td>
</tr>
</tbody>
</table>

(1) After effect of significant contract restructuring charge totaling $463MM (after tax)
### Debt Issues

#### Restatements – Total Assets ($MM)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets as reported</td>
<td>22,020</td>
<td>29,423</td>
<td>33,199</td>
<td>64,775</td>
<td>65,011</td>
<td>62,639</td>
<td></td>
</tr>
<tr>
<td>Restatements:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidation of JEDI and Chewco</td>
<td>447</td>
<td>160</td>
<td>187</td>
<td>(192)</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Consolidation of LIMI subsidiary</td>
<td>-</td>
<td>-</td>
<td>(222)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Reprin equity adjustment</td>
<td>-</td>
<td>-</td>
<td>(172)</td>
<td>(1,000)</td>
<td>(1,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior year proposed audit adjustments and reconciliations</td>
<td>(70)</td>
<td>(87)</td>
<td>(147)</td>
<td>(364)</td>
<td>(1,249)</td>
<td>247</td>
<td></td>
</tr>
<tr>
<td>Total assets restated</td>
<td>22,620</td>
<td>29,423</td>
<td>33,199</td>
<td>64,775</td>
<td>65,011</td>
<td>62,639</td>
<td></td>
</tr>
</tbody>
</table>
## Debt Issues

### Restatements – Debt ($MM)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt as reported</td>
<td>6,254</td>
<td>7,367</td>
<td>8,152</td>
<td>10,209</td>
<td>11,922</td>
<td>12,812</td>
</tr>
<tr>
<td>Restatements:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidation of JEDI and Chevco</td>
<td>711</td>
<td>561</td>
<td>665</td>
<td>628</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consolidation of LM1 subsidiary</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Raptor equity adjustment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Prior year proposed audit adjustments and reclassifications</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Debt restated</td>
<td>6,965</td>
<td>7,918</td>
<td>8,837</td>
<td>10,657</td>
<td>11,922</td>
<td>12,812</td>
</tr>
</tbody>
</table>

**PRIVILEGED AND CONFIDENTIAL**
### Debt Issues

**Restatements – Equity ($MM)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity as reported</th>
<th>Restatements:</th>
<th>Equity restated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5,618</td>
<td></td>
<td>7,048</td>
</tr>
<tr>
<td></td>
<td>(210)</td>
<td></td>
<td>540</td>
</tr>
<tr>
<td></td>
<td>(3,061)</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(800)</td>
<td></td>
<td>(112)</td>
</tr>
<tr>
<td></td>
<td>Prior year proposed audit adjustments and reclassifications</td>
<td></td>
<td>(51)</td>
</tr>
<tr>
<td></td>
<td>(5,305)</td>
<td></td>
<td>6,600</td>
</tr>
</tbody>
</table>

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## Next Steps

### Old Enron / New Enron

<table>
<thead>
<tr>
<th>Old Enron</th>
<th>New Enron</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deal shop mentality</td>
<td>Liability management focus</td>
</tr>
<tr>
<td>Compartmentalized information</td>
<td>Open communication</td>
</tr>
<tr>
<td>Black box</td>
<td>Financial transparency</td>
</tr>
<tr>
<td>Earnings driven</td>
<td>Cash driven</td>
</tr>
<tr>
<td>Asset sales program book value focused</td>
<td>Asset sales program market value driven</td>
</tr>
<tr>
<td>Constant development of new businesses</td>
<td>Focus on core businesses</td>
</tr>
<tr>
<td>Related party deals</td>
<td>No related party deals</td>
</tr>
<tr>
<td></td>
<td>Focus on achieving successful merger</td>
</tr>
</tbody>
</table>

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Next Steps

- Financings
- Extend Osprey maturity
- Amend pricing
- Raise additional equity
- Extend corporate maturities
- Accelerate asset sales based on current market values
- Restoration of LCs
- Amend dividend policy
- Communication
- Restructuring Committee
- Additional lender meetings
- Deal specific conference calls/meetings
- Regular bank conference calls
- Privileged and Confidential
Question and Answer Session
Interoffice Memorandum

To: Bill Brown
From: Doug McDowell
Re: Annual Review—1999

Bill,

Per your request, outlined below is a list of my accomplishments for 1999 as well as my goals/objectives going forward.

Accomplishments

Project Yosemite

- $825 MM (5 year- $750 MM Bond issuance, $75 MM Equity issuance)
- Utilized to create $900 MM of funds flow via a unique prepay transaction embedded within Yosemite

The transaction should serve as a blueprint for future credit-linked note structures thereby ensuring a permanent refinancing option and/or underwriting option for bank transactions. The structure provides the following benefits:

- Achieves the corporate objective of stretching tenor and removing refinancing and event risk
- Blackbox feature
  -- Flexibility for substitution
  -- Permanent funding for highly structured deals (immediate use is as a long-dated capital markets funding alternative for prepay transactions)
  -- Maintains existing balance sheet treatment of underlying transactions
- Relieves banks of Enron credit exposure and increases the investor base
- Credit default swap option—No default swaps were allocated through this particular financing as the proceeds were used to fund the prepay; however, the option remains to reduce the prepay and sell default swaps if needed

The prepay structure was also newly created to fit within the Yosemite transaction and is unique in its ability to eliminate or minimize any incremental credit exposure beyond the original notional value of the prepaid swap and thus lowering costs and bank exposure to Enron.

Project Jethro—$500 MM Prepay

Successfully closed a $500 MM prepay transaction with Credit/Barclays/Cominion on June 29, 1999, under a very short timeframe. Ability to utilize a financially settled prepay with a modification to the commodity swap structure provided for savings of $300,000 in transaction costs.

Jethro Extension—$675 MM Prepay

In September 1999, extended and increased the original Jethro transaction as a bridge transaction into Yosemite. Incurred negligible costs with Citibank and minimized costs with TO.
Worked closely with Craig Clark, Jodi Coular, Jung Suh, and Catherine Rantz on the Yosemite and Jetno (grapax) transactions and actively provided guidance in order to develop their individual potential. Craig rotated early in the transaction but I believe both Jodi and Catherine did a fantastic job on Yosemite and both are ideal long-term candidates for our group.

Goals/Objectives:

Yosemite:
- Achieve closing for Yosemite II by the end of the first quarter 2000
- Utilize the Yosemite technology to relieve additional bank exposure as well as pursue opportunities to (i) develop the credit default swap market for Enron and (ii) create earnings

Department:
- Provide senior leadership to other directors and become more actively involved in the recruitment/management of managers/associates/analytics
- Pursue senior leadership role in a greater number of transactions in order to pursue the next level promotion to Vice President.

Thanks,

Doug McDonnell
Interoffice Memorandum

To: Bill Brown
From: Doug McDowell
Re: Annual Review—2000

Date: November 29, 2000

Bill,

Per your request, outlined below is a list of my accomplishments for 2000 as well as my goals/objectives going forward.

Accomplishments

- Enron Credit-Linked Notes (August 2000)
  - $500 MM credit-linked notes (5 yr term)
  - Utilized to create $475 MM in funding flow

The Enron CLN represented an improvement upon the Yosemite style transaction and created greater transparency/simplicity and thus more liquidity resulting in considerably improved pricing. The transaction priced at approximately 50 bps above a comparable Enron bond. Also, significant savings were generated as the equity was structured such that it only required a charge of 30 bps fee per year (not a spread plus a base rate but an all-in fee of only 30 bps). The other benefits are described in the Yosemite II description. In addition, the transaction was well received in the marketplace and generated tremendous momentum for the Osprey follow-on transaction which subsequently closed in October.

Savings generated on the upfront fees were approximately $1 MM and annual savings of $5 MM were realized due to the favorable structuring of the equity tranche.

- Yosemite II (February 2000)—Joint effort with the London office
  - 225 MM Sterling transaction (200 MM Sterling Bond issuance, 25 MM Sterling Equity issuance)
  - Utilized to create 200 MM Sterling of funds flow via a unique prepay transaction embedded within Yosemite II

The Yosemite I transaction served as the blueprint for this transaction with the added difficulty of a large placement in the Sterling market. The structure provides the following benefits:

- Achieves the corporate objective of stretching tenor and removing refinancing and event risk
- Blackbox feature
  - Flexibility for substitution
  - Permanent funding for highly structured deals (immediate use as a long-dated capital markets funding alternative for prepay transactions)
- Maintains existing balance sheet treatment of underlying transactions
- Relieves banks of Enron credit exposure and increases the investor base
- Credit default swap option—No default swaps were allocated through this particular financing as the proceeds were used to fund the prepay; however, the option remains to reduce the prepay and sell default swaps if needed

The prepay structure is unique in its ability to eliminate or minimize any incremental credit exposure beyond the original notional value of the prepay swap and thus lowering costs and bank exposure to Enron.
Other transactions:

Net Works:
Currently acting as the primary finance lead for transactions in Enron Industrial Markets. Transactions under review and in process are as follows:

- Falcon—Potential $1.3 Billion acquisition
- Crane—Potential $400 MM acquisition
- Cany—Potential $400 MM acquisition
- MetaSUSA—Potential $400 MM inventory financing plus 20 years inventory management contract.

The inventory financing should serve as a model for future transactions with other clients.

Overall, responsible for developing the capital structure for the "Paper Company" operations including the specific acquisitions.

Personnel

Worked closely with Craig Clark, Jodi Coulter, and Catherine Renz on the Credit-linked Notes and Yosemite II transactions and actively provided guidance in order to develop their individual potential.

Craig did a great job on the CLN transaction and Jodi and Catherine were both critical in the closing process for Yosemite II.

Goals/Objectives

- Close acquisition financing for the paper business during the first quarter 2000
- Assist in creating financial products for the steel business to obtain access to physical products
- Provide senior leadership to other directors and become more actively involved in the recruitment/management of managers/associates/analysts

Thx,

Doug McDowell
To: Barry Schnapper
From: Doug McDowell
Subject: Deal Update

Barry,

Below is an update of the deals in process:

Yosemite 3

Represents a prepay financing option to be placed in the bond market. My understanding is that approximately $1.4 Billion will be required this year. However, approximately $700 MM may be forthcoming through the contract prepay being negotiated in the UK. The outcome of the UK prepay should determine if we need a prepay in the 2Q or later in the year.

We have received proposals from about eight different institutions and narrowed it down to effectively two structures:

Original Yosemite: Citibank

Cleaner Enron: Citibank, Warburg, BoA

With respect to institutions, the nod would go to Citibank due to its previous experience. By the way, the Warburg structured finance team is very good and has probably invested more time and effort than any of the other institutions. Need to consider them for a "Co-Lead" position.

Key features of each structure are as follows:

Original Yosemite

- Bonds effectively sold as Enron credit-linked notes
- Black-box structure: No disclosure of underlying assets to ratings agencies or public
- Complete flexibility of substitution subject to Citibank approval
- Ability to amend underlying transactions with Citibank only
- Ability to refinance underlying transactions without the need to prepay the bonds
- 144A w/out reg rights
- Ability to term-out prepaid financings
- Modified prepay structure eliminating the need for costs/additional exposure of a third bank for hedging commodity risk
- Ability to closed in approximately 1 month
- Issues: Pricing of basis risk, for underlying transactions

Credit-Linked Note

Respect

Integrity

Communication

Excellence

ECe600078301
Provides basically the same features of the Original Yosemite structure with the following modifications:

- Expanded investor base/pricing benefits if able to sell as a registered transaction
- Simplified marketing—able to disclose the permitted investments
- Simplified settlement mechanism
- Reduced dependence on the swap counterparty (i.e., Citibank)
- Potential for no equity certificates

Issues:
- Use of Citibank balance sheet
- Potential for Enron as co-registrant
- Potential for SEC scrutiny of Enron purpose behind transaction
- Probably would take about 4 months (start-to-finish) — may require a bridge — prospectus needs to be written in plain English

Prepay Revolving Facility

The basic premise is for Citibank to fund a bridge prepay (approx. 180 days) and then purchase Enron credit default swaps from a syndicate group of banks.
To: Bill Brown
From: Doug McDowell
Re: Mid-year 1999 review

Date: July 14, 1999

Bill,

Per your request, outlined below is a list of my accomplishments for the first half of 1999 as well as my goals/objectives going forward.

Accomplishments

Project Jethro—$ 500 MM Prepay

Successfully closed a $ 500 MM prepay transaction with Citibank/Toronto Dominion on June 29, 1999, under a very short timeframe. Ability to utilize a financially settled prepay with a modification to the commodity swap structure provided for savings of $ 300,000 in transaction costs.

Project Yosemite—$ 1.5 Billion Securitization/Default Swap structure

Conceptually defined a structure which will provide for the release of approximately $ 1.5 Billion in bank capacity for future Enron transactions as well as providing an outlet for the substitution of new transactions upon maturity or early termination of existing Yosemite assets. The ultimate transaction should serve as a blueprint for future credit-linked note structures thereby ensuring a permanent refinancing option and/or underwriting option for bank-led or bank-structured transactions. In addition, the introduction of long-dated credit derivatives on Enron credit should prove beneficial going forward as well.

Personal

Worked closely with Craig Clark, Jodi Coutier, Jung Suh, and Catherine Pitzo on the Yosemite and Jethro (prepay) transactions and actively provided guidance in order to develop their individual potential.

Goals/Objectives

Yosemite:

* Achieve financial close by September 1999
* Modify the prepay structure as well as the flirtatious transaction in order to minimize or eliminate any credit exposure for Citibank and consequently lower the cost of executing the Yosemite transaction

Department:

* Provide senior leadership to other directors and become more actively involved in the recruitment/management of managers/associates/analysts
* Pursue senior leadership role in a greater number of transactions in order to pursue the next level promotion to Vice President.

Thanks,

Doug McDowell
Interoffice Memorandum

To: Bill Brown
From: Doug McDowell
Re: Mid-year 2000 review

Bill,

Per your request, outlined below is a list of my accomplishments for the first half of 2000 as well as my goals/objectives going forward.

**Accomplishments**

Yosemite—$200 MM British pounds—Closed February 2000—7 yr. Bond financing (Prepay)

Worked with the London team to close an approximate $375 MM bond financing to support a prepay transaction which generated the equivalent amount in funds flow. Yosemite 2 duplicated the structure created in Yosemite 1 and we managed to term out the prepay to 7 years (first time beyond 5 years) with no amortization which helps to relieve the pressure on refinancing in the short term as well as a better match of the underlying RM assets.

**Work-in Process**

Yosemite 3—$750–$1 Billion transaction (prepay or FASB 125 takeout)

Have worked with Citibank to modify/improve the structure for both distribution (public vs. private) and improved pricing. Yosemite 1 & 2 were the largest single issuer CLNs ever done and Yosemite 3 will be unique if done as a public transaction. Model may be utilized as a permanent takeout structure for FASB 125 transactions.

Citibank Prepay Revolver (3 yr)

Provides revolving capacity to issue short-dated (180 day) prepaid swaps that could then be refinanced via Yosemite or another structure. Fundamentally the structure should work—open question as to whether we need to secure this capacity or not. Use of credit default swaps for syndication could be an effective synthetic syndication tool.

**JEDI Unwind**

Will potentially result in:

- net retirement of 8 MM shares into treasury stock (improves pro-forma ROE by approximately 0.5% and EPS by approximately $0.01/share and will eliminate forthcoming volatility associated with the Euron stock held by the JEDI spv).
- Funds flow treatment of approximately $400 MM
- Take-out structure for JEDI assets via FASB 125 will likely represent a model for permanent takeout of other FASB 125 transactions.
{stylesheet "Subject"}

Goals/ Objectives

Jedi Unwind

Achieve financial close by September 2000 (term out of a FASB 125 for the Jedi assets which may be utilized as a model for other FASB 125 assets)

Yosemite 3:

Achieve financial close by September/October 2000

Department:

Provide senior leadership to other directors and become more actively involved in the recruitment/management of junior/associate analysts

Pursue senior leadership role in a greater number of transactions in order to pursue the next level promotion to Vice President.

Thanks,

Doug McDowell
From: Garberding, Michael
Sent: Wednesday, June 20, 2001 9:02 AM
To: Bills, Lisa; Qualitative, Jr., Alan; Moore, Eric; Weldon, V. Charles; Shackleton, Sara; Cook, Mary; Clark, Morris; Shahi, Pushkar
Cc: Definer, Joseph
Subject: Citibank Prepay

The following presentation lays out the structure, responsibilities and timing for the $250 million prepay with Citibank. This transaction is required to finished by June 29 (quarter-end draft). We had initial discussions with Citibank yesterday and should have feedback today on some of the key terms. Please review both the responsibilities and calendar (timming) to make sure the list is complete and the timing is achievable. Please give me a call with any questions. Thanks again for all your help.

Michael Garberding
Enron Americas Global Finance
Work: (713) 953-1864
Fax: (713) 649-3862
E-mail: michael.garberding@enron.com
Enron North America

$250 Million Prepay
$250 Million Prepay

Assumptions:
- $\text{Nyment} = \text{forward price at } t_0$ for $250,000\text{ M}
- $\text{Fixed Price 1} = \text{fixed price at } t_0$ for
- $\text{Gas Fuel will be a Jan. '02 contract settled in}
- $\text{Dec. '01}$

$\text{Euros Corp}$

$\text{ENA}$

$\text{Delta}$

$\text{Citibank}$

$\text{Gas Fuel Agreement}$

$\text{Fixed Price 1}$

$\text{Fixed Price 2}$

$\text{NYMEX}$

$\text{Euro} 200\text{ million}$

$\text{Euros} 200\text{ million}$

$\text{EUR} 200\text{ million}$
Citibank Prepay Action Items

Citibank:

1. Provide Deal Team Information
2. Confirm use of Delta for Swap Co.
3. Confirm use of outside counsel (Milbank in prior transactions)
   – Confirm no timing to close concerns
4. Prepare term sheet/letter agreement:
   – Prepay pricing
   – Structure (financial swap versus forward)
   – Settlement timing
5. Confirm Credit Approval for $250 million
6. Confirm ability and cost to hedge interest rate within Prepay
7. Prepare draft/final of Master and Swap Confirm for Delta/Citibank transaction
Enron Prepay Action Items

Enron:
1. Prepare first/final draft of confirms - including comments on existing Master Agreements with both Citibank and Delta (Sara & Mary)
2. Finalize Accounting Review (Alan)
   - Financial swap versus forward
   - Tenor of agreement
   - Requirements for “prepay book” versus “NYMEX book”
   - Delta review (Swap Co.)
3. Finalize Tax Review (Morris)
4. Finalize Interest Rate Structure (Pushkar)
   - Rolling hedge (monthly) versus fixed hedge (six-month)
   - Agreement with Citibank on hedging costs
   - Timing on Libor curve (closing date)
5. Finalize Structure of Prepay (Eric & Charlie)
   - Nyemex pricing, Libor curve, volumes and payment timing for two swaps (Delta and Citibank)
   - Booking trade in system
   - Timing on “Mid Settle” value for Jan. contracts (closing date)
## Prepay Timing

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# Enron Contacts

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<tr>
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<td>Bills, Lisa</td>
<td>Director</td>
<td>Global Finance</td>
<td>713-853-1703</td>
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January 21, 2000

Andrew Walker
Milbank, Tweed, Hadley & McCloy, L.L.P.
International Square Building
1825 Eye Street, N.W., Suite 1100
Washington, D.C. 20006

Re: Tax Forms and Administrative Matters for Delta Energy Corp.

Andrew:

I hope that your New Year’s holiday was enjoyable. I would like to follow-up with you regarding the tax maintenance items we discussed last year for Yosemite I. Based on the withholding analysis we performed, we came to the conclusion that Delta should provide Enron North America with a W-2BEN as well as a W-9MY. I have attached those forms with this correspondence. It is our understanding that these forms need to be in place prior to April 14, which is the first payment date on the Enron/Delta swap. Also, with regard to Delta’s 8832, are you aware of whether that form was filed with the Service? We understand that the latest date on which the form may be filed in order to claim an effective date of November 18, 1999 (Yosemite I closing date) is February 1st. As you may recall, we also discussed filing a Form 8856 with respect to the transfer of $800 million by Yosemite to Delta under the Delta note. It appears that Yosemite will be required to file the form but it is not entirely clear whether Delta needs to file. The only other issue that requires resolution is the tax and financial accounting responsibilities for Delta. Does Citibank plan to arrange for these services on Delta’s behalf? I would very much appreciate your assistance in resolving these outstanding matters. Please contact me if you require any additional information.

Best Regards,

Ann Marie
Interoffice Memorandum

To: Yosemite File

From: J. Brent Vasconcellos

Subject: $750 Million Yosemite Debt – Recourse v. Nonrecourse

Date: November 26, 2001

Department: Global Finance Tax

FACTS

On November 18, 1999, Enron Corp. ("Enron"), an Oregon corporation, and Long Lane Master Trust IV ("Long Lane"), a Delaware statutory business trust, formed Yosemite Securities Trust I ("Yosemite"), a Delaware statutory business trust. Enron and Long Lane each contributed $37.5 million in cash to Yosemite in exchange for certificates of beneficial interest that bear an annual yield of 11% (the "Certificates"). Yosemite then issued $750 million worth of Linked Enron Obligations ("LEOs") to qualified institutional buyers in a Rule 144A offering under the Securities Act of 1933. On December 30, 1999, Whitewing Associates, L.P. ("Whitewing") purchased a portion of Yosemite's Certificates for a $33.750 million face amount plus accrued but unpaid interest. After this purchase, the Certificates were owned 50% by Long Lane, 45% by Whitewing, and 5% by Enron.

The LEOs are supported by Yosemite’s $25 million note receivable from Enron (the “Enron Note”) and an $800 million note receivable from Delta Energy Corp. (the “Delta Note” and “Delta”, respectively), a Cayman Islands exempt limited liability company. The Delta Note and the Enron Note are Yosemite's sole assets. The Enron Note is an unsecured recourse obligation of Enron. Yosemite's right to repayment under the Delta Note is secured by a series of swap transactions consisting of an $800 million prepaid commodity swap between Delta and Enron North America Corp. ("ENA"), a Delaware corporation, a fixed for floating commodity swap between Delta and Citibank, and a fixed for floating commodity swap between ENA and Citibank. Enron has provided a financial guarantee in favor of Citibank with respect to ENA's obligations under the fixed for floating swap and a financial guarantee in favor of Delta with respect to ENA's obligations under the prepaid swap.

For U.S. Federal income tax purposes, the Yosemite transaction is treated as follows: (1) Yosemite is treated as a partnership; (2) the Certificates are treated as evidence of a partnership interest in Yosemite; (3) Enron, Long Lane, and Whitewing are treated as partners in Yosemite; (4) The LEOs are treated as indebtedness of Yosemite; (5) the Delta Note is treated as Yosemite's partnership interest in Delta; and (6) the swap transactions are treated as a single $800 million loan from Delta to ENA.

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1 Yosemite also has entered into a credit derivative agreement with Citibank in order to provide credit enhancement for the LEOs, but the Enron Note and the Delta Note ultimately support this agreement.
2 Note that the prepaid swap and fixed for floating swap with Delta and Citibank are in fact recorded on the financial accounting books of [RMT Liquid], a division of Risk Management and Trading Corp., a Delaware corporation and wholly-owned subsidiary of ENA.
ISSUES

1. Are the LEOs characterized as a recourse or nonrecourse partnership liability of Yosemite pursuant to Section 752 and the regulations thereunder?

2. Assuming the LEOs should be characterized as a nonrecourse partnership liability of Yosemite, in what proportion should the liability be allocated to Yosemite’s partners pursuant to Section 752 and the regulations thereunder?

CONCLUSIONS

1. The LEOs should be characterized as a nonrecourse obligation under Section 752 and the regulations thereunder.

2. The LEOs should be allocated among Long Lane, Whitewing, and Enron in proportion to each partner’s percentage interest in the Yosemite certificates.

DISCUSSION

Section 752 Regulations

Definition of a Nonrecourse Partnership Liability

A partnership liability is nonrecourse to the extent that no partner or a related person, (as defined by Section 267(b) or Section 7701(b)(1)), bears the economic risk of loss as set forth in Section 1.752-2. A partner bears an economic risk of loss for a partnership liability to the extent that, if the partnership constructively liquidated, the partner or a related person would be obligated to make a payment to any person because the liability becomes due and payable and the partner or related person would not be entitled to reimbursement from another partner or a related person of another partner. Under a constructive liquidation, the following is deemed to occur:

a) All partnership liabilities become payable in full;
b) All partnership assets, including cash, have a value of zero;
c) The partnership disposes of all of its assets in a fully taxable transaction for no consideration (except for relief from liabilities for which the creditors’ right of repayment is limited solely to one or more assets of the partnership);
d) All items of income, gain, loss, or deduction are allocated among the partners; and
e) The partnership liquidates.

Allocating Nonrecourse Partnership Liabilities Among Partners

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3 Treas. Reg. § 1.752-1(o)(2).
4 Treas. Reg. § 1.752-2(b)(1).
Once a determination has been made that a partnership has a nonrecourse liability, the liability must be allocated to the respective partners pursuant to Section 752 and the regulations thereunder. Generally, a partner’s share of nonrecourse liabilities is equal to:

a) The partner’s share of minimum gain as determined under Section 704(c).  

b) The amount of any taxable gain that would be allocated to the partner if the partnership disposed of the partnership property (in a taxable transaction) subject to one or more nonrecourse liabilities in full satisfaction of the liabilities and for no other consideration.  

c) The partner’s share of excess nonrecourse liabilities of the partnership (those liabilities not allocated among the partners under (a) or (b) above) as determined by reference to the partner’s share in partnership profits.

$750 Million LEOs Issued by Yosemite

Nonrecourse Liability

Under a constructive liquidation of Yosemite pursuant to Section 1.752-1(b)(1)-(y), the following steps would be deemed to occur. The LEOs would become payable in full. The Enron Note and the Delta Note would have no value and Yosemite would be deemed to dispose of the Enron Note and the Delta Note in a taxable exchange for no consideration. If Yosemite is unable to repay the LEO holders, none of Yosemite’s partners are obligated in any manner under the transaction documents to make a payment to any party. Enron’s guarantee of ENA’s swap obligations is not relevant because Yosemite’s right to the swap repayment proceeds is derived solely from repayment of the Delta Note, which is deemed to have no value under the Section 752 constructive liquidation. Therefore, because Long Lane, Whitewing, and Enron would not bear the economic risk of loss with respect to the LEOs, the LEOs are a nonrecourse liability of Yosemite.

Allocation of the LEOs Among Enron, Long Lane, and Whitewing

Pursuant to the Yosemite trust agreement, a Certificate holder is entitled to an annual yield equal to 11% on the face amount of the holder’s proportionate share of Certificates. Yield is payable semiannually as a distribution from Yosemite to the Certificate holder. Further, upon termination of the Yosemite transaction, and to the extent that sufficient value exists within Yosemite after the LEOs are fully repaid, a Certificate holder is entitled to a distribution from Yosemite equal to the face amount of the holder’s proportionate share of Certificates. Accordingly, Long Lane, Whitewing, and Enron are each entitled to an 11% annual yield on their proportionate share of Certificates and, upon termination of the Yosemite transaction, repayment of the face amount of their proportionate share of Certificates.

Therefore, pursuant to the allocation method for nonrecourse liabilities under Section 752 and the regulations thereunder, the LEOs (principal amount plus accrued but unpaid interest) should be allocated among Long Lane, Whitewing, and Enron in proportion to each partner’s percentage ownership of the Certificates.

---

5. Treas. Reg. § 1.752-3(a)(2).
CC: J. Ginty
    D. Dewar
    E. Locklear
Mr. Ross Kirschner
Permanent Subcommittee on Investigations
Senate Committee on Governmental Affairs
199 Russell Senate Office Building
Washington, DC 20510

Re: Enron Corp.

Dear Ross:

As we have discussed, to date Enron Corp. ("the Company") has experienced difficulty in locating documents related to the accruals process of trading counterparties, including Delta Energy and Mahonis, as requested by the Subcommittee. In addition to the Company's limited resources in bankruptcy, the Company has and continues to experience significant attrition among its employees. I am advised that the resulting lack of institutional knowledge has been an appreciable impediment to the Company's ability to fully respond to the myriad of requests from the Subcommittee and other governmental agencies.

As you know, the Company has devoted substantial resources to responding to the Subcommittee's numerous subpoenas and will continue to do so. The Company is continuing its efforts to locate the referenced documents and is willing to discuss any suggestions or information that the Subcommittee may have which could assist the Company in its efforts.

Sincerely yours,

Susan DeClerq
Susan DeClerq
ENRON RISK ASSESSMENT AND CONTROL
DEAL APPROVAL SHEET

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DEAL DESCRIPTION (Please refer to the attached Transaction Diagram)
The APEA Tax Exempt Prepay Transaction (the "Transaction") is structured as a twelve (12) year natural gas sale in which Enron Natural Gas Marketing Corp. ("ENPGC") will receive approximately $200-$255 million via American Public Energy Agency's ("APEA") issuance of tax exempt bonds. APEA is a Nebraska public agency authorized to issue tax-exempt bonds. Standard and Poor's has rated the Bonds, and the associated structure, AA-. As consideration for the prepayment, ENPGC will be obligated via a Gas Purchase Agreement ("GPA") to deliver natural gas to APEA, over the noted terms, the natural gas quantity associated with the transaction is 105,224,152 MMBtu.

The prepayment supports Gas Sale Contracts which APEA has negotiated with the following public entities ("Publics"), over the parametrically referenced term: (a) Helena Public Gas Agency (5 years); (b) Bellmores (California) Municipal Utility District (4 years); (c) City of Pocatello, Idaho (4 years); (d) City of Glendale, California (4 years); and (e) Public Utility District No.1 of Clark County, Washington (5 years). The Gas Sale Contracts offer, among other things: (i) index related gas, and (ii) annual reversals of fuel savings. The expectation is that the availability of index related gas will give the respective party incentives to renew the Gas Sale Contract. However, ENPGC will enter into a Gas Re-marketing Agreement to place the gas with other Publics in the event any of the Publics default or fail to renew. The documentation permits subordination of delivery points, with corresponding changes to the applicable index references. ENPGC is paid a fixed amount, $0.01/MMBtu of gas, to act as Re-marketing Agent.

To eliminate market risk exposure to the bondholders and credit exposure to APEA two financial swaps will be transacted, APEA will enter into a fixed-for-floating swap with the Swap Counterparty (The Chase Manhattan Bank, A+/rated), and Enron Capital and Trade Resources Corp. ("ECT") will separately enter into a fixed-for-floating swap with the Swap Counterparty, under ECT's existing ISDA Agreement. Due to accounting and tax concerns the two swaps cannot be directly linked or cross-defaulted. In order to enter into the swap contracts on an economically feasible basis, and to isolate APEA credit risk from the structure, ENPGC will enter into a Margin Agreement with APEA. The Margin Agreement will be assigned by ENPGC to Chase in order to secure any swap termination payment that may be due to Chase by APEA.

Any movement of funds associated with the Transaction, with the exception of the swap among ECT and the Swap Counterparty, will be channeled through a Trust; the strength of this structure has been affirmed via Standard & Poor's A+/rating of the bonds. In the event of an early termination, ENPGC will pay APEA a termination payment that will be sufficient to redeem the Bonds. Any termination payment will be paid directly by the providers of a performance bond (50% AG and 50% Chase). Enron Corp. would then be obligated to indemnify the issuer of the eastern bond under a pre-existing agreement, Enron's obligation to pay termination damages will be limited to the amount of the eastern bond.

TRANSACTION SOURCES AND USES OF FUNDS:
The Transaction is a natural gas prepayment in which ENPGC will be receiving approximately $200-$255 million. The transaction will result in interest savings in the range of $5-10 million over the next twelve years. Due to the nature of the Transaction on NAVOC has been run.

EXISTING EXPOSURE
ECT currently has an extensive relationship with The Chase Manhattan Bank. ECT's financial exposure is governed via an ISDA that was originally put in place in 1994. As of the close of business, April 7, 1999, ECT's aggregate exposure with Chase was out of-the-money approximately $13.5 million.

EXHIBIT #193]
### NON-HEDGEABLE MISALIGNMENT RISKS:

<table>
<thead>
<tr>
<th>RISK</th>
<th>DESCRIPTION</th>
<th>MITIGATION/COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Securities risk</td>
<td>The bonds are issued to the public, and are subject to federal and state securities laws.</td>
<td>We have declared obligations and responsibility regarding disclosure under the official statement issued in connection with the bonds. Furthermore, Enron is not the primary obligor on the bonds.</td>
</tr>
<tr>
<td>b) Loss of tax exemption</td>
<td>The bonds are sold as tax-exempt obligations. Tax laws may change, or the IRS may challenge the tax exemption for the bonds. If it is determined that the bonds are not tax-exempt obligations, APEA could encounter taxfalls. Loss of tax exemption itself would not constitute a default under the bond resolution. However, if such loss of exemption results from a breach of APEA in its obligations under the Bond Resolution, such breach will constitute a &quot;Triggering Event&quot; and the GPA will be terminated early. Care has been taken to insulate ENOGIC and ECT from liability from bondholder suits. However, APEA is not heavily capitalized, and it is possible that Enron would be named as a defendant.</td>
<td></td>
</tr>
<tr>
<td>Alternate Delivery Point/Physical Gas Risk Premiums</td>
<td>ENOGIC and APEA may mutually agree to change to an alternate, liquid, delivery point. Two of the initial sales contracts include specific flexibility to move to a previously specified alternate delivery location upon thirty days notice. 3.8 cents/MMBtu of physical risk premium has been factored into the transaction.</td>
<td>This risk has largely been mitigated by the mutual consent required under the GPA. The Transaction has been structured assuming that all of the gas under the two contracts with specific flexibility was taken by the delivery locations with the highest index premium. If ECT should be called upon to re-market gas, we will control where the gas is sold. ECT has an opportunity to market additional gas to initial purchasers (quantities under current contracts with Publics represent 50-50% of their average loads) or to seek new purchasers in locations with index premiums below the previous location. If APEA re-markets the gas, ENOGIC has the opportunity to say &quot;no&quot; to any delivery location whose cost of delivery exceeds the index premium at the previous location. In conclusion, on an aggregate basis, sufficient funds are available to pay Enron's physical cash desk premiums given our control over the selection of alternative delivery points. Notwithstanding the risk current transactions with the Publics are not renewed, ECT can look to re-market the gas to any municipal purchaser.</td>
</tr>
</tbody>
</table>

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Early Termination

a) Mismatch in terms of GPA and Gas Sale Contracts with Publics.

b) Publics self-generation capability growing trend in public power market.

c) Event of default on the bonds caused by non-payment of APEA or gas purchasers (Publics).

ENSIMC has a 10-year obligation to deliver gas to APEA. APEA sells the gas to Public entities under contracts with terms of 9 to 5 years. APEA is required to sell at least 90% of the gas, in aggregate, to Public entities over the entire 10-year term. ECT acts as APEA's re-marketing agent.

The initial contracts permit early termination if Publics no longer consume natural gas. Early termination may result in ENSIMC having to pay more than current market value of undelivered gas. This risk is reduced as bond amortization occurs over time.

While the pricing under the contract is extremely attractive and we expect all of the Publics to renew the contracts through the entire 10-year term, ECT has substantial flexibility in re-marketing the gas. The pricing, delivery point flexibility and size of the market significantly reduce this risk. ENSIMC largely controls whether a termination event occurs.

The re-marketing arrangement permits ECT to attempt to find new tax-exempt buyers on a best efforts basis. Underlying contracts permit delivery point flexibility. The contracts require APEA to sell gas only to Public entities that meet minimum credit criteria. Termination for non-payment is further limited by the presence of liquidity reserves funded by bond proceeds and surplus funds of APEA.

Termination due to non-renewal or ECT's inability to find suitable purchasers is unlikely due to:

(i) Pricing to the Publics is based upon the delivery point specific 34 of month index less 4.5 cents/MMBtu; (ii) the contracts with the Publics, after the initial term, renew automatically on an annual basis unless 6 months notice is provided; (iii) ECT has the right to re-market gas at any liquid trading point in the country; (iv) Public entities in the U.S. consume, on average, in excess of 2 Bcf; (v) APEA's current contract quantity with each Public entity represents 25-90% of the entity's average gas use; (vi) ECT can re-market up to 10% of the gas in aggregate to any entity. This "buffer" can represent 14 months of sales.

Early Termination due to sale of purchaser's generation units or loss of load is mitigated by the requirement that the prepaid gas is the last gas used in the Public's system. If a diversification trend develops in public power, municipal gas LDC's and other tax-exempt entities such as schools, hospitals and governmental loads will be targeted for resale.
1957

**RAC Deal Approval Sheet**

**Deal Name:**

<table>
<thead>
<tr>
<th>Hedgable or Market Risks</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Exchange Risk</td>
<td>N/A</td>
</tr>
<tr>
<td>Interest Rate Risk</td>
<td>LIBOR swap to be executed simultaneously with the sale of the municipal bonds. Interest rate hedge will effectively lock in an attractive twelve year borrowing rate for ECT.</td>
</tr>
<tr>
<td>Credit Risk</td>
<td>The structure of the Transaction has been designed to eliminate AFEA credit risk. This is accomplished via (i) the establishment of a Trust with the exception of the swap among ECT and the Swap Counterparty, all funds will be channeled through the Trust; (ii) exposure to market risk is mitigated via the swap among ECT and the Swap Counterparty, and the Margin Agreement among ENMGC and AFEA, for the benefit of the Swap Counterparty and ENMGC. Thus, ECT/ENMGC's credit risk in the Transaction lies primarily with non-performance of the Swap Counterparty (the Chase Manhattan Bank) which is rated AA-. Risk of non-payment by the Public (leading to early termination of GPA) mitigated by imposing credit requirements prior to sale and permitting termination of the respective Gas Sale Contract if payment is not received within five days of due date.</td>
</tr>
<tr>
<td>Inflation Risk</td>
<td>N/A</td>
</tr>
<tr>
<td>Commodity Risk</td>
<td>In the event of an Early Termination, ECT may be forced to rehedge its position pursuant to its swap with the Swap Counterparty. If the Swap Counterparty refuses to negotiate an unwind of the swap, financial incentives have been placed both in the Margin Agreement and the Swap Confirmation among ECT and the Swap Counterparty, to mitigate this occurrence.</td>
</tr>
</tbody>
</table>

**Other RAC Comments:**

**Syndication (ECM/):**
- Immediately syndicable at current capital price
- Syndicated within one year at current capital price
- Not syndicable at current capital price
- N/A

**Approvals:**

<table>
<thead>
<tr>
<th>Name</th>
<th>Signature</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rick Bay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enron Natural Gas Marketing Inc. Business Unit Originator</td>
<td>Sandra McDonald</td>
<td></td>
</tr>
<tr>
<td>Enron Natural Gas Marketing Inc. Business Unit Originator</td>
<td>Laid Dyer</td>
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<tr>
<td>Enron Natural Gas Marketing Inc. Business Unit Legal</td>
<td>Mark Handeke</td>
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<tr>
<td>Enron Natural Gas Marketing Inc. Business Unit Mgmt</td>
<td>Kevin McConville</td>
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<tr>
<td>Enron Natural Gas Marketing Inc. Business Unit Mgmt</td>
<td>Greg Piper</td>
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<tr>
<td>ECT Trading</td>
<td>Greg Whalley</td>
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<td>ECT Structuring</td>
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<td>ECT Management</td>
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</table>

**C:/Enron/POA2.0.doc**
<table>
<thead>
<tr>
<th>DEAL DEFINITIONS</th>
<th>DEAL NAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bid Bond</td>
<td>A letter of credit or surety bond delivered at the time of submission of a bid. It guarantees that if the bidder is awarded the project that is the subject of the bid, the bidder will execute the relevant project documentation in accordance with the terms of the bid or the bid's terms.</td>
</tr>
<tr>
<td>Description</td>
<td>Short written summary of the investment.</td>
</tr>
<tr>
<td>Deal Name</td>
<td>Unique name for an investment deal usually defined by Capital Pricing Director or Business Unit Originator.</td>
</tr>
<tr>
<td>Risk Premium (%)</td>
<td>Premium for a deal derived by a comparison of the transaction volatility of returns to historical sector volatility of returns; additionally incorporates any other adjustments for risks specific to the transaction. Premium could be negative if the transaction exhibits less risk than is reflected in the weighted sector price.</td>
</tr>
<tr>
<td>Capital Commitment (M)</td>
<td>Expected present value of cash outflows in the transaction.</td>
</tr>
<tr>
<td>Expected (N)</td>
<td>The discount rate at which the net present value of the expected cash flows would be equal to zero. This measures the expected return of the transaction but does not incorporate a measure of risk.</td>
</tr>
<tr>
<td>NPV &amp; Capital Price (%)</td>
<td>Net Present Value at the Capital Price discount rate.</td>
</tr>
<tr>
<td>Risk-Free Rate (%)</td>
<td>The rate derived by weighting Treasury curve rates by the expected cash flows in the corresponding periods.</td>
</tr>
<tr>
<td>Type of Investment</td>
<td>Specific type of investment. For example, WPP, LP, bond, equity, alliance, joint-venture, acquisition, and physical sales. Sometimes referred to as Investment Type.</td>
</tr>
<tr>
<td>Value at Risk (M)</td>
<td>The loss in value over a specified period of time (quarters, days, etc.) which will be exceeded with a certain probability. Estimation based on market comparables.</td>
</tr>
</tbody>
</table>
Tax Exempt Financed, Prepaid
Gas Supply: Transaction Diagram

Note: Subscript "n" represents any of a number of liquid delivery points. Initial delivery points are: N. California Border (Main), S. California Border (Topock), Permian Basin, Sumas, AECO and NNG Demarcation.
Public Finance
New Issue Review

ISSUER: AMERICAN PUBLIC ENERGY AGENCY, NEBRASKA

NEW ISSUE
$180 million, unsecured bonds (Nebraska Public Power District & A Project)
on 1960 and 2030
AA+

OUTLOOK: NR

RATIONALIZE
American Public Energy Agency's (APEA) bonds are rated "AA+" as a technical rating. Bond proceeds will fund a 10-year plan to supply the APEA is purchased from Business National Gas Spinning Corp.

ENSGC is wholly owned subsidiary of Energy Capital and Trade Resources Inc., which is, in turn, a wholly-owned subsidiary of Energy Corp. ENSGC is used by Standard & Poor's. ENSGC's obligations are supported by a trust promoted by American Energy Resources Company and by Business National Gas Co. which are the same as "AA+" by Standard & Poor's. The trust provides for a $1 billion AEP bond obligation. They are not rated by at least "AA++" through the life of the transaction or must be issued with an appropriately sized trust.

The bondholders of the trust's new rating is the bondholders rating for the new proceeds and the registration of the transaction for the mandatory redemption. The bonds are sold and proceeds of the trust are the same as those of a discounted trust bond. The additional expected principal payment will be at following pricing and will be based on the expected total amount of the new proceeds. However, this new proceeds will take as few as 20 or more days within a shorter period, these bonds have the same maturity. The bondholders and the bondholders do not redeem. Until bonds defaults a triggering event, these contains the gas and it must pay APEA for gas not taken. This will either provide APEA with the financial structure needed to pay back the rated bonds or will provide bonds with the financial structure needed to pay back the rated bonds. Further security is provided by the requirement that a triggering event must be declared by APEA if in effect, and paid for under the APEA bond redemption clause. Similarly, APEA must declare a triggering even if those defaults in its obligations.

Partial bond redemptions are not permitted. Importantly, the proceeds of the trust are dedicated exclusively to the bondholders.

The swap between APEA and The Chase Manhattan Bank is used to simplify the swap and is included in the calculation of the transaction.

During the life of the transaction, the swap provider will pay APEA a fixed amount that will reduce the holder's interest rate obligations and APEA will pay the swap provider a floating amount reflecting the swap price of gas over a discount.

The reduced amount from the swap will increase to APEA's ability to make payments to bondholders. If the swap company's credit rating is downgraded, the swap company would lose its ability to unwind the swap.

The swap is being purchased for the benefit of the Nebraska Public Power District. With the consent of the swap provider, the Nebraska Public Power District, which has a 5-year swap agreement, pays the swap provider a floating amount reflecting the swap price of gas. The swap contract is subject to the swap company's credit rating.

The swap company has been purchased by the bondholders of the new issue and is expected to make payments to bondholders under the terms of the swap and the bondholders' mandatory redemption provisions.
MEMORANDUM

Confidential Communication
Attorney-Client Privilege

TO: Jordan Mintz
FROM: Morris R. Clark
DATE: June 30, 1999
RE: Federal Income Tax Treatment of Prepayments

This memorandum addresses the federal income tax treatment of the receipt of certain prepayment proceeds. In particular, Section I provides a brief overview of the general rules governing the recipient's timing for recognizing payments as taxable income. Sections II and III focus on the various Enron prepayment transactions and how such transactions were treated for federal income tax purposes, including a discussion of the various Enron entities involved in such transactions. Section IV discusses our recommendations regarding the most tax efficient method of executing future prepayment transactions.

Overview

By way of background, Enron has entered into approximately $3 billion in prepayment transactions since 1992. Enron typically enters into three types of prepayment transactions: (i) financial prepayments — which are entered into as a means of generating cash flow for Enron; (ii) commercial prepayments — which are entered into as part of an underlying commercial transaction; and (iii) tax accelerated prepayments — which are entered into as a means of accelerating taxable income in order to utilize certain tax credits or losses. Generally, prepayment transactions are treated as deferred revenue for financial accounting purposes and income (including an interest component) is recognized as the "commodity" is delivered to satisfy the prepayment. (See Attachment A for a summary of the book/tax treatment of the various prepayment transactions).

Although the prepayment is treated as deferred revenue for financial accounting purposes, it is our understanding that the transaction is not treated as debt for credit rating purposes. Rather, the prepayment is viewed as part of Enron's overall cash management activity. Once the prepayment transaction is executed, the commodity volumes that will be delivered in the future are recorded on our commodity books. Since the commodity books are accounted for under the mark-to-market method of accounting, the prepay transaction ultimately results in the recording of a mark-to-market liability on the commodity books. However, once the prepay transaction is recorded on our risk books, Enron will then enter into a financial swap to hedge the price and basis exposure associated with the prepay liability.
For federal income tax purposes, the treatment of the prepayment transactions varies depending on the type of transaction entered into and the particular entity used to offset the transaction. Furthermore, the tax treatment of the prepayment transaction is also dependent upon whether the prepayment or advance payment involves inventory goods or non-inventoriable goods. Prepayments relating to non-inventoriable goods (goods not properly includable in the inventory of the taxpayer) must generally be included in the taxable income of the recipient in either: (1) the taxable year of receipt, or (2) the taxable year in which such prepayment would be properly allocable under the taxpayer's method of tax accounting.

For example, a typical accrual method taxpayer would recognize income no later than year of receipt. However, manufacturers can use a modified accrual method which allows income recognition to be deferred until the goods are shipped, delivered or accepted. Furthermore, under certain limited circumstances, an accrual basis taxpayer can recognize proceeds received to modify certain "take or pay" contracts into income ratably over the life of the contract. In any event, a taxpayer can only defer recognition of the prepayment income under its tax accounting method to the extent that such method results in income being recognized no later than the time such payments are included in gross income for financial reporting purposes.

Notwithstanding the general rule, an exception exists for prepayments for inventoriable goods (e.g., gas, oil, power, and other commodities). The special rules relating to prepayments for inventoriable goods provide that such prepayments must be included in the recipient's income no later than the second taxable year following the receipt of a "substantial advance payment" -- effectively resulting in a two year deferral of income recognition. Generally, Enron's prepayment transactions involve goods held in inventory (e.g., oil or natural gas) and, as such, fall under the inventoriable goods exception.

Based on the above rules, Enron has elected to treat the 1992 and early 1993 prepayment proceeds as taxable income in the year of receipt, while electing to defer the recognition of income from the later prepayment transactions. It should be noted that once a taxpayer

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1 The terms "prepayment" and "advance payment" are synonymous and are used interchangeably. Prepayments or advance payments are defined as any amount which is received in a taxable year by a taxpayer using an accrual method of accounting and such amount is made pursuant to an agreement for the sale of goods held by the taxpayer primarily for sale to customers in the ordinary course of its trade or business and such agreement is not completed within the taxable year. Treas. Reg. § 1.6651-5(a)(10). For consistency purposes, we will refer to such payments as "prepayments".

2 Although the Service has not explicitly addressed whether power should be considered inventory for purposes of the prepayment rules, the Service has held that electricity is an inventoriable good in several non-prepayment contexts. For example, Technical Advice Memorandum 5923001 held that the taxpayer (an independent power producer -- "IP" or qualifying facility -- "QF") must use the accrual method of accounting because electricity was inventory merchandise. See also Private Letter Ruling 9610204 holding that capacity payments made by an electric utility to a QF should be included in the utility's electricity inventory costs.
elects to either accelerate or defer recognition of prepayment proceeds, such election generally becomes irrevocable absent the express consent of the Internal Revenue Service ("Service"). However, Enron was able to both accelerate and defer recognition of certain prepayment proceeds by using separate entities to effectuate certain transactions. (See Section III for a discussion of the particular elections made by the various Enron entities).

Discussion

I. Overview of Timing Rules

A. General Rule for Taxable Year of Inclusion

Generally, receipts should be included in gross income in the year in which they are actually or constructively received by the taxpayer, unless such receipts should be included in a different year in accordance with the taxpayer's method of tax accounting. Treas. Reg. § 1.451-1(a). For instance, under an accrual method of accounting, income is included in gross receipts when all the events have occurred which fix the right to receive such income and the amount of such income can be determined with reasonable accuracy. Treas. Reg. § 1.446-1(c)(1)(ii). "All events" are normally deemed to occur at the earlier of when: (i) the required performance under the contract occurs; (ii) payment is due; or (iii) payment is made. (See Rev. Rul. 74-607, 1974-2 CB 149 where the Service applied the above rule to the accrual of interest and held that interest should be included in income ratably over the life of the loan since performance, i.e., making of the loan, occurred before payment).

In addition to these general accrual rules, a taxpayer engaged in a manufacturing business may account for sales under a modified accrual method where taxable income is recognized when either: (i) the goods are shipped; (ii) the product is delivered or accepted; or (iii) title to the goods passes to the customer. Treas. Reg. § 1.446-1(c)(2)(C). Although a taxpayer using a modified accrual method has some flexibility regarding the timing of income recognition, the accrual method selected must clearly reflect income and must be consistently used by the taxpayer from year to year. Id. In that event, income realization may be pushed out a bit further.

The interaction of the general accrual rules with the modified accrual method can be illustrated by the following example:

S, a manufacturer, uses the traditional accrual method for tax and financial accounting purposes. S has a contract with B which calls for S to provide 100 widgets to B each month. S usually ships the widgets to B on the 20th of each month. S also bills B on the 20th of each month with payment due by the 30th of each month. B typically receives the goods 7 days after shipping (when title passes) and has 5 days to inspect and accept the goods. Under the traditional accrual method of accounting, "all events" would occur when the required performance under the contract occurs — that is on the 20th, the shipping date.
However, if S used a modified accrual method, S could choose to recognize income when the widgets are accepted -- 12 days after shipping.

Thus, as a manufacturer, the taxpayer can elect to defer recognition of income until after the shipping date provided that its method of accounting is both consistent and clearly reflects income.

It should also be noted that in certain circumstances, the Service has allowed a limited exception to the "all events" test with regards to certain "take or pay" or other similar payments. Under this exception, an actual basis taxpayer may be able to defer recognition of proceeds if the payment is made to modify an existing contract rather than terminate such contract. In these limited circumstances, the Service will allow the taxpayer to take the modification payment into income over the life of the modified contract. For example, the tax accounting rules relating to "take or pay" contracts has been invoked in certain prepay transactions involving the restructuring of power purchase agreement ("PPA") contracts between utilities and IPPs located in the Northeast United States (e.g., Connecticut Light & Power/ARGS and New England Power/Ivanpah recently entered into PPA modifications structured as prepayments). (See Section J.B.2. below for further discussion of the tax treatment of the recent IPP restructurings).

B. Rules Governing Prepayments

1. General Rule

In addition to the all events test, there are two special rules governing taxable income recognition of prepayment proceeds. The first rule, the general prepayment rule, governs prepayments for non-inventory assets (e.g., relating to an agreement for the sale of goods that are not includible in the taxpayer's inventory). It provides that a prepayment should be included in income in either:

(i) the taxable year of receipt;

(ii) the taxable year in which property accountable under the taxpayer's method of accounting (provided that such method does not result in including prepayments in income later than the time such payments are included in gross receipts for financial reporting purposes); or

(iii) if the taxpayer's method of accounting does result in including prepayments in gross receipts for financial reporting purposes earlier than for tax purposes, then in the taxable year that such payments are included in gross receipts for financial reporting purposes. Treas. Reg. § 1.451-5(b).

Thus, in a non-inventory prepayment, the recipient can either recognize prepayment proceeds in the year received or defer recognition under an accrual method (e.g., a manufacturing company would be able recognize income under an accrual
method as goods are shipped or delivered) provided that such deferral does not result in income being recognized later than for financial reporting purposes. The general prepayment rules can be illustrated by the following example:

S, a retailer, uses for tax and financial accounting purposes an accrual method of accounting under which it accounts for its sales when the goods are shipped. S receives an advance payment for such goods. Such advance payment must be included in gross receipts for tax purposes either in the taxable year the payments are received or in the taxable year such goods are shipped.

Thus, as a retailer, the taxpayer can defer recognition of the prepayment proceeds until the taxable year that the goods are shipped, provided that such income is not recognized any earlier for financial accounting purposes.

The above example assumes that the prepayment will be settled by delivering the physical commodity. This is important because, by definition, a prepayment must be made pursuant to an agreement for the sale of goods. (See footnote 2, above.) As such, the prepayment transaction must actually provide for the sale of the underlying physical commodity. A purported prepayment transaction that merely requires the prepayment recipient to pay a specific amount of money based on the notional principal amount of an indexed commodity would be analyzed as a loan for federal income tax purposes. Notwithstanding the sale of goods requirement, a prepayment recipient can arrange to market or sell the underlying physical commodity on behalf of the counterparty as long as the actual cash proceeds from such sale are remitted to the counterparty. Furthermore, the counterparty must assume the price risk of the sale—that is, the prepayment recipient cannot guarantee a certain return from the actual sale of the commodity.

2. Exception for Prepayments Relating to Inventory Goods

Notwithstanding the general prepayment rule, if an accrual basis taxpayer receives a prepayment with respect to an agreement for the sale of goods that are properly includible in its inventory (e.g., commodities) and on the last day of such taxable year:

(i) the taxpayer has goods on hand (or available through normal sources of supply) to satisfy the agreement in such year; and

(ii) the taxpayer has received “substantial advance payments” under such agreement.

“Substantial advance payments” are deemed to exist if the sum of all prepayments equals or exceeds the total estimated costs and expenditures necessary to satisfy the agreement. Treas. Reg. § 1.451-5(c)(3). The substantial advance payment rules can be illustrated by the following example: X enters into a prepayment contract for the sale of goods over a five year period for a total contract price of $100,000. X estimates that his total investigative costs and expenditures for the goods will be $200,000. X receives a “substantial advance payment” in the year that he receives $50 or more under the contract, determined in the aggregate.
then all prepayments received by the last day of the second taxable year following
the year in which such "substantial advances payments" are received (and not
previously included in income in accordance with the taxpayer's accrual method of
tax accounting) must be included in income in such second taxable year. However,
such deferral cannot result in a taxpayer recognizing income later than for financial
reporting purposes. Treas. Reg. § 1.451-5(c). As such, this two year deferral is not
available if Elcon recognizes prepayment income under the mark-to-market method of
accounting for financial reporting purposes.

In the event that prepayments are required to be taken into income under the inventorable
goods exception, then the taxpayer must take into account the estimated cost of goods
necessary to satisfy the agreement. As such, only the net prepayment amount will be
subject to tax in the second year following receipt.

The inventorable goods prepayment exception can be illustrated by the following
example:

S, a retailer, uses for tax and financial accounting purposes an accrual method of
accounting under which it accounts for its sales when the goods are shipped.
During 1998, S receives an advance payment for goods currently held in its
inventory in the amount of $100. These goods will be shipped over three years
from 2001 through 2003. The estimated cost of such goods is $50. Under the
non-inventory prepayment rules, S could elect to defer recognition of the
However, under the inventorable goods exception, S could only defer recognition
of the prepayment until the second taxable year following receipt - or in year 2000.
Moreover, S would be able to take into account the estimated cost of the goods
($50) such that S would only take into account $50 of income in year 2000.

By way of summary, if the prepayment relates to non-inventorable goods, S would have
to either: (i) recognize the prepayment proceeds in taxable income in the year of receipt;
or (ii) defer recognition under an accrual method (e.g. S recognizes income as goods are
shipped or delivered). On the other hand, prepayment proceeds for inventorable goods
should be included in S' taxable income no later than the second year after receipt of
payment.

In light of recent developments in the power industry, it is also important to note that
several recent PPA modifications were structured as prepayments for non-inventorable
goods. The IPPs were able to assert that power was not an inventorable good because of
their status as QFs for federal energy regulatory purposes. As a QF, power can only be
supplied from limited sources - mainly from itself or other QFs. As such, the IPPs
contended that: (i) they did not currently have the power on hand; and (ii) the power was
"not readily available" because it could not get the power on the open market due to
regulatory limitations. However, in discussing this approach with outside counsel this
structure was considered a very aggressive tax position because their reliance on federal regulatory interpretations are not binding on the Service.

II. Enron Prepayment Transactions

As noted at the outset of this memorandum, Enron has been involved in approximately $3 billion in prepayment transactions since 1992. Historically, Enron's prepayment transactions have fallen into two categories: (i) taxable income accelerated ("TIA") prepayments — that is, prepayments where Enron needed to accelerate the recognition of income in order to take advantage of certain tax credits or losses; or (ii) strategic cash flow prepayments, where Enron has entered into a prepayment simply as a means to generate significant cash flow. (In addition, Enron has, on one isolated occasion, entered into commercial prepayments with an industry participant. However, this prepayment transaction has been completed and product is no longer being delivered pursuant to such transaction.)

The appropriate Enron entities that should be used to effectuate the various prepayment transactions is discussed in Section III below.

A. Taxable Income Accelerated Prepayments

Enron entered into three TIA prepayments during 1992 and 1993. (See Exhibit B for a list of prepayment transactions). These prepayments were entered into primarily as a means for generating taxable income in order to take advantage of Section 29 credits generated by Enron Oil & Gas ("EOG") which, at that time, was part of Enron's consolidated group. By way of overview, Section 29 credits are used against regular tax liability, but cannot be used against the alternative minimum tax ("AMT"). Further, the Code does not authorize Section 29 credits to be carried forward and, as such, a taxpayer loses the benefit of the credits if it does not have sufficient regular taxable income. (However, such credits would be added to the taxpayer's AMT credit carryforward). Therefore, Enron had to create regular taxable income to realize the benefit of the credits, thereby helping to reduce its effective tax rate.

The TIA prepayments were typically structured as forward oil sale contracts with a counterparty arranged by a financial institution (such as Bankers Trust, or Goldman Sachs), whereby the counterparty would make a significant up-front payment in exchange for Enron's obligation to deliver oil on a monthly basis over a 3 to 4 year period. Since Enron holds' oil in its inventory, these prepayment transactions were subject to the inventories goods exception which requires income to be recognized in either the year of receipt or deferred for a period no longer than two years. Again, in order to use the Section 29 credits, Enron elected to recognize the proceeds from these prepayments in the year of receipt.

1 Typically, the financial institution counterparty does not actually take delivery of the oil or retain the use of the purchased oil. Instead, Enron will act as a marketer for the counterparty and sell the agreed upon volume of oil or gas in the open market and pay the proceeds from such sale to the counterparty.
For financial accounting purposes, the TIA prepayments are essentially treated as deferred revenue and income (with an interest component) is recognized under an accrual model over time as the product is delivered in satisfaction of the prepayment. The transaction is not treated as debt for accounting and credit rating purposes; but rather, the prepayment is viewed as a part of Enron's overall price risk management activity. (See footnote 1, above).

B. Strategic Cash Flow Prepayments

The majority of Enron's prepayments have been structured as strategic cash flow prepayments and we anticipate additional prepayments this year. Rather than entering into these prepayments to take advantage of tax attributes, these prepayments were entered into primarily as a means of generating cash flow for Enron. These strategic prepayment transactions were typically structured as either forward oil sale contracts or natural gas forward sale contracts with a counterparty arranged by a financial institution (Chase Manhattan), whereby the counterparty would make a significant up front payment in exchange for an Enron obligation to deliver oil or natural gas on a monthly basis over a period of several years (3-6 years). As previously explained, after EOG was deconsolidated from the Enron group, there was less of a need to generate regular taxable income to use Section 29 credits. As a result, Enron elected to defer recognition of these prepayment proceeds. However, since both natural gas and oil are carried in Enron's inventory, these prepayments fall under the inventoryable goods exception and, as such, gain recognition may only be deferred for a period of two years after the year of receipt. (See Section 1.B., above).

For financial accounting purposes, the cash flow prepayments are treated as deferred revenue with income, including an interest component, recognized over time as the product is delivered in satisfaction of the prepayment. However, the prepayments are not treated as debt for balance sheet purposes, but rather, are treated as a fixed price commodity contract as part of Enron's overall price risk management activity.

C. Commercial Prepayments

Enron entered into one commercial prepayment in 1992. This prepayment was not entered into for tax or cash management reasons, but was merely entered into as a part of an underlying commercial transaction. This transaction was structured as forward oil sale contract with Texas Utilities Fuel Co. ("Tufo") as the counterparty. The prepayment amount was considerably smaller than any of the other accelerated or strategic prepayments. Since oil is an inventoryable good with respect to Enron, it could either recognize the prepayment income in the year of receipt or elect to defer recognition of such income for period not to exceed two years. However, because EOG had Section 29 credits readily available in 1992, Enron, nevertheless, elected to accelerate the recognition of the Tufo prepayment proceeds.
Again, for financial accounting purposes, commercial prepayments are treated as deferred revenue with income, including an interest component, recognized over time as the product is delivered. However, the prepayments are not treated as debt for balance sheet or credit rating purposes.

III. Enron Prepayment Entities

As stated earlier, a taxpayer who receives prepayment proceeds has the option of either recognizing income in the year of receipt or deferring recognition until a later year. Although the taxpayer does not have to make an affirmative election on any particular tax form, the taxpayer must include an annual information schedule with its income tax return reflecting: (1) the particular recognition method used; (2) the amount of prepayment proceeds recognized in the current year; and (3) the total amount of payments received but not yet recognized. Treas. Reg. § 1.451-5(d). (See Attachment C for a copy of the annual information statement that is filed with Enron's consolidated tax return).

Once a taxpayer elects to either include prepayment proceeds in the year of receipt or to defer recognition until a later year, such tax treatment becomes the taxpayer's method of accounting for prepayments. The consequence of a prepayment election becoming a method of accounting is that the taxpayer cannot change such method of accounting without consent from the Service. Treas. Reg. § 1.446-1(c).

A. Entities Electing to Include Prepayments in Year of Receipt

The Enron entities used to facilitate the accelerated prepayments were Enron Reserve Acquisition Corp. ("ERAC"), Enron Power Services ("EPS") and EGS Hydrocarbon Corp. ("EGS"). ERAC and EPS made the accelerated recognition election in 1992, while EGS made its election in 1993.

At the end of 1994, EPS was merged (along with several other entities) into Enron Risk Management Services ("ERMS") as part of the "mega-merger" that created Enron Capital & Trade Resources Corp. ("ECT"). Thus, under the tax attribution rules of Code § 381, ECT must continue to use the prepayment accounting method of EPS under the "principal accounting method test". Treas. Reg. § 1.381(c)(4)-1(c)(2)(iv). As such, ECT has effectively elected to accelerate the recognition of any prepayment proceeds. Thus, although ECT may be the preferred entity to effectuate prepayment transactions from a commercial or legal perspective (since the counterparty may already have a master swap agreement in place with ECT or because the counterparty otherwise has familiarity with ECT from other commercial deals), ECT may not be the preferred entity from a tax perspective (see discussion of recommended entities in Section IV below).

B. Entities Electing to Defers Recognition of Prepayments

The Enron entities used to facilitate the strategic prepayments were Enron Hydrocarbon Marketing Corp. ("Hydrocarbon"), Enron Cushing Oil Marketing, Inc. ("Cushing Oil")
1970

and Faron Natural Gas Marketing ("ENGM"). As stated earlier, these entities elected to defer recognition of prepayment proceeds because there were no readily available tax credits to justify accelerating the recognition of taxable income. Hydrocarbon's election was made in 1993, Cushing Oil's election was made in 1994, and ENGM's election was made in 1995. ENGM continues to have 1996 and 1997 prepayment proceeds that have not been fully recognized as income.

IV. Future Prepayment Transactions

A. TIA Prepayments

As noted above, TIA prepayment transactions are entered into to generate taxable income to offset expiring tax attributes (tax credits or net operating losses). As such, these transactions should be associated with an entity that has elected to recognize prepayment proceeds in the year of receipt. It is recommended that ECT be used for any future TIA prepayments.

B. Financial Prepayments

Financial prepayments are entered into as a means of generating strategic cash flow. Since these transactions do not involve the utilization of expiring tax attributes, financial payments should be associated with an entity that elects to defer recognition of prepayment proceeds. As such, ENGM should continue to be the entity used for all future strategic prepayment transactions.

Notwithstanding the above, however, there may be a number of circumstances where ECT is the preferred entity from a commercial or legal perspective (e.g., ECT already has a master agreement in place with the counterparty or the counterparty would prefer to deal with ECT because of familiarity). In the event that commercial realities mandate that ECT act as the prepayment entity, we will consider whether it is feasible to change ECT's prepayment accounting method and use it for these transactions.

C. Commercial Prepayments

As noted above, commercial prepayments are entered into as part of an underlying commercial transaction. Although we have rarely entered into commercial prepayments, it is anticipated that we may have opportunities to enter into more of these transactions in

It should be noted that Hydrocarbon entered into prepayment transactions with Chase in both 1993 and 1994. Although Texas, Tex. Rev. Civ. Prac. & Rem. Code Ann. § 1.1501-3 requires that all remaining income from the 1994 prepayment transaction (as well as the estimated remaining cost of sales) should have been recognized in 1996, and notwithstanding tax advice to the point, such amounts were not reported in 1996. Such amounts will be reported as deliveries are made. This prepayment is scheduled to expire in 1999.

7 From 1993 to 1995, Enron entered into new entity every year to affectuate its prepayment transactions. The new entities were created to isolate the particular transactions and in order to make the proper deferral election.
TAXATION OF PREPAYMENTS
Outline of Book/Tax Treatment

I. Financial Prepayments
   A. Book Treatment
      0 Treated as deferred revenue and income recognized over time as product is delivered to satisfy the prepayment; also has an interest component
      0 Not treated as debt on balance sheet but is treated as a price risk management liability
   B. Tax
      0 Election to defer under accrual method
      0 Inventorable goods exception would limit the deferral to the second taxable year following the year of receipt (2 year deferral)
      0 Also takes into account the estimated cost of goods, thus resulting in reporting of net revenue

II. Commercial Prepayments
   A. Book Treatment
      0 Treated as deferred revenue and income recognized over time as product is delivered to satisfy the prepayment; also has an interest component
      0 Discussions ongoing regarding recognition under MTM
   B. Tax
      0 Election to defer under accrual method
      0 Inventorable goods exception would limit the deferral to the second taxable year following the year of receipt (2 year deferral)
      0 Also take into account the estimated cost of goods

IF MTM is adopted for future transactions:
   0 Must take into income no later than the year taken into income for financial accounting purposes (e.g. Year 1 for MTM)
   0 Must take gross revenue into account
   0 Cost of goods are taken into account as product is delivered thereby potentially creating a substantial timing difference
## Enron Capital & Trade Resources Corp.

### Schedule of Payments

<table>
<thead>
<tr>
<th>Company/Contractor</th>
<th>Article on Contract</th>
<th>Date</th>
<th>Amount USD</th>
<th>Tax Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enron Power Acquisiton Corp.</td>
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<td>1993</td>
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<tr>
<td>Enersource Services, Inc.</td>
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<tr>
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<tr>
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<td>1994</td>
<td>$220,000,000.00</td>
<td>No</td>
</tr>
<tr>
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<td>1994</td>
<td>$120,000,000.00</td>
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</tr>
<tr>
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<td>Cline Marketing</td>
<td>1994</td>
<td>$220,000,000.00</td>
<td>No</td>
</tr>
<tr>
<td>Enron Hydrocarbons Marketing Corp.</td>
<td>Cline Marketing</td>
<td>1994</td>
<td>$220,000,000.00</td>
<td>No</td>
</tr>
<tr>
<td>Enron Hydrocarbons Marketing Corp.</td>
<td>Cline Marketing</td>
<td>1994</td>
<td>$220,000,000.00</td>
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<tr>
<td>Enron Hydrocarbons Marketing Corp.</td>
<td>Cline Marketing</td>
<td>1994</td>
<td>$220,000,000.00</td>
<td>No</td>
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<tr>
<td>Enron Hydrocarbons Marketing Corp.</td>
<td>Cline Marketing</td>
<td>1994</td>
<td>$220,000,000.00</td>
<td>No</td>
</tr>
</tbody>
</table>

### Footnote (12):

The inflationary index used to project proceeds to become over the life of the agreement is very subjective, rather than in accordance with the agreements used of Tranche 9 of Enron.
1973

Enron Corp. And Subsidiaries (47-0255140)
Corporation Income Tax Return
For The Year Ended 12/31/96

Statement Pursuant to Regulation 1.451-5(d)
for Enron Natural Gas Marketing (76-8481290)

Advanced Payments Received 1/1/96 to 12/31/96
Not Taken into Taxable Income Currently $348,782,975

Advanced Payments Received Prior to 1/1/96
Taken into Taxable Income Currently $ 49,673,885
1974

Interoffice Memorandum

To: Ann Marie Tiller
From: Brent Vasquez
Subject: Yosemite I Withholding for Year 2000

Date: April 11, 2000

Confidential: Attorney-Client Privilege

Pursuant to your request, I have prepared the following analysis regarding Enron's year 2000 reporting position related to payments made by Enron North America ("ENA") to Delta Energy Corp. ("Delta"), a Cayman Islands exempt LLC, as part of the Yosemite financing transaction.

Background

Delta was initially capitalized with nominal equity held by a Cayman Islands charitable trust and a $500 million cash advance by Yosemite Securities Trust I ("Yosemite"), a Delaware statutory business trust, in exchange for a promissory note. For tax reporting purposes, we will characterize the $800 million advance by Yosemite to Delta as an equity interest in Delta notwithstanding its legal form as a promissory note. Given this reporting position, a check-the-box partnership election was filed for Delta effective November 18, 1999. Accordingly, Form 8865 will be filed for 1999 to report Yosemite's contribution to a foreign partnership.

After its initial capitalization, Delta entered into a cash-settled swap with ENA on the price of crude oil and used the $500 million loan proceeds to prepay its obligation to ENA under the swap. The swap was part of a three-legged swap among Delta, ENA, and Citibank and will be treated for tax purposes as a $800 million loan by Delta to ENA. Under the terms of the swap, ENA is required to make semi-annual floating swap payments to Delta for five years on April 14 and October 14. The payments are determined by multiplying the spot price for crude on the payment date oil by 1,212,375 barrels of crude.

Issues

1. On what basis, under I.R.C. § 1441 and its regulations, can ENA make swap payments to Delta during calendar year 2000 without reduction for U.S. federal income tax withholding?

1 See Background section of the "Yosemite I Withholding" memo dated January 10, 2000.
2 The promissory note evidencing Delta's obligation to repay Yosemite $800 million contains tax characterization or "Defined" language that treats Delta as a partnership and the promissory note issued to Yosemite by Delta as a partnership interest for tax purposes.
3 The interest rate on the swaps and the interest rate on the promissory note between Delta and Yosemite mirror each other and thus any income flowing through Delta as a result of the swaps is distributed entirely to Yosemite.
2. Assuming that in calendar year 2000 ENA has a basis to make the floating swap payments to Delta without reduction for withholding, would the payments nevertheless be reportable under I.R.C. § 1441 or the regulations thereunder?

Executive Summary

1. ENA may make the floating swap payments to Delta without reduction for U.S. federal income tax withholding under I.R.C. § 1441 and the regulations thereunder on the basis that Delta is a partnership for federal income tax purposes and that the sole beneficial owner of the income received by Delta under the swap is Yosemite, a U.S. person (i.e., for tax purposes, the payments under the swap are made between two U.S. persons).

2. Since, for tax purposes, the swap payments would be considered made between two U.S. persons, they would not be reportable under I.R.C. § 1441 or the regulations thereunder.

Discussion

New Withholding Forms under § 1441

In late 1997, the IRS released final regulations (the “Regulations”) to replace the then current regulations promulgated under I.R.C. § 1441 that deal with payments made by U.S. persons to foreign persons. As originally released, the Regulations were to be effective for payments made after December 31, 1998. In early 1998, in connection with the release of the Regulations, the IRS released Announcement 98-15 and 98-51 to solicit comments regarding proposed new withholding forms (the “Forms”) to accompany implementation of the Regulations. The IRS then released Notice 98-16 to delay the effective date of the Regulations until January 1, 2000. In the same notice the IRS also announced that the Forms proposed in Announcement 98-15 and 98-51 would be deemed to satisfy the current regulations. In 1999, the IRS released Notice 99-25 to again delay the effective date of the Regulations until January 1, 2001.
DRAFT

Interoffice Memorandum

To: Jim Sandt
From: Ann Marie Tiller and Brent Vasconcellos
Department: Corporate Tax Planning
Date: April 10, 2001

Background

On August 25, 2000, at the direction of the Enron Global Finance department, Enron North America ("ENA," a wholly-owned subsidiary of Enron Corp.) borrowed a total of $499,995,000 from Citibank N.A. ("Citibank") in a transaction that took the form of a $474,995,000 prepaid swap (the "Swap") and in a related transaction, Enron Corp. borrowed $25,000,000 from Citibank in the form of a direct loan. (ENA and Enron Corp. are hereafter referred to in the aggregate as "Enron.") To the extent the borrowing is characterized as a Swap, it appears on Enron's financial statements as a price risk management liability rather than a loan. The format is beneficial to Citibank as well because the transaction is reported as part of the bank's credit derivative activities rather than as a loan to Enron. [Travis Winfrey is checking into whether the $5,000 difference is attributable to fees or a trading spread paid to Delta under the Swap or an error.]

In order to avoid utilizing Citibank's limited capacity for Enron credit, Citibank and Enron designed the Swap to be part of a larger contemporaneous transaction which had the result of transferring Citibank's Enron credit risk related to the Swap over to investors who purchased the securities of a special purpose trust established on August 11, 2000 by Citibank called the Enron Credit Linked Notes Trust (the "Trust").

Trust Notes

At the same time that ENA and Citibank entered into the Swap, the Trust issued $500,000 8.00% Enron Credit Linked Notes due 2005 (the "Notes") in a 144A offering and $500,000 9.00% Trust Certificates (the "Certificates") to one entity, the Royal Bank of Canada Europe Limited ("RBC"). The certificates in the Trust represent beneficial interests in the Trust and are subordinate in right of repayment to the Notes. [The Trust is also prohibited under the Indenture Agreement from creating, assuming, or incurring any further indebtedness.] As discussed further below, since the Trust has only one owner, the Trust is disregarded for federal income tax purposes and is treated as a branch of RBC.

The Notes issued by the Trust are debt for federal income tax purposes. Enron's obligation under the "Swap" and the Trust's obligation to repay the principal amount of the Notes, along with any accrued and unpaid interest, both come due on August 15, 2005. This amount is payable semi-annually in arrears on February 15 and August 15 of each year starting on February 15, 2001.

The Notes were issued at a slight discount of 99.827% to their stated redemption price at maturity or face amount giving rise to proceeds of $499,135,000. The discount of $665,000 falls below the de minimis threshold of Section 1273(a)(3) ($6,250,000 computed as .0025 x $500,000,000 x 5 years) and, thus, can be treated as zero.
1977

Euro Credit Linked Notes Due 2003

The Noteholders are part of a group called the "Secured Parties" who receive protection under a Collateral Security Agreement that provides them with a security interest in all of the assets of the Trust. Citibank is also a Secured Party although the bank's rights are superior to the rights of the Noteholders in all of the collateral except as to a credit swap running between Citibank and the Trust (the "Credit Swap") and any Enron Deliverable Obligations that may be delivered under the Credit Swap as described further below.

The Notes were sold to qualified institutional buyers ("QIBs") in the U.S. in reliance on Rule 144A of the Securities Act and to non-U.S. persons in reliance upon Regulation S of the Securities Act. Both sets of Notes were issued in fully registered form without interest coupons. [At least initially, approximately ___% of the Notes were sold to domestic holders and approximately ___% of the Notes were sold to non-US holders.]

Trust Investments

The $550M in proceeds from the sale of the Notes and the Certificates must be used by the Trust to invest in a select group of investments (the "Trust Investments") defined to include (1) time deposits, promissory notes, and commercial paper of certain U.S. money center banks; (2) promissory notes of, or guaranteed investment contracts from, certain insurance companies; or (3) direct obligations of the United States government as long as the Trust Investments represent no more than nine separate obligors and each Trust Investment is scheduled to mature on or before the maturity date of the Notes. No Trust Investment may be purchased at a premium and no existing Trust Investment may be sold at a discount unless in default. At least initially, the Trust used the entire $550M in funds received from the issuance of the Notes and Certificates, and as discussed below, from a one-time payment under the Credit Swap, to acquire a certificate of deposit issued by Citibank and carrying an interest rate of 6%

The Trust obtains the funds necessary to pay interest on the Notes and yield on the Certificates from periodic payments received by the Trust from Citibank under the Credit Swap as described below:

Credit Swap

The Trust and Citibank entered into the Credit Swap that provides for certain periodic payments and, upon an Enron Credit Event, calls for physical settlement of all or part of the Credit Swap. On a periodic basis as the Trust receives interest payments on the Trust Investments, the Trust delivers those funds to Citibank. On each February 15 and August 15, starting on February 15, 2001, Citibank is required to pay the Trust an amount equal to the interest accrued on the outstanding Notes and the yield on the Certificates.

In the absence of an Enron Credit Event, the Trust will repay the principal amount of the Notes and the Certificateholder's investment from the principal proceeds of the Trust Investments. If an Enron Credit Event should occur (defined to include an Enron failure to pay under the Credit Swap as well as the general condition of Enron being either insolvent or bankrupt), the Credit Swap permits Citibank to physically settle the Credit Swap by delivering to the Trust certain senior unsecured obligations of Enron called Enron Deliverable Obligations in exchange for a like amount of Trust Investments then held by the Trust. In this event, the principal amount of the Notes would be repaid from any proceeds recovered from any of the Enron Deliverable Obligations received by the Trust and any remaining Trust Investments then held by the Trust.

On the closing date of August 25, 2000, Citibank made a one-time payment under the Credit Swap to the Trust of $865,000, an amount representing the discount on the Notes. This additional amount when added to the $499,135,000 in proceeds received on the sale of the Notes and $50M received on the sale of the Certificates equaled the $550M amount required to be invested in Trust Investments on the Closing Date and serve as security for the Noteholders and Certificateholders during the 5-year tenure of the deal. Citibank received the $865,000 by reducing the proceeds delivered to Enron under the Debt Security from the $25M face amount to $24,135,000.
Trust Certificateholder
Certificateholders in the Trust are restricted to U.S. persons within the meaning of Section 7701(a)(3) or non-U.S. persons who can supply an executed Form W-8ECI or W-8BEN claiming the benefits of a treaty that provides for no withholding of U.S. tax with respect to payments to the Certificateholder. Certificateholders cannot exceed a number that directly or indirectly exceeds the 99-person threshold of the publicity traded partnership rules of Section 7704. Similarly, a Certificateholder must represent, warrant, and covenant that it has not and will not transfer any Certificate on or through an established securities market within the meaning of Section 7704(b)(1).

The Trust Agreement acknowledges that if there is more than one Certificateholder, then the Trust will be a partnership but as long as there is a single Certificateholder, the Trust will be disregarded within the meaning of Reg. 301.7701-3(b)(11). As the sole owner of the Trust, RBC will be treated as owning everything the Trust owns, including the $550M Citibank certificate of deposit and the Trust’s rights and obligations in a notional principal contract with Citibank.

RBC will recognize ordinary income in each calendar year equal to the interest accrued on the Trust Investments and periodic payments received by Citibank under the Credit Swap. See Reg. Section 1.446-3(i). RBC will deduct the expenses of the Trust, the periodic payments made by the Trust to Citibank under the Credit Swap, and interest paid out to the Noteholders. ([RBC] will also recognize over the five year tenor of the deal the upfront $865,000 payment received from Citibank by amortizing the amount … Was the parenthetical in Section 10.9(a)(iv) stating “the Trust shall not be deemed to have paid any amount for the right to enter into the Credit Swap” intended to address this last minute change?). See Reg. Section 1.446-3(j).

Prepaid Swap and Direct Loan
References herein to the prepaid swap or the “Swap” are actually references to the combination of two contemporaneous cash-settled commodity swaps. The first such swap between Euron and Citibank is a cash-settled commodity swap on 22,238,748 barrels of crude oil. In return for an up-front payment of $439,677,103 from Citibank, Euron is obligated to make (1) floating payments to Citibank each January 14 and July 14 based on the NYMEX spot price for 568,024 barrels of crude at the closing price three commodity business days prior to the payment date; (2) one up-front floating payment to Citibank based on the NYMEX spot price for 533,312 barrels of crude at the closing price three commodity business days prior to the payment date; and (3) on the final floating payment date, a floating payment to Citibank equal to $475,000,000 or, if less, the NYMEX spot price for 23,238,748 barrels of crude at the closing price three commodity business days prior to the payment date.

The second cash-settled commodity swap runs between Euron and Delta Energy Corp., a Cayman Islands exempt LLC (“Delta”) under which Euron will receive an up-front payment of $35,317,897 from Delta. Additionally, over the term of the swap, Delta is obligated to make (1) floating payments to Euron each January 14 and July 14 based on the NYMEX spot price for 568,024 barrels of crude at the closing price three commodity days prior to the payment date; and (2) one up-front floating payment to Euron based on the NYMEX spot price for 533,312 barrels of crude at the closing price three commodity business days prior to the payment date. In consideration for these payments under the second swap, Euron is obligated to make fixed payments of $17,750,750 with an initial fixed stub payment of $16,665,982.

Enron Credit Linked Notes Due 2005

The result of the combination of the two swaps and the direct loan is that Enron will receive a net up-front payment of $499,995,000 and Enron must make fixed payments to Delta on January 14 and July 14 of $17,750,750. In five years, Enron must repay a total of $500M to Citibank under the terms of both the swap and the Debt Security.

Note: Commodity swaps generally settle on the fifth day of the month following the payment date. As a result, Enron's obligation to make payments under the Prepaid Swap on January 14 and July 14 are actually settled on February 5 and August 5, respectively. A lead time of 10 days was considered necessary for the obligations of Citibank and the Trust under the Credit Swap and the obligations of the Trust to make interest and yield payments to the Noteholders and Certificateholders all on February 15 and August 15.

U.S. Withholding Taxes
With respect to the Noteholders, the Indenture Agreement provides that the United States Trust Company of New York as Indenture Trustee is responsible for furnishing to the Noteholders and taxing authorities any forms of information required by applicable federal or state law, including, but not limited to appropriate Forms 1099 and/or 1042-S and provide any other such information requested by a Noteholder in order for the Noteholder to prepare its tax returns. The Indenture Agreement further provides that if the Indenture Trustee is required to make a deduction and pay over withholding taxes, no additional amounts will be payable by the Trust in respect of those taxes.

Since all of the Notes are registered bonds, interest payable to non-U.S. holders will qualify for the portfolio interest exemption [upon receipt of the proof of the holders' foreign status]. Section 881(c)(2)(B) and Section 871(b)(2)(B); Reg. Section 1.1441-1(b)(4)(i). Additionally, such payments are exempt from information reporting and backup withholding . . . Reg. section 1.6049-5(b)(8); Reg. Section 1.6045-1(q)(1)(ii).

If an Enron Credit Event should occur and Citibank physically settles the Credit Swap by delivering Enron Deliverable Obligations to the Trust in exchange for a like amount of Trust Investments then held by the Trust, interest on the Enron Deliverable Obligations will also qualify for the portfolio interest exemption. Section 871(b)(9)(C)(v)(i) and Section 881(c)(4).

With respect to the Certificateholder, no withholding forms should be necessary while the Trust is wholly owned by RBC and is thereby disregarded as a separate entity. If the Trust should become an independent entity for tax purposes, the Trust Agreement provides that the Trust will comply with any withholding requirements and that to the extent the Trust is required to withhold and pay over any amounts to any taxing authority with respect to distributions or allocations to any Certificateholder, any amount withheld will be treated as a distribution of cash and thereby reduce the amount of cash otherwise distributable to the Certificateholder.

Payments by Enron to Delta will qualify for exemption from withholding under Reg. Section 1.863-7(b)(1). . . .

Federal Tax Reporting.
The Trust Agreement provides that if Trust has more than one Certificateholder and becomes a partnership, Wilmington Trust Company ("Wilmington") as Trustee is responsible for maintaining the books of the partnership and filing such tax returns and making such elections as may from time to time be required as well as delivering Schedules K-1 to each partner. A side letter entered into contemporaneously between Enron Corp. and Wilmington provides that Wilmington will engage Enron Corp. to provide these services on its behalf. Since the Trust is a disregarded entity for federal income tax purposes, no income tax or information return should be required.

EC 000850725

Respect  Integrity  Communication  Excellence

From (308-543-1987)
Enron Credit Linked Notes Due 2005

Enron’s rights and obligations under the Swap and the Debt Security with Citibank are for tax purposes the equivalent of a borrowing of $500M with a five year tenor and a fixed rate of interest. In accordance with Reg. Section 1.466-3(g)(2)(iii)(A), the upfront payment together with the principal amount extended under the Debt Security should be amortized by assuming that $500M represents ...

For book purposes, Enron will record the upfront payment under the Prepaid Swap in income and record Enron’s obligation under the Prepaid Swap as a price risk management expense and liability. For tax purposes, these income and expense entries will be reversed with an M-1 adjustment.

Approximately $51M in expenses have been paid to-date by [Enron Corp.] in connection with the transaction. Enron paid up-front underwriting fees of $1.923M to Salomon Smith Barney and $825,000 to Lehman Brothers. Additionally, Enron is obligated to pay a "balance sheet" fee of 30 basis points per annum to [Salomon Smith Barney] calculated on the $500M principal of the Notes or $1.5M and a [275,000 fee to RBC as additional compensation for their role as Certificateholder?] [Travis Winfrey is still checking on the annual fee equal to 36 basis points...]. [Finally, Enron must also pay approximately $20,000 annually in fees to Wilmington Trust Company as Trustee of the Enron Credit Linked Notes Trust and $25,000 to United States Trust Company of New York as Indenture Trustee.]

These up-front expenses were deducted in calendar year 2000 for book purposes so Enron will make an M-1 adjustment to amortize the expenses for tax purposes over the five year tenor of the transaction. Purely to accomplish a book accounting objective that has no tax implications, the implicit rate of return that Citibank receives under the Swap was set at a rate lower than Enron’s cost of funds. When Enron’s obligation under the Swap is fair valued starting on the closing date of the transaction at Enron’s higher cost of funds rate, Enron will recognize a book (but not a tax) gain that is expected to offset the fees expensed by Enron for book purposes. Enron will make another M-1 adjustment to reverse this and all other fair value or mark-to-market adjustments made for book purposes.
Interoffice Memorandum

To: Yosemite File
From: J. Brent Vasconcellos
Subject: $750 Million Yosemite Debt – Recourse v. Nonrecourse

Date: November 26, 2001
Department: Global Finance Tax

FACTS

On November 18, 1999, Euron Corp. (“Euron”), an Oregon corporation, and Long Lane Master Trust IV (“Long Lane”), a Delaware statutory business trust, formed Yosemite Securities Trust I (“Yosemite”), a Delaware statutory business trust. Euron and Long Lane each contributed $37.5 million in cash to Yosemite in exchange for certificates of beneficial interest that bear an annual yield of 11% (the “Certificates”). Yosemite then issued $750 million worth of Linked Euron Obligations (“LEOs”) to qualified institutional buyers in a Rule 144A offering under the Securities Act of 1933. On December 30, 1999, Whiting Associates, L.P. (“Whitewing”) purchased a portion of Euron’s Certificates for a $33.750 million face amount plus accrued but unpaid interest. After this purchase, the Certificates were owned 50% by Long Lane, 45% by Whitewing, and 5% by Euron.

The LEOs are supported by Yosemite’s $25 million note receivable from Euron (the “Euron Note”) and an $800 million note receivable from Delta Energy Corp. (the “Delta Note” and “Delta”, respectively), a Cayman Islands exempt limited liability company. The Delta Note and the Euron Note are Yosemite’s sole assets.1 The Euron Note is an unsecured recourse obligation of Euron. Yosemite’s right to repayment under the Delta Note is secured by a series of swap transactions consisting of an $800 million prepaid commodity swap between Delta and Euron North America Corp (“ENA”), a Delaware corporation, a fixed for floating commodity swap between Delta and Citibank, and a swap for floating commodity swap between ENA and Citibank. Euron has provided a financial guarantee in favor of Citibank with respect to ENA’s obligations under the fixed for floating swap and a financial guarantee in favor of Delta with respect to ENA’s obligations under the prepaid swap.

For U.S. Federal income tax purposes, the Yosemite transaction is treated as follows: (1) Yosemite is treated as a partnership; (2) the Certificates are treated as evidence of a partnership interest in Yosemite; (3) Euron, Long Lane, and Whitewing are treated as partners in Yosemite; (4) The LEOs are treated as indebtedness of Yosemite; (5) the Delta Note is treated as Yosemite’s partnership interest in Delta; and (6) the swap transactions are treated as a single $800 million loan from Delta to ENA.

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1 Yosemite also has entered into a credit derivative agreement with Citibank in order to provide credit enhancement for the LEOs, but the Euron Note and the Delta Note ultimately support this agreement.

2 Note that the prepaid swap and fixed for floating swap with Delta and Citibank are in fact recorded on the financial accounting books of (RMT Liquids), a division of Risk Management and Trading Corp., a Delaware corporation and wholly-owned subsidiary of ENA.
1982

$750 Million Yosemite Debt – Recourse v. Nonrecourse  Page [PAGE]  [DATE]

ISSUES

1. Are the LEOs characterized as a recourse or nonrecourse partnership liability of Yosemite pursuant to Section 752 and the regulations thereunder?

2. Assuming the LEOs should be characterized as a nonrecourse partnership liability of Yosemite, in what proportion should the liability be allocated to Yosemite’s partners pursuant to Section 752 and the regulations thereunder?

CONCLUSIONS

1. The LEOs should be characterized as a nonrecourse obligation under Section 752 and the regulations thereunder.

2. The LEOs should be allocated among Long Lane, Whitewing, and Enron in proportion to each partner’s percentage interest in the Yosemite certificates.

DISCUSSION

Section 752 Regulations

Definition of a Nonrecourse Partnership Liability

A partnership liability is nonrecourse to the extent that no partner or a related person, (as defined by Section 267(b) or Section 707(b)(1)), bears the economic risk of loss as set forth in Section 1.752-2.\(^3\) A partner bears an economic risk of loss for a partnership liability to the extent that, if the partnership constructively liquidated, the partner or a related person would be obligated to make a payment to any person because the liability becomes due and payable and the partner or related person would not be entitled to reimbursement from another partner or a related person of another partner.\(^4\) Under a constructive liquidation, the following is deemed to occur:\(^5\):

- a) All partnership liabilities become payable in full;
- b) All partnership assets, including cash, have a value of zero;
- c) The partnership disposes of all of its assets in a fully taxable transaction for no consideration (except for relief from liabilities for which the creditors’ right of repayment is limited solely to one or more assets of the partnership);
- d) All items of income, gain, loss, or deduction are allocated among the partners; and
- e) The partnership liquidates.

Allocating Nonrecourse Partnership Liabilities Among Partners

\(^3\) Treas. Reg. § 1.752-1(a)(2).
\(^4\) Treas. Reg. § 1.752-2(a)(1).
\(^5\) Treas. Reg. § 1.752-2(b)(1)(i)-(v).
Once a determination has been made that a partnership has a nonrecourse liability, the liability must be allocated to the respective partners pursuant to Section 752 and the regulations thereunder. Generally, a partner's share of nonrecourse liabilities is equal to:

a) The partner's share of minimum gain as determined under Section 704(o).

b) The amount of any taxable gain that would be allocated to the partner if the partnership disposed of the partnership property (in a taxable transaction) subject to one or more nonrecourse liabilities in full satisfaction of the liabilities and for no other consideration.

c) The partner's share of excess nonrecourse liabilities of the partnership (those liabilities not allocated among the partners under (a) or (b) above) as determined by reference to the partner's share in partnership profits.

$750 Million LEOs Issued by Yosemite

Nonrecourse Liability

Under a constructive liquidation of Yosemite pursuant to Section 1.752-1(b)(i)-(v), the following steps would be deemed to occur. The LEOs would become payable in full. The Euronote and the Delta Note would have no value and Yosemite would be deemed to dispose of the Euronote and the Delta Note in a taxable exchange for no consideration. If Yosemite is unable to repay the LEO holders, none of Yosemite's partners are obligated in any manner under the transaction documents to make a payment to any party. Enron's guarantee of ENA's swap obligations is not relevant because Yosemite's right to the swap repayment proceeds is derived solely from repayment of the Delta Note, which is deemed to have no value under the Section 752 constructive liquidation. Therefore, because Long Lane, Whitewing, and Euron would not bear the economic risk of loss with respect to the LEOs, the LEOs are a nonrecourse liability of Yosemite.

Allocation of the LEOs Among Euron, Long Lane, and Whitewing

Pursuant to the Yosemite trust agreement, a Certificate holder is entitled to an annual yield equal to 11% on the face amount of the holder's proportionate share of Certificates. Yield is payable semiannually as a distribution from Yosemite to the Certificate holder. Further, upon termination of the Yosemite transaction, and to the extent that sufficient value exists within Yosemite after the LEOs are fully repaid, a Certificate holder is entitled to a distribution from Yosemite equal to the face amount of the holder's proportionate share of Certificates. Accordingly, Long Lane, Whitewing, and Euron are each entitled to an 11% annual yield on their proportionate share of Certificates and, upon termination of the Yosemite transaction, repayment of the face amount of their proportionate share of Certificates.

Therefore, pursuant to the allocation method for nonrecourse liabilities under Section 752 and the regulations thereunder, the LEOs (principal amount plus accrued but unpaid interest) should be allocated among Long Lane, Whitewing, and Euron in proportion to each partner's percentage ownership of the Certificates.

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6 Treas. Reg. § 1.752-3(a)(3).
7 Treas. Reg. § 1.752-3(a)(2)
8 See Treas. Reg. § 1.752-3(a)(3).
From: Emmett, Ian
Sent: Friday, December 08, 2000 9:23 AM
To: Moran, James
Subject: RE: Prepaid Swap

I seem to be missing something here. sorry, but what are NS involved in the trade at all?

-----Original Message-----
From: Moran, James
Sent: 08 December 2000 11:16
To: Emmett, Ian; Abih, Omar; Payne, Sarah; Moelwee, Greg; Tjedramaga, Nicolas
Subject: RE: Prepaid Swap

It is my understanding that the financings works as follows.
The first leg is CISB pays EDA $150MM and EDA agrees to pay CISB the dollar value on a
fixed number of barrels of oil at a spot price every (3) months and $150MM at maturity, 9
months.
The second leg has ENS paying Morgan Stanley the "variable" dollars just received from
EDA and NS pays us in dollars an amount equal to $150MM times a fixed interest rate. The
fixed interest rate is 9 month LIBOR + 70bps, paid (3) monthly.
The net effect is that ENS is raising $150MM at 6 + 70bps for 9 months off-balance balance
sheet. As the swap is booked in their oil swap book and not treated as debt.
I'm with ENS this morning, but would welcome discussing this with you sometime before 8.
My number is 5-9276.
From: Wootton, Steve
Sent: Thursday, December 14, 2000 2:08 PM
To: Tjandernga, Nicola; Emmett, Ian
Cc: Smale, Geoff; Moran, James; Payne, Sarah; Cleinow, Sarah; Newton, Karen; Johnson, Neil
Subject: RE: URGENT / decision required - status on Enron oil linked loan

I have separately forwarded the below flow to our Operations colleagues so that they can finalise the confirmation documentation. They had some issues. I had understood from you that we have to accept Enron's documentation and that Enron were providing the confirmations on Transactions between CSFB and Enron - please can you confirm this, as Operations understand that Enron don't usually use this form of documentation, do not use the 2000 Definitions, and are happy to sign our confirmations.

I have raised issues to date on reputational risk and this transaction will presumably not proceed until there is a clear sign-off from RRP. If this is an accounting driven transaction and I had understood before that it is, the Firm's standard representations for accounting driven transactions will presumably be required to be inserted in the confirmations. Will this cause a problem for the counterparty if we have to use their documentation forms? Have you asked for RRP sign-off on not including such representations? I have also asked whether each leg of the transactions is on its own account, at market - could you confirm for the below cash-flows.

On the documentation, I have received a call from James Moran saying that the guarantee is to be executed sometime today and as he has proposed he should be the contact person included in the guarantee. Please, instead, refer them to the contact details provided in the existing ISDA master agreement between us. I have raised issues on the guarantee and agreed with Nicola that I would raise these with Enron if the trade went live. The contact person at Enron has gone home some time ago. I understand that the guarantee is being executed and I have not had the opportunity to negotiate it. I therefore assume that front office is happy with the guarantee without the benefit of LCD regulating it. I have mentioned my most serious and obvious concerns before - there is no liability for consequential loss (eg what happens if we cannot perform to MS and they sue us for damages and consequential damages); they have 5 days grace to perform on the guarantee; there are no representations as to enforceability; in addition, as you will see on the face of the document, we are subject to any set-offs Enron would like to claim and the guarantee is expressed to be effective throughout the life of the swap transaction (it should say after discharge in full of the swap transaction). I also assume that front office is happy to take the risk that the guarantee is unenforceable as no due diligence has been performed on the guarantee.

Regards

Steve

---Original Message---
From: Tjandernga, Nicola
Sent: 14 December 2000 10:40
To: Emmett, Ian; Smale, Geoff
Cc: Wootton, Steve
Subject: URGENT / decision required - status on Enron oil linked loan

just came off the phone with James Moran / Sarah Payne

SUMMARY OF THE DEAL

Enron receives 150m $ from CSFB
CSFB receives Y barrels of floating oil at the end of every 3m for 3m (with a value to cover Libor + 75bp, roughly 0.5m$/notional)
CSFB receives X barrels at the end of the 9m period (with a value to reimburse the 5150m notional)
CSFB enters pays the Y barrels of oil in an oil swap with MS to receive fixed $ amount to cover interest rate changes (notional roughly 3* 90,000bbm = 270,000bbm)

Permanent Subcommittee on Investigations
EXHIBIT #194b
1987

From: Moran, James
Sent: Thursday, December 14, 2000 3:37 PM
To: Smallets, Geoff
Cc: Tjondronegoro, Nicholas; Abhi, Osman; Payne, Sarah
Subject: Enron -- Prepaid Oil Swap

Geoff,

As you are aware, we are expecting to close on a prepaid oil swap with Enron North America (as guaranteed by Enron Corp.) tomorrow Dec. 15. Nick indicated that he required getting your final approval on the transaction. Regarding approvals, CRM has approved the required Euros ($200 million) and Morgan Stanley ($40 million) FE limits.

I just want to highlight several issues, which should assist you in providing your approval to Nick.

1. Risk -- ERD is assuming 100% of "any-and-all" issues that may result from this transaction.
2. Income -- All income from the transaction is for your trading book, $990,000 (10% upfront fee on $150MM and a pro annum interest margin of 75 bps on $150MM for 9-months.)
3. Relationship -- Enron is one of Firm's top accounts, if not the number one relationship. Osman Abhi is the Primary on the trade. The importance of the transaction is amplified by several salient assignments, which CSFB has been unable to complete under Enron's timetable and the fact that we have informed Ben Glotz, Treasurer of Enron, we are working to close tomorrow. This prepaid swap transaction is Enron's "pet" project.

Further, I want to clarify the reputational risk of this transaction. I have had several conversations with Marc Segelke and he indicated to me that he would be okay with the transaction if the Treasurer or CFO of Enron North America signed the trade confirmation. I have discussed this condition with the Client, who understand our request, and will have the confirmation signed by either the Treasurer or CFO.

I appreciate your attention to this very important transaction and I apologize for interrupting your vacation. If I can be of any assistance, please feel free to call me at the office (212) 325-9176 or at home at (973) 777-5286 at anytime.

James P. Moran
Director
CRM/ENR
521 Madison Avenue
New York, NY 10022
(212) 325-9176 (office)
(212) 325-8620 (fax)
James.Moran@CSFB.com (email)
From: Tjadranaga, Nicolas
Sent: Friday, December 15, 2000 7:48 AM
To: Moran, James
Subject: RE: docu/guarantee approval

REDACTED

---Original Message---
From: Tjadranaga, Nicolas
Sent: 15 December 2000 12:18
To: Moran, James
Subject: RE: docu/guarantee approval

---Original Message---
From: Tjadranaga, Nicolas
Sent: 15 December 2000 12:24
To: Beatty, Bill
Cc: Wadson, Steven; Connell, Ian
Subject: RE: docu/guarantee approval

Hi marc,

we need your OK on the below described trade

- Enron has confirmed that I will be their Treasurer or CFO that will sign the deal
- very important for them is that the docs are as standard as possible and DO NOT include any
representations on accounting driven transactions

your approval is the only thing missing right now for the trade to go through today (morning NY time)
I will call you later on

Thanks,
Nicolas

---Original Message---
From: Tjadranaga, Nicolas
Sent: 14 December 2000 10:40
To: Connell, Ian; Beatty, Bill
Cc: Weston, Steven
Subject: URGENT / decision required on Enron oil inter swap

just came off the phone with James Moran / Sarah Payne

SUMMARY OF THE DEAL

Enron receives 150m $ from CSFB
CSFB receives Y barrels of floating oil at the end of every 3m for 3m (with a value to cover Libor + 75bp.
roughly 8, 3m allotted)
CSFB receives X barrels at the end of the 3m period (with a value to reimburse the $150m notional)
CSFB pays Y barrels of oil in an oil swap with MS to receive fixed $ amounts to cover interest rate
charges (notional roughly 3%*8,000*3*3m = 270,000mths)
CSFB enters pays the X barrels of oil in an oil swap with MS to receive fixed $ amounts for principal

Permanent Subcommittee on Investigations
EXHIBIT #194d
SR00037769
We agreed to do the deal as it was a special request from Ben. Not sure if we got anything specific other than a relationship building chip.

--- Original Message ---
From: Moore, James
Sent: Monday, September 17, 2001 1:07 AM
To: Moore, James
Subject: RE: Enron Oil Trade

Please remind me to who at Enron originally asked for this deal and why we agreed to do it (and most importantly what did CSFB get from it besides being nice guys once again).

I am sure that Bayes will be coming at me on this given the small traffic below. Thanks.

--- Original Message ---
From: Moore, James
Sent: Monday, September 17, 2001 1:13 AM
To: Ogersby, Allison; Alix, Donna
Subject: RE: Enron Oil Trade

E-mail traffic from when the facility was established last December.

--- Original Message ---
From: Cooper, Adrian
Sent: Monday, December 10, 2001 1:08 AM
To: Smalls, Geoff
Cc: Enno, Ric, Moore, James, Alix, Donna;1
Subject: RE: Enron Oil Trade

Geoff - IEO will assume the credit risk from FID and your book for the nine-month exposure to Enron arising from this oil-linked loan.

Adrian

--- Original Message ---
From: Smalls, Geoff
Sent: Monday, December 10, 2001 3:40 PM
To: Alix, Donna; Tjernlund, Ingrid
Cc: Cooper, Adrian; Enno, Ric; Moore, James; Rosenfeld, John
Subject: RE: Enron Oil Trade

no more Q's as long as Adrian is on board. lets print

--- Original Message ---
From: Alix, Donna
Sent: 18 December 2001 15:34
To: Smalls, Geoff; Tjernlund, Ingrid
Cc: Cooper, Adrian; Enno, Ric; Moore, James
Subject: RE: Enron Oil Trade

As we discussed last Friday, IEO (Enron coverage team) is confirming our willingness to take the credit risk associated with this transaction.

Please let me know if you have any other questions. Thanks.

Owner: Alix
Manager: Director

Permanent Subcommittee on Investigations
EXHIBIT #194c
1990

From: AHB, Omar
Sent: Friday, September 21, 2001 5:37 PM
To: Moran, James
Cc: McCabe, Brian
Subject: RE: PLEASE CALL ME IMMEDIATELY / ENRON-RELATED CREDIT ISSUE

LIFE ALWAYS GETS INTERESTING ON FRIDAY AFTERNOONS!

1. Cheryl Lipschutz called me. She was excited about your comments concerning an "international bank crisis which CS&F needs to help resolve" (what are you talking about!?) and wanted to let us know that $60 million is probably a double number for her but that she can't confirm until Monday afternoon because the "right" people are on airplanes today. Does waiting until Monday work for you? Please let us know and/or call Cheryl yourself.

2. Furthermore, I just got a call from Barry Scheppler. Dan Boyle and Tim began about an emergency request for a $150 million prepaid facility (they want to work over the weekend and fund next week??) in return for the left pole position on a $100 billion bond deal (obviously someone just whiffed on them). I told them that we were basically still up on credit and that we already had a $350 million renewal of a prepaid in progress. They were not aware of this renewal and were going to check up on it. In any case, this looks like incremental credit to CS&F which I am not sure we can handle at this point. I also reached Gary and he said that our response would have to wait until Monday when he can talk to Tony James, O’Rielly, Melette, etc. If you assume that he doesn’t want to make any decisions over the weekend given the unsettled nature of our world these days. Your thoughts?

Please call Brian or me ASAP. Thanks.

-----Original Message-----
From: Moran, James
Sent: Friday, September 21, 2001 5:25 PM
To: AHB, Omar
Subject: Re: PLEASE CALL ME IMMEDIATELY / ENRON-RELATED CREDIT ISSUE

On a train home, will call in 10 minutes. What’s up?

-----Original Message-----
From: AHB, Omar <omar.ahb@abchf.com>
To: Moran, James <james.moran@abchf.com>
Sent: Fri, Sep 21 18:19:25 2001
Subject: PLEASE CALL ME IMMEDIATELY / ENRON-RELATED CREDIT ISSUE
April 24, 2002

The Honorable Carl Levin
Chairman
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510-6260

Dear Chairman Levin:

Please find below and enclosed information and documents responsive to the April 10, 2002 request of your Subcommittee for certain information from Credit Suisse First Boston Corporation ("CSFB") and Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ").

It is important to note that prior to their merger in November 2000, CSFB and DLJ were separate companies, each of which independently provided services to Enron (among many other corporate clients). As independent firms, CSFB and DLJ were largely unaware of the work that the other company (and numerous other investment banking firms) was conducting for Enron, except for that which was publicly disclosed.

Our responses and document production reflect our best efforts as of the date of this letter to obtain and review responsive information and documents, consistent with our understanding of the scope of the request following discussions with your staff.

CSFB respectfully requests that the information and documents provided herewith be kept strictly confidential, given their proprietary nature.

1. Response to Request No. 1: Attached as Appendix 1 is a list of Enron-related transactions involving CSFB or DLJ. Attached as Appendix 2 is a list of CSFB investments and DLJ investments in Enron-related SPEs or related partnerships. Both Appendix 1 and Appendix 2 have also been supplied to the House Committee on Energy and Commerce.
Also provided herewith are documents relating to LJM Cayman and LJM2, and the Marlin, Osprey and Iguana transactions. CSFB notes that CSFB was a passive investor in LJM Cayman; that CSFB and DLJ are passive investors in LJM2; both investments having been made independently prior to the November 2000 merger of CSFB and DLJ; and that CSFB and DLJ do not have (and have not ever had) any control over or management role with either LJM Cayman or LJM2. CSFB notes further that Marlin, Osprey and Iguana were Rule 144A offerings which were made to qualified institutional buyers, and that Marlin and Osprey were presented to and rated by rating agencies.

2. Response to Request No. 2: Documents responsive to this request are included in the documents provided in response to Request No. 1.

3. Response to Request No. 3: Documents responsive to this request are included in the documents provided in response to Request No. 1. CSFB notes that neither CSFB nor DLJ was on the Advisory Committee of LJM2 Co-Investment, L.P.

4. Response to Request No. 4: Documents responsive to this request are included in the documents provided in response to Request No. 1.

5. Response to Request No. 5: Documents responsive to this request are included in the documents provided in response to Request No. 1.

6. Response to Requests Nos. 6 and 7. ERNB Ltd. is a subsidiary of Credit Suisse First Boston (International) Holding AG. ERNB Ltd. is a limited partner of LJM Cayman which in turn is a limited partner of LJM Swap Sub. LJM SwapCo is a general partner in LJM Swap Sub.

The equity owner of Parrothead II, LLC is RCSX XVIII, an affiliate of Lord Securities. DLJ International Capital and DLJ Capital Funding hold debt of Parrothead II, LLC.

8. Response to Request No. 8. CSFB is not aware of any individuals at CSFB or DLJ who invested in LJM. CSFB responds further that, while not an investment in an LJM related entity, twelve DLJ employees (identified in Appendix 3) did invest in an offering by Osprey in October 2000 (sometimes called "Osprey IIP") through an investment vehicle called OA Investments.

Please be advised that the individuals listed in Appendix 2 have been notified of their rights pursuant to Section 502 of the Gramm-Leach-Bliley Act (Pub. L. No. 106-102, 113 Stat. 1338 (1999)) and given CSFB their consent to provide nonpublic personal information in connection with this response. We note that this nonpublic personal information is further subject to the legal prohibition on reuse of nonpublic personal information under Section 502(c) of the Gramm-Leach-Bliley Act.

9. Response to Request No. 9. CSFB is not aware of any presentations made by CSFB or DLJ to Enron or LJM relating to Marlin, Osprey or Iguana.
Should you have any questions or require further information, please do not hesitate to contact Joseph Seidel in our Washington office at (202) 354-2802.

Sincerely,

[Signature]

Gary G. Lynch  
Global General Counsel

cc: The Honorable Susan M. Collins  
Ranking Minority Member  
Permanent Subcommittee on Investigations
APPENDIX 1

As previously noted, Credit Suisse First Boston (CSFB) and Donaldson, Lufkin & Jenrette (DLJ) were separate business entities prior to their merger in November 2000. Until that date, each firm provided services to Enron and many other corporate clients on an independent basis, and competed with one another for business.

In addition to the services listed below, CSFB and DLJ may also have competed to provide services that Enron awarded instead to another of the various investment banks that provided services to Enron.

CSFB

CSFB provided the services listed below that are responsive to request number 1. Where known, fee information and dates of engagement have been provided.

From 1997 to the present, CSFB participated with over 50 other banks in providing credit revolver facilities to Enron with undrawn commitments.

In July 1997, CSFB underwrote an offering by Enron of $200 of million public notes and received a fee of $125,213.

In November 1997, Goldman, Sachs & Co. was the lead underwriter of a $100 million offering of public notes for Enron Oil and Gas. The underwriting syndicate included Merrill Lynch & Co., Morgan Stanley Dean Witter and CSFB. CSFB collected a fee of $89,363.

In May 1998, Goldman Sachs & Co., Lehman Brothers and CSFB participated in an underwriting syndicate of 15 million of Enron secondary stock, which raised $750 million. CSFB earned a fee of $2,331,895.
In May 1998, Chase Manhattan Bank served as the lead bank in a $500 million revolving credit facility for the JEDI II project. CSFB provided $40 million of participation. CSFB earned a syndication fee of $5,685,000 and received annual interest payments.

In November 1998, Barclays Bank acted as the administrative agent and served with CSFB as co-arranger of a debt refinancing for the JEDI I project. CSFB underwrote $162.5 million of the total $325 million credit facility. CSFB received a syndication fee of $2,185,000 and annual interest payments.

In November 1998, CSFB underwrote an offering of $250 million of Enron public notes and received a fee of $2,114,755.

In 1999, Chase Manhattan Bank led a lending syndicate that provided a $400 million credit revolver facility to Euron Oil and Gas. CSFB made a $12 million commitment. CSFB received a fee of $70,993.

In 1999, CSFB made lending commitments of $35.6 million and $3.6 million to Dabhol Power Company. CSFB received a fee of $2.5 million, as well as interest payments, in connection with the $35.6 million commitment. CSFB received interest payments in connection with the $3.6 million commitment.

In 1999, CSFB provided M&A advice on an asset divestiture by Euron Oil and Gas and received a fee of $7 million. The date of engagement was December 15, 1998.

In February 1999, CSFB co-managed with DLJ an approximately $750 million common stock offering of 12 million shares of Enron. The underwriting syndicate included Lehman Brothers, Merrill Lynch & Co., Morgan Stanley Dean Witter, Prudential Securities, Salomon Smith Barney and Schroder & Co. Inc. CSFB earned a fee of $10,347,810.
In April 1999, NationsBank/Bank of America acted as lead underwriter for an $850 million debt offering of East Coast Power LLC. CSFB participated in the underwriting syndicate and received a fee of $2,087,564.

In June 1999, Merrill Lynch International served as lead manager of an underwriting syndicate for the initial public offering of 36,600,000 shares of Azurix, which raised $695,400,000. The underwriting syndicate included Paine Webber International, ABN AMRO Rothschild, HSBC Investment Banking and CSFB. CSFB earned a fee of $4,596,521.

In June 1999, CSFB provided M&A advice on the sale of an interest in East Coast Power LLC to El Paso Energy, Inc. and earned a fee of $850,000. The date of engagement was June 1, 1999.

In August 1999, CSFB provided M&A advice on the potential divestiture of Portland General and received a fee of $1,150,000. The date of engagement was August 13, 1999.

In February 2000, CSFB co-led with DLJ a bond offering for Azurix of $440 million and £100 million of debt. Merrill Lynch & Co. and Chase Securities Inc. participated in the syndicate. CSFB received a fee of $2,629,564.

In March 2000, CSFB underwrote a private money market note offering of $1 billion for Enron and earned a fee of $684,464.

In May 2000, CSFB provided M&A advice on the acquisition of MG plc. and earned a fee of $4,500,000. The date of engagement was May 9, 2000.

In June 2000 and November 2000, loan syndicates were formed to provide credit facilities to LJM2. Chase Manhattan Bank served as the lead bank for the June 2000 $65 million facility, of which CSFB raised $10 million. Dresdner served as the lead bank for the November
1997

$200 million facility, of which CSFB raised $30 million. CSFB earned fees of $73,608 and $303,283.

In October 2000, after the announcement of their merger, CSFB and DLJ co-led the initial public offering of 24 million shares of The NewPower Company, which raised $504 million. The underwriting syndicate included Chase H&Q, CIBC World Markets, Paine Webber Incorporated, Salomon Smith Barney and DLJdirect Inc. CSFB and DLJ earned a combined fee of $15,700,825.

In October 2000, Deutsche Bank Alex. Brown was the joint book-running manager with CSFB of a Rule 144A offering of $750 million and £315 million of debt and $50 million of equity for the Osprey III project. Lehman Brothers and UBS Warburg LLC served as co-managers. CSFB earned a structuring fee of $1,347,071 and a debt capital markets fee of $992,804. The date of engagement was September 28, 2000.

In December 2000, CSFB was the lead underwriter in a synthetic lease that provided a $600 million debt revolver for a project called TurboPark/E-Next Generation. CSFB earned a fee of $5,125,000.

In December 2000, CSFB financed a $150 million oil swap and earned a fee of approximately $870,000. The oil swap was set to mature in September 2001, but was rolled over an additional year at the request of Enron with CSFB's consent.

In early 2001, CSFB provided M&A advice on the sale of eight "peaking" power plants and earned a fee of $10,661,950. The date of engagement was October 30, 2000.

In April 2001, CSFB provided M&A advice on a potential EBS/movie studios joint venture and earned fees totaling $300,000. The date of engagement was April 12, 2001.
1998

In July 2001, Deutsche Bank Alex. Brown served as the joint book-running manager with CSFB to refinance the Marlin entity through a second Rule 144A offering of two debt tranches of $475 million and £515 million. CSFB earned a structuring fee of $1,143,175 and a debt capital markets fee of $1,604,288. The date of engagement was July 11, 2001.

In December 2001, CSFB Europe (London) underwrote a £50 million private placement debt offering for Wessex Water Services Finance plc. and earned a fee of £250,000.

From January 1999 through the present, CSFB provided M&A advice for the potential divestiture of an Enron power plant and other assets. To date, CSFB has identified $250,000 of fees in connection with this work. The dates of engagement were January 9, 1999, November 17, 2000, November 29, 2001 and December 17, 2001.

DLJ

DLJ provided the services listed below that are responsive to request number 1. Where known, fee information and dates of engagement have been provided.

From 1997 to the present, DLJ participated with over 50 other banks in credit revolver facilities for Enron.

In November 1997, DLJ advised Enron Global Power and Pipelines LLC in connection with going private and received a fee of $2.5 million. The date of engagement was May 14, 1997.

In 1998, DLJ provided advice on a potential offering of $200 million of Enron Energy Services LLC common stock and received a fee of $250,000. The date of engagement was December 16, 1997.
1999

In 1998, DLJ provided advice on the sale of a Pittsburg, California power plant project for $50 million. The transaction closed in 1998 and DLJ received a fee of $1,150,000.

In May 1998, DLJ led an underwriting syndicate of 15 million shares of Enron secondary stock, which raised $750 million. Goldman Sachs & Co., Lehman Brothers and CSFB also participated in the underwriting syndicate. DLJ earned a fee of $10,025,933.

In December 1998, BT Alex. Brown was the joint book-running manager with DLJ of a Rule 144A offering to institutional investors of approximately $1 billion of debt and $125 million of equity in connection with the Marlin I entity. DLJ earned a structuring fee of $2,560,000, a private placement fee of $1,250,000, and a debt capital markets fee of $2,423,670. The date of engagement was October 20, 1998.

In December 1998, Chase Securities, BT Alex. Brown and DLJ co-lead managed a $415 million bank facility and co-lead managed the private placement of $60 million in equity in connection with the Firefly entity. DLJ received a syndication fee of $1,125,000, a private placement fee of $1 million, and other revenues of $922,519. The date of engagement was December 28, 1998.


In June 1999, Merrill Lynch International served as lead manager of an underwriting syndicate for the IPO of 36,600,000 Azurix shares, which raised $695,400,000. The underwriting
syndicate included Paine Webber International, ABN AMRO Rothschild, HSBC Investment Banking, DLJ and CSFB. DLJ earned a fee of $6,051,203.

In September 1999, Deutsche Bank Alex. Brown was the joint book-running manager with DLJ of a Rule 144A offering of $1.4 billion in debt and $125 million in equity in connection with the Osprey entity. Bear Stearns & Co. Inc. and Salomon Smith Barney acted as joint lead managers. DLJ earned a structuring fee of $3,262,500, a debt capital markets fee of $2,317,622, and a private placement fee of $500,000. The date of engagement was September 16, 1999.

In November 1999, Salomon Smith Barney served as lead manager of a syndicate to refinance $750 million of Enron bank loans in capital markets. Deutsche Banc Alex. Brown and Greenwich NatWest served as co-lead managers. DLJ was listed as a member of the syndicate. DLJ did not receive a fee for the transaction.

In December 1999, DLJ managed a Rule 144A offering of $202 million in debt and $6.4 million in equity in connection with the monetization of senior notes of Enron. DLJ earned a structuring fee of $128,000 and a debt capital markets fee of $202,000.

In February 2000, DLJ co-led with CSFB a bond offering for Azurix of $440 million and £100 million of debt. Merrill Lynch & Co. and Chase Securities Inc. participated in the syndicate. DLJ received a fee of $3,986,827.

In 2000, DLJ provided M&A advice on the sale of a right to build a power plant in Oregon and received a fee of $750,000. The date of engagement was January 14, 2000.
2001

In July 2000, DLJ managed a Rule 144A "private/private" offering of $95 million in debt and $30 million in equity in connection with the funding of the synthetic sale of interests in European power assets. DLJ earned a private placement fee of $675,000 and a structuring fee of $3,075,000. A copy of an unsigned engagement letter lists the date of engagement as July 11, 2000.

In July 2000, DLJ raised additional equity capital investments of $70 million in connection with the Osprey entity. DLJ earned a fee of $500,000.
APPENDIX 2

As previously noted, Credit Suisse First Boston (CSFB) and Donaldson, Lufkin & Jenrette (DLJ) were separate and independent business entities prior to their merger in November 2000.

CSFB

CSFB provided the services listed below that are responsive to request number 1. Where known, fee or other return information has been provided.

In June 1997, Citibank acted as lead agent in a synthetic lease transactions made in connection with Enron/SSBT Trustee-Enron Omaha Trust, which was renewed in December 2000 as Enron/IT Holdings/CXC/SSBT. CSFB participated by providing $10 million of a $25 million credit facility and $56.6 million of a $110 million credit facility. The CSFB Credit Committee authorized the transactions. CSFB earned a fee of $52,130 and received annual interest payments.

In November 1998, Barclays Bank acted as the administrative agent and served with CSFB as co-arranger of a debt refinancing for the JEDI I project. CSFB underwrote $162.5 million of the total $325 million credit facility. The CSFB Credit Committee authorized the transaction. CSFB earned a syndication fee of $2,185,000 and received annual interest payments.

In December 1998, Citibank served as lead bank for an underwriting syndicate that provided $750 million of debt refinancing in connection with the financing of international

1For purposes of completeness, certain transactions described in Appendix 1 are also described in Appendix 2.
Enron assets. CIBC and WestLB acted as co-arrangers. CSFB participated in the underwriting syndicate. The CSFB Credit Committee authorized the transaction. CSFB earned a syndication fee of $3,509,000 and an interest payment.

In June 1999, Chase Manhattan Bank served as lead agent for a synthetic lease transaction that raised $310 million in connection with Brazos Office Holdings II, L.P. (formerly Enron – Houston HQ). CSFB was a syndicate participant and raised $13 million. The CSFB Credit Committee authorized the transaction. CSFB earned a fee of $44,443 and interest payments.

In June 1999 CSFB invested $7.5 million, and in December 1999 CSFB invested $45.1 million, in the LJM1 entity. NatWest was an equal investor. The CSFB Investment Banking Committee authorized the investment. CSFB received an overall return of approximately $31 million on its investment. In September 1999, CSFB provided a bridge loan of $25 million to the LJM1 entity, which was repaid in December 1999. CSFB received a fee of $25,000, as well as interest, in connection with the loan.

In December 1999, Merrill Lynch & Co. served as the lead investor of an investment commitment for LJM2 Co-Investments L.P. CSFB provided a $10 million investment commitment and paid in net capital of $1.7 million. CSFB lost money in connection with the investment. The CSFB Investment Banking Committee authorized the transaction.

In December 2000, CSFB was the lead underwriter in a synthetic lease that provided a $600 million debt revolver, $75 million of which was retained by CSFB, for a project called TurboPark/E-Next Generation. The CSFB Credit Committee authorized the transaction. CSFB earned a fee of $5,125,000.
In April 2001, Banc of America Securities LLC and Royal Bank of Scotland served as co-arrangers of a bank financing transaction for Brazos VPP. CSFB provided $15 million of debt. The CSFB Credit Committee authorized the transaction. No fees were recorded prior to the Enron bankruptcy.

In July 2001, Deutsche Banc Alex. Brown served as co-lead with CSFB on a refinancing of the Marlin entity through a second Rule 144A offering comprising two debt tranches of $475 million and $515 million. ABN Amro Incorporated, Banc of America Securities LLC, CIBC World Markets, Dresdner Kleinwort Wasserstein and JP Morgan served as co-managers. CSFB bought $2.5 million of the equity certificates in the transaction. The CSFB Credit Committee authorized the transaction. CSFB received no fees relating to its investment.

In August 2001, CIBC assigned to CSFB a note under which KStar VPP Trust owed $153 million. The transaction was approved by CSFB Credit Risk Management. No revenues have been located for the transaction.

In September 2001, Barclays Bank structured and provided debt to a $275 million debt and equity transaction in which CSFB made an $8.2 million equity investment. The CSFB Credit Committee authorized the transaction. CSFB earned a fee of $1 million.

In September 2001, CSFB served as lender in a transaction raising $23.9 million of debt for the monetization of Enron Heating, Ventilation and Air Conditioning Company. CSFB also acquired $1.1 million of equity. The CSFB Credit Committee authorized the transaction. No fees were received by CSFB before the bankruptcy filing.
DLJ

DLJ provided the services listed below that are responsive to request number 1. Where known, fee or other return information has been provided.

In December 1998, Chase Securities, Bankers Trust and DLJ each provided one-third of the bank debt financing in a $415 million syndicated bank facility in connection with the Firefly project. The DLJ Investment Banking Committee authorized the transaction. DLJ received a syndication fee of $1,125,000.

In December 1999, Merrill Lynch & Co. served as the lead investor of an investment commitment to LJM2 Co-Investments L.P. DLJ provided a $5 million investment commitment and paid in net capital of $900,000. DLJ lost money in connection with the investment. The transaction was authorized by the DLJ Fund Investment Partners III Investment Committee.

In December 1999, DLJ managed a Rule 144A offering of $202 million in debt and $6.4 million in equity in connection with the monetization of senior notes of Enron. DLJ bought the $6 million of equity certificates in the transaction. The investment was authorized by a committee of Investment Banking and Merchant Banking representatives.

In October 2000, Deutsche Bank Alex. Brown was the joint book-running manager with DLJ of a Rule 144A offering of $750 million and £315 million of debt and $50 million of equity in connection with Osprey III. DLJ bought $42.5 million of the equity certificates in the transaction. Lehman Brothers and UBS Warburg LLC served as co-managers. DLJ received no fees in connection with its investment.
Appendix 3

Further Response to Request No. 8

Osprey was a special purpose entity that was financed overall by $2.65 billion in equity and approximately $2.5 billion in debt from outside investors. Osprey I was established with an initial financing of $125 million in equity and $1.4 billion in debt. Osprey II was a follow-on financing that added $70 million in equity. Osprey III was a second follow-on financing that added $750 million in debt, Euro 315 million in debt and $50 million in equity. In October 2000, the twelve DLJ employees listed in this Appendix 3 made equity investments in Osprey III, each of which we understand to be currently in default, through an investment vehicle called OA Investments. These personal investments amounted to less than four tenths of one per cent of the equity in the Osprey structure.

<table>
<thead>
<tr>
<th>Name</th>
<th>Firm</th>
<th>Date of Investment</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael A. Ranger</td>
<td>DLJ</td>
<td>October, 2000</td>
<td>$200,000</td>
</tr>
<tr>
<td>Laurence Nath</td>
<td>DLJ</td>
<td>October, 2000</td>
<td>$150,000</td>
</tr>
<tr>
<td>Paul A. Davis</td>
<td>DLJ</td>
<td>October, 2000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Jeffrey Quinn</td>
<td>DLJ</td>
<td>October, 2000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Debra L. Hemsey</td>
<td>DLJ</td>
<td>October, 2000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Dominic A. Capolongo</td>
<td>DLJ</td>
<td>October, 2000</td>
<td>$75,000</td>
</tr>
<tr>
<td>Christopher Webb</td>
<td>DLJ</td>
<td>October, 2000</td>
<td>$55,000</td>
</tr>
<tr>
<td>Gavin Wolfe</td>
<td>DLJ</td>
<td>October, 2000</td>
<td>$50,000</td>
</tr>
<tr>
<td>Eric Manley</td>
<td>DLJ</td>
<td>October, 2000</td>
<td>$50,000</td>
</tr>
<tr>
<td>Jamie Pate</td>
<td>DLJ</td>
<td>October, 2000</td>
<td>$50,000</td>
</tr>
<tr>
<td>Philip Turbin</td>
<td>DLJ</td>
<td>October, 2000</td>
<td>$35,000</td>
</tr>
<tr>
<td>Patricia P. Lynett</td>
<td>DLJ</td>
<td>October, 2000</td>
<td>$35,000</td>
</tr>
</tbody>
</table>

As stated in our cover letter, please be advised that the individuals listed above have been notified of their rights pursuant to Section 502 of the Gramm-Leach-Bliley Act (Pub. L. No. 106-102, 113 Stat. 1338 (1999)) and given CSFB their consent to provide nonpublic personal information in connection with this response. We note that this nonpublic personal information is further subject to the legal prohibition on reuse of non-public personal information under section 502(c) of the Gramm-Leach-Bliley Act.
To:  "GEORGE SERICE (E-mail)" <GEORGE.SERICE@chase.com>

cc:  

Subject:  

I hope this description is somewhat close to reality!!

Merry Christmas.

Jim

<<Approval ForumMemo.doc>>

James R. McBride
Managing Director
Fleet Corporate and Investment Banking
713.311.4020 (Direct)
713.311.4020 (Fax)
James.R.McBride@Fleet.com

- Approval ForumMemo.doc

Permanent Subcommittee on Investigations
SENATE
EIXHIBIT #194h

MAH - 02302
To: Loan Forum

From: James R. McBride and Jill A. Calabrese

Date: December 20, 2000

Re: Project Mahonia - $310 Million Forward Sale Natural Gas Contract

Euron Financing Objectives

On December 18, 2000, Date Capital Markets received approval to purchase up to a $167 million interest in a natural gas contract. That contract requires Euron North America to make future deliveries of natural gas. Today, Financial Institutions is seeking to establish or increase certain credit limits for Travelers, St. Paul, Lumbermen’s, Hartford, and Salomon to support this transaction. These clients will issue surety bonds to guarantee Euron’s performance under the natural gas contract. This memo is written in support of Financial Institutions’ request and is intended to provide a brief overview of Euron’s financing objectives.

While we expect Euron to make the required deliveries, it is important to note that the Euron performance risk is specifically assumed by the surety bond providers. If Euron North America fails to deliver gas and Euron Corp fails to pay, the insurance companies are obligated to pay liquidated damages.

Transaction Overview from Euron’s perspective:

Euron North America (“ENA”) plans to enter into a $310 million forward sale gas contract with an off-balance sheet, special purpose vehicle created by Chase, Mahonia Natural Gas Limited. Under the terms of the agreement Euron North America will receive an up front payment of $310 million, which will be funded by Fleet and Chase. Euron will be obligated to deliver to Mahonia specified volumes of natural gas (84 Bcf) at specified times and at specified locations. (Please note Fleet will not be taking any mark to market gas risk or physical delivery risk. See the Debt Capital Markets Approval Memos for a more complete description of the Mahonia transaction). Separate and apart from the Mahonia transaction, Euron will enter into a commodity price swap that will fix Euron’s future cost of purchasing and delivering the scheduled gas volumes.

Euron’s financing objective is completing this transaction is as follows:

Euron is attempting to match its “book income” and “cash flow.” As a derivatives and commodity trader, Euron uses “mark to market” accounting practices to account for its price risk management contracts. Consequently, when Euron creates a derivative transaction, whether physical or financial, it is required by accounting practice to mark to market (on a daily basis) the expected income or loss it will incur over the life of the transaction. However, from a cash flow standpoint, it will actually receive or make payments of cash over the life of the contract. On September 30, 2000, Euron had a positive net asset position of over $1.2 billion in its price risk management books.

Euron has historically managed to monetize its “in the money” position by repurchasing either physical or financial forward sales. The Mahonia transaction will allow Euron to receive cash upfront. Subsequently, Euron will use the future cash flows it expects to receive under its existing price risk management contracts to pay for the gas it will be required to deliver under the Mahonia contract. The scheduled delivery under the Mahonia contract are designed to approximately match Euron’s expected receipts of cash (or volumes) under its existing contracts.

The accounting impact on Euron’s financial statement is as follows:

Euron is not taking this transaction into earnings. Euron will account for their $310 million liability under the Mahonia Forward Sale Contract as an increase to its “Liability from Price Risk Management Activities.” As September 30, 2000 Euron had total assets from price risk management activities of $14.7 billion and total liabilities from price risk management activities of $13.5 billion, for a net asset position of $1.2 billion.
George Serice
12/28/2000 10:57 AM

To: Jeffrey W. DellaPina
cc:

Subject: Re: revised to show Fleet as co-arranger

snac-mahonna fee letter do
Jeffrey W. DellaPina

Jeffrey W. DellaPina
12/28/2000 09:03 AM

To: George Serice
cc: 

Subject: 

please review the attached - do I need to conform this to a joint fee letter with Fleet?

Enron1200fees.doc
Mr. Joseph M. Deffner  
Chief Financial Officer  
Enron North America Corp.  
1490 South Street  
Houston, TX 77002-7361

December 29, 2000

FEE LETTER

Subj: Fees associated with the prepaid forward sale transaction between Enron North America Corporation ("ENAC") and Malahon Natural Gas Limited ("Malahon")

ENAC and its ultimate parent, Enron Corp., (collectively "Enron") have requested The Chase Manhattan Bank ("Chase") and Fleet National Bank ("Fleet") to arrange a prepaid, natural gas, forward sale in the amount of approximately $330,000,000.00 (the "Transaction") between ENAC and Malahon. In connection with the Transaction, Enron has agreed to pay an arrangement fee of $2,165,000.00 at closing, which fee will be equally split among Chase and Fleet (the "Co-Arrangers"). In this connection, Enron acknowledges that Chase shall be forwarding the prepayment amount for and on behalf of Malahon and agrees that Chase may deduct the fees for the benefit of the Co-Arrangers from the prepayment amount of approximately $330,000,000.00 resulting in a net payment to Enron of approximately $327,855,000.00.

Please acknowledge your agreement with the above by signing below.

Regards,


Jeffrey W. DeFalco  
Managing Director  
The Chase Manhattan Bank

SENATE  
MAH - 02305
[Signor]
[Title]
First National Bank

Acknowledged and Agreed by:

Mr. Joseph M. Deffen
Chief Financial Officer
Enron North America Corp.

Enron North America Corp.
The information below needs to be updated

Acct #: Nation's Bank - Dallas, A.B.A. No. 111000012

$500,000,000.00 (debited to Malmona)
Less: Fees to Chase: $1,250,000.00
Net payment to Enron $498,750,000.00 (credited to ENGMC account above)
2013

From: Allen, Melissa
Sent: Tuesday, July 24, 2001 2:14 PM
To: Cawood, Virginia
CC: Baldyn, Rodney
Subject: Presentation Stuff

Here are my pictures for the presentation. I've also added one with color...I'm not sure which is better for the offsite, though I always prefer color...

I've heard that Kent isn't going to be able to be there, but he may be adding my stuff into his own (so this may be duplication).

---Original Message---
From: Allen, Melissa
Sent: 24 July 2001 12:43
To: Cawood, Virginia
Subject: Wrigley stuff

Here's a little pic of Carnot and the key issues we addressed. I'm not sure if it matches with your presentation from a content perspective, so let me know if you're concerned. I've left it nice and boring from a style perspective so that you can just copy it into whatever you've put together and the format from your presentation should fit without issues.
PROJECT CAMELOT

Accounting Overview
Camelot
Accounting Considerations

Two main considerations:

- Treatment of the transaction as a sale versus a product financing

- Timing of revenue recognition in consideration of the agency arrangement
Camelot
Key Sale Considerations

- Is the forward purchase from the LME a ‘requirement to repurchase’?
- Does Enron's option to repurchase from Barclays create an economic compulsion to repurchase?
- Can Enron's option be for the specific metal sold?
- Can Enron act as agent in respect of the metal without affecting sale treatment?
Camelot
Key Agency Considerations

- Does the agency arrangement satisfy all of the requirements for separate recognition?
- Can Enron be responsible for acquiring and maintaining proper insurance?
## Effect on EGM Financials

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>Impact on EGM Financials, $ 000's</th>
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</thead>
<tbody>
<tr>
<td>Facility Size, $</td>
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<tr>
<td>6 Month Libor</td>
<td>3.72%</td>
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<tr>
<td>Average Spread (Barclays w.avg)</td>
<td>0.36%</td>
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<tr>
<td>Upfront Fee</td>
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<tr>
<td>All In Costs</td>
<td>4.58%</td>
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<tr>
<td>Implementation Costs</td>
<td></td>
</tr>
<tr>
<td>Upfront Legal Fees, $</td>
<td>500,000</td>
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<tr>
<td>Administration (9 FTE's), $</td>
<td>1,000,000</td>
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<tr>
<td>Total, $</td>
<td>1,500,000</td>
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<tr>
<td>Gross Margin</td>
<td>(8,150) *</td>
</tr>
<tr>
<td>EBIT (includes upfront fee + implementation costs)</td>
<td>(10,650) *</td>
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<tr>
<td>Capital Charge (savings on imputed debt)</td>
<td>7,500 *</td>
</tr>
<tr>
<td>Net Income After Tax at 35%</td>
<td>(2,048) *</td>
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<tr>
<td>Equity Employed</td>
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<tr>
<td>Return on Equity</td>
<td>+ 6.3% **</td>
</tr>
<tr>
<td>Return on Invested Capital</td>
<td>+ 3.5% **</td>
</tr>
<tr>
<td>Imputed Funds Flow (i.e. 3X due to lower int. exp.)</td>
<td>26,217,800</td>
</tr>
</tbody>
</table>

* Have agreed with Wes Colwell that EGM will be relieved of the Gross Margin/EBIT effects of the transaction such that any impact is below the EBIT line

** On the facility of $200,000,000 a capital charge is assessed on $100,000,000 (50% debt) @ 7.5% amounting to $7,500,000
Transaction Structure

Day 1:
- EGM sells product to SwapCo and receives cash. Price based on forward market price (Day X) less discount for basis, interest rate, insurance, margin. Option price equals difference between spot price and forward discounted price.
- SwapCo/3rd party bank sells forward to Barclays, who in turn sells forward to EGM.

Call Exercise:
- EGM exercises call option and purchases product. Strike price is forward market price less discount for basis, interest rate, insurance, margin for remaining days (Days X to call exercise day).
- EGM sells forward to Barclays who in turn sells forward to SwapCo/3rd party bank.
Transaction Structure

- EGM sells inventory to SwapCo (a third party entity controlled by but NOT affiliated to Barclays) which takes full legal title to Enron inventory and receives cash
- Enron purchases a series of American call options from SwapCo on the various tranches of product
- To mitigate commodity price risk, all physical product sold to SwapCo will be hedged through Barclays back to Enron
- As Enron exercises call options, new forwards will be written to offset the original forward contracts
- The facility will mimic a revolving credit facility as Enron sells and repurchases product on a continuous basis over the term of the contract
- Enron will act as agent to Barclays to manage all operations & logistics associated with inventory
- Financing is secured by title to inventory. Bank essentially takes Enron credit risk on commodity price decline
Confidential Treatment Requested

May 22, 2002

By Hand

Robert L. Roach, Esq.
Counsel and Chief Investigator,
U.S. Senate Permanent Subcommittee on Investigations,
199 Russell Senate Office Building,
Washington, D.C. 20510.

Re: Barclays Capital (Subpoena E02408)

Dear Bob:

On behalf of Barclays Capital, I attach a list of transactions involving Barclays Capital and Enron Corp. and its affiliates ("Enron") in response to the subpoena of the Subcommittee on Investigations served on Barclays Capital on April 11, 2002 (the "Subpoena"). Pursuant to our discussions, this will confirm that Barclays Capital will submit additional material in response to the Subpoena on a rolling basis only if the Subcommittee determines that it requires any of the underlying documents upon review of the list of transactions.

Also pursuant to our discussions, I enclose on behalf of Barclays Capital certain additional documents in response to the Subpoena. These documents bear control numbers BAR 003631-003517 and include the following:

1. documents and account statements in response to subpoena request number 1 relating to the accounts of Big River Funding LLC
Robert L. Roach, Esq.

(account numbers 050-79387 and 050-79388) and Little River Funding LLC (account numbers 050-79389 and 050-79390) (see BAR 003631-003956). Other than the Maples & Calder accounts discussed below, Big River Funding LLC and Little River Funding LLC are the only entities listed in Subpoena request number 1 for which Barclays Capital has been able to identify bank accounts with Barclays Capital;

2. wire transfer summaries taken from searches of Barclays Capital’s systems for those entities listed in (a) through (bb) of request number 1 (see BAR 5019-5031, 5205-5317). These summaries list transfers involving entities that had no accounts with Barclays Capital (e.g., Chewco Investments LP, SUNB #1 LLC, Michael Hinds, Enron Capital Management LP, JEDI LP, and JEDI SPV 1) because the searches captured any transfers that passed through Barclays Capital’s systems without regard to whether the named entity maintained an account with Barclays Capital;

3. documents relating to the September 2001 swap transaction involving Barclays, Enron and Credit Suisse First Boston (see BAR 005032-005204); and

4. certain additional documents relating to the “Chewco” transaction (see BAR 003957-005018) to supplement Barclays Capital’s initial production of April 22, 2002.

I would like to discuss with you the Subpoena’s request for documents relating to financial accounts at Barclays Capital in the name of Maples & Calder (request number 1(co)), as it appears that this request would capture numerous documents entirely unrelated to Enron. Additionally, once you have had a chance to review the enclosed materials, I would like to confirm with you that Barclays Capital has produced all documents of interest to the Subcommittee at this time. Please call me at your earliest convenience.
The attached transaction list and the documents provided with this letter in response to the Subpoena are confidential and/or commercially sensitive, and contain proprietary business information, confidential financial information and trade secrets. We therefore request that this letter, the attached transaction list and the enclosed documents and the information contained therein be maintained in the strictest confidence, and accorded the full protection provided by the Senate’s Standing Rules, the Committee’s rules and all other applicable rules and regulations.

Very truly yours,

[Signature]

Daryl A. Libow

(Enclosures)

cc: Guy Dempsey, Esq.
(Barclays Capital)
Euron Transaction List¹

A. Barclays as Lead Bank, Agent or Sole Lender

1. Uncommitted Credit Facility – Enron Corp. as borrower. In effect since 1997, evidenced by Promissory Note. $15m outstanding as at December 2, 2001. Barclays as sole lender.

2. Besson Trust – $80m. Entered into September 2001. Senior tranche of $72m is guaranteed by Enron Corp. via a total return swap. $8m of subordinated obligations. Funded the Trust’s acquisition, from an Enron affiliate, of an economic interest in a 38% limited partnership interest in EOTT, a crude oil gathering and trading MLP (publicly traded on NYSE). EOTT’s general partner is Enron. Original maturity September 26, 2003. Barclays as Agent; entire senior tranche held by Barclays; subordinated obligations held by CSPB, but risk transferred to Barclays via total return swap.

3. Euron Europe Limited; Bond, Guarantee and Indemnity Facility – Uncommitted limit of $7m. To support obligations owing to UK customs, others. Barclays as sole lender.

4. Contractual Asset Securitization Trust V (“Cash V”) – Loan to the Trust monetized electricity capacity payments from VEPCO, a regulated utility. Barclays as Agent for syndicate of Lenders. Closed June 30, 1997 with a total financing of $130.9m. Original maturity February 2007. $68.3m outstanding, Barclays’ share $27m. Structure included an interest rate swap between Barclays and the Trust.


6. Chewco Bridge Financing – Barclays financed 50% of $383m credit facility to Chewco Investments L.P. to effect the buy-out of Calpers one-half interest in JEDI; guaranteed by Enron Corp. Closed November 1997 and repaid December 1997. Barclays and Chase as co-arrangers.


8. A. Term Loan Facility to JEDI – $205m five-year amortizing loan facility; Barclays’ share $75m. Barclays as Administrative Agent and co-arranger with CSPB. Closed

¹ Barclays has attempted to identify and include in this list all relevant financings and other transactions since 1997. While this list includes structured transactions and other transactions Barclays believes may be of interest to the Subcommittee (including swaps and other transactions that had the effect of providing financing to Enron), it does not include routine swaps, options and FX and commodity trades, which number in the thousands.

B. Revolving Credit to JEDI – $120m margin loan secured by equity investments in 8 publicly traded companies. Barclays as Agent for syndicate of lenders. Closed November 1998 and repaid over time with final repayment in March 2001.

C. JEDI SPV 1, LLC $225m Private Placement – JEDI formed JEDI SPV 1, LLC in October 1998, whose sole assets were (i) Enron shares and (ii) a put on the shares to Enron at $34 1/16. In March 1999, JEDI SPV 1, LLC issued privately placed notes against the value of the assets. Barclays as sole Placement Agent. Repaid December 1999.

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13. Teesside Power Ltd. (“TPL”) – December 19, 1996 refinancing. Barclays co-lead arranger and agent of a £755.5m refinancing of this UK power project. Syndicated in June 1997. Barclays’ share is £15.5m with a series of interest rate swaps running off by April 1, 2008. Loan matures April 1, 2008, although a refinancing is expected in the next few weeks that would relax the amortization schedule but not the final maturity date. Enron Corp. indirectly own 42.5% of TPL. Current total loan outstanding are £656.7m

14. Enron Funding Corp. (“EFC”) – Barclays as Agent for $355m syndicated revolving credit facility, providing liquidity to backstop commercial paper issuance by EFC. The facility was credit enhanced by a $355m insurance policy provided by Winterthur International U.K. Ltd. Transaction closed December 31, 1999. Full reimbursement of outstanding amount (approximately $58m) received from Winterthur on December 26, 2001.
15. **Meter Acquisition LP – Credit Agreement dated September 1999.** Barclays, as Agent, for this syndicated $45m bank financing. Barclays’ share $15m. The financing served to monetize the fixed portion of a service contract between Houston Pipeline (100% owned sub of Enron) and Hanover Measurement Services – a joint venture between Enron and Hanover Compressor. Repaid May 24, 2001.

16. **Blackbird Trust – Loan to an Enron SPV (“Blackbird 1 Interest Owner Trust”),** guaranteed by Enron Corp. $73.5m funding used to monetize a contract between Enron Energy Services Operations, Inc. and Computer Sciences Corporation, an unrelated third party. Barclays as sole lender. Originated December 1999. Prepaid April 2000.

17. **Enron Europe Power 3 Ltd (“EEP3”) –** Barclays served as Agent for a £160m syndicated loan guaranteed by Enron Corp, executed Jan. 15, 1999. This loan refinanced an existing maturing loan. The intention was that £110m should be a bridge to a longer term unsecured bond financing. £110m was repaid with the proceeds of a private placement of notes in July 1999 (see #18 below). The remaining £50m was scheduled for payment in 2002 and remains outstanding.

18. **Enron Europe Power 3 Ltd – Private Placement of Notes (3 tranches: £55m 9.84% Secured Notes due 2008, $101.8m 9.86% Secured Notes due 2008 and $19.3m Floating Rate Notes due 2008) completed July 19, 1999.** The Notes were to be repaid out of EEP3’s share of the dividend stream from its ownership interest in Teenside Power Ltd. Barclays acted as placement agent.

19. **Spokane Energy $155m Senior Notes due 2015 –** Barclays led private placement closed December 31, 1998. Monetization of an 18-year power contract between Portland General Electric (“PGE”), a UK regulated utility subsidiary of Enron, and Washington Water Power. The structure provided for the assignment of the power contract to Spokane Energy, a newly formed entity established to issue the notes. To remove commodity price risk from the transaction, Spokane entered into a second power purchase agreement with Enron Power Marketing (“EPM”), which mirrored the obligations undertaken by Spokane. Note holders were insulated from risks other than those associated with EPM performance risk and PGE payment risk.


21. **Wessex Water Bonds –** March 1999. Barclays and HSBC were joint bookrunners on an offering of £300m, 10 year bonds issued by Wessex Water.

23. *Sox – Monetization by Enron North America ("ENA") of its inventory of US sulfur
dioxide pollution emission permits ("SOX") issued by the United States Environmental
Protection Agency ("EPA"). The initial transaction took place in September 2001
($138m) and was renewed in October 2001 ($170m). Under each transaction, Colonnade
Limited (a Guernsey SPV) received from ENA, in exchange for the purchase price, title
to all of the SOX and was registered as owner in the books of EPA. To enable Colonnade
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the SOX. Herzelere LLC (an affiliate of ENA) purchased an American style call option in
respect of the SOX from Colonnade. In addition, in respect of the second transaction,
Colonnade paid a premium to purchase put options in respect of the SOX from Grampion
(an affiliate of ENA). In each case, the strike prices of the options were to be at
prevailing market rates at the time of exercise. The risk of any adverse price movements
as well as the benefit of any up-turn was borne by ENA through a series of swap
agreements. Enron Corp. guaranteed the obligations of the other companies in the Enron
group and provided cash collateral ($59.5 million) in relation to Barclays' exposures to
the Enron group (including in respect of the SOX transactions).

24. JGB/LAB Trust – Barclays, as Agent, for $92,517,750, two-year credit facility to
monetize Enron's shareholding in Catalyticca and Avici Corporation through loans to two
trusts (JGB Trust with respect to Catalyticca shares and LAB Trust with respect to Avici
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notes and certificates structure, incorporating a total return swap between Enron N. A.
and the Trusts. The $52.2m LAB Trust tranche prepaid in full March 2001. Remaining
loans repaid in full October 2001.

linked multiple monetization facilities ($750m LME warrants; $1bn physical metals) for
utilization by either Enron Metals Limited or Enron Metal and Commodities Limited.
The warrants facility was put in place in September, 2000 for a term of 12 months and
was renewed for a further 3 months in 2001. The physical metals facility was put in place
in November 2000 for 12 months with an option for Enron to extend for a further 6
months. The warrants facility could be increased with an offsetting decrease in the
physical facility but not *vice versa*. When the facilities were utilized, Barclays received,
in exchange for the purchase price, title to either the warrants or to the physical metals
and granted options to Enron to repurchase equivalent commodities. Barclays hedged the
price risk on the London Metals Exchange. The utilization at December 2, 2001 was
$850m on the physical metals facility and $896m on the warrants facility.

26. Cocoa Facilities – Single monetization facility (£40m) for utilization by Enron Metals
Limited. The transaction took place in December 2000 and had a term of 2 months.
Under the facility, Barclays received, in exchange for the purchase price, title to cocoa in
LIFFE designated warehouses from Enron. Barclays granted Enron a call option
exercisable at the end of the term.

27. Enron Metals Ltd. Loan – Barclays had $149.5m in unsecured loans outstanding to MG
PLC at the time MG PLC was acquired by Enron in October 2000. MG PLC was
renamed Enron Metals Ltd. Loans were repaid December 2000.
28. Yosemite Bridge (Crude Oil) Swap – $110m (£66m) crude oil swap entered in December 1999 for 90 days, subsequently extended an additional 31 days. Barclays paid cash to Enron N.A. upfront in settlement of the fixed leg and received the value of the floating leg at maturity. The oil market risk was sold by Barclays to Toronto Dominion in a swap with fixed and floating cashflows both at maturity at a price that was related to the Enron price but reflected the impact of the different fixed cashflow date. This transaction along with similar transactions by Enron with Royal Bank of Canada and Salomon Smith Barney comprised the bridge financing associated with the Sterling bond issue described in #43 below.

B. Barclays as participant (or swap counterparty) in facilities led or arranged by other banks

29. 5-year Revolving Credit Facility – $1.25b syndicated facility. Original maturity May 18, 2005. Administrative agents are JPM/Chase and Citibank. Barclays is a participant.

30. 364-day Revolving Credit Facility – $1.75b syndicated credit facility. Original maturity May 13, 2002. Administrative agents are JPM/Chase and Citibank. Barclays is a participant.

31. 5-year Letter of Credit Facility – $500m syndicated facility. Original maturity May 13, 2005. Administrative agents are JPM/Chase and Citibank. Barclays is a participant.


33. Brazil Power Development Trust – $460.75m syndicated loan, guaranteed by Enron Corp., entered into December 2000 to fund construction of Brazilian power projects. Original maturity August 31, 2002. Secured by the project’s assets, which include several natural gas turbines being constructed. West LB as Lead Arranger and Administrative Agent. Barclays as participant with a $19m share of commitments ($14m outstanding).


35. Rawhide Investors L.L.C. – $890m syndicated loan. Loan is to Rawhide, an investor in an Enron subsidiary that owns project assets in the US, Argentina, and Brazil. Original maturity March 28, 2002. Citicorp as Agent. Barclays as participant with a $35m share.

36. Brazos VFP Trust – $250m syndicated finance facility. Facility enabled an SPV (Brazos VFP Limited Partnership) to purchase oil and gas volumetric production payments (VPP’s) from third parties. Original maturity December 31, 2005. Secured by VPP’s.
Bank of America as Agent. Barclays as participant with $12m share of commitments.

37. JEDI SPV, L.L.C. $513m Term Loan – 364-day syndicated credit facility supported by approximately 12m shares of Enron stock valued at the face amount of the loan via a share-settled swap between the SPV and Enron Corp. Chase as Agent and Arranger. Entered into December 1999. Maturity extended to June, 2001. Barclays served as one of four underwriters (Chase, Lehman, CSFB) initially funding $128.375m each. After bank syndication Barclays' share as participant was reduced to $38.875m.

38. JEDI II Bridge Loan – $500m. Chase as Agent for a six-month loan. JEDI II is a joint venture which included Enron subsidiaries as the 1% General Partner and a 49% Limited Partner, and CALPERS as a 50% Limited Partner. Entered into December 1997. Barclays and Chase committed $100m each and four other banks committed $75m each. Repaid through financing referenced in #39 below.


41. Delta Energy Corporation Commodity Swaps – Entered into December 31, 1998. Delta, an SPV, borrowed $500m from a Citibank conduit and used the proceeds to purchase and prepay for $300m worth of natural gas and $200m of crude oil at an agreed price. Barclays entered into offsetting energy swaps with Delta and an Enron subsidiary (Enron Capital and Trade Resources). The structure unwound November 17, 1999.

42. Commodity Swap – Executed September 27, 2001. Barclays served as a swap counterparty to both Enron North America and CSFB for the energy price component of a $300m commodity linked financing (crude oil prepay) provided to Enron by CSFB.

November 21, 2002

By Hand

Robert L. Roach, Esq.,
Counsel and Chief Investigator,
U.S. Senate Permanent Subcommittee on Investigations,
199 Russell Senate Office Building,
Washington, D.C. 20510.

Re: Barclays Capital (Subpoena F02498)

Dear Bob:

On behalf of Barclays Capital, I enclose a chart listing the fees, commissions, interest or profit earned or losses incurred with respect to each transaction involving Barclays Capital and Enron Corp. or its affiliates and a revised list of those transactions pursuant to our recent discussions and in further response to the subpoenas of the Subcommittee on Investigations dated April 11, 2002. As you know, on May 22, 2002, Barclays Capital produced to the Subcommittee an initial list of its transactions involving Enron-related entities.

The chart lists interest figures on a “net” basis, which is how interest income is listed in the records of Barclays Capital. Net interest is calculated on the margin above the London Interbank Offered Rate (LIBOR) (or similar benchmark) or the cost of funds and is, thus, “net” of the cost of capital. (Because certain loans became non-performing in 2001, certain transactions show a negative net interest amount for this
year.) The enclosed transaction list and fee chart includes six transactions (transactions 29-33 and 49) inadvertently omitted from Barclays’ May 22 transaction list. (These six transactions are comprised of one securitization transaction dating back to 1994 (transaction 29), three project finance transactions, two of which date back to 1994 or earlier (transactions 30, 32 and 33) and two credit facilities relating to JEDI that were repaid in 1997 or 1998 (transactions 31 and 49).) The chart lists interest, fees and other income earned based on the best information Barclays has been able to identify to date in its systems and records. The compilation of this information required Barclays to retrieve and assemble data from multiple systems and records in both London and New York. If and as additional information becomes available, Barclays will supplement the data provided to the Subcommittee on the enclosed chart.

The enclosed chart, transaction list and this letter provided in response to the Subpoena are confidential and/or commercially sensitive, and contain proprietary business information, confidential financial information and trade secrets. We therefore request that this letter, the enclosed chart, transaction list and the information contained therein be maintained in the strictest confidence, and accorded the full protection provided by the Senate’s Standing Rules, the Committee’s rules and all other applicable rules and regulations.

Very truly yours,

(Handwritten signature)

(Enclosures)

cc: Guy Dempsey, Esq.
(Bankers Capital)
2035

Confidential Treatment Requested

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<tr>
<th>Key</th>
<th>Renown Trainables List Names</th>
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<td>Besson Trust</td>
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<td>Enron Europe Ltd. Bond, Guarantee and Indemnity Facility</td>
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<td>5-year Revolving Credit Facility</td>
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<td>364-day Revolving Credit Facility</td>
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<td>5-year Letter of Credit Facility</td>
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<td>Ponderosa Pine Energy L.L.C.</td>
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<td>JT Holdings Lease</td>
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<td>Brazos VPP Trust</td>
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<td>48</td>
<td>Yosemite Securities Company Ltd.</td>
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23. **SOX** – Monetization by Enron North America (“ENA”) of its inventory of US sulfur dioxide pollution emission permits (“SOX”) issued by the United States Environmental Protection Agency (“EPA”). The initial transaction took place in September 2001 ($138m) and was renewed in October 2001 ($170m). Under each transaction, Colonnade Limited (a Guernsey SPV) received from ENA, in exchange for the purchase price, title to all of the SOX and was registered as owner in the books of EPA. To enable Colonnade to complete its purchase, Barclays made limited recourse loans to Colonnade (in each case equal to the purchase price) secured against all of Colonnade’s assets, including the SOX. Hereoerda LLC (an affiliate of ENA) purchased an American style call option in respect of the SOX from Colonnade. In addition, in respect of the second transaction, Colonnade paid a premium to purchase put options in respect of the SOX from Crampton (an affiliate of ENA). In each case, the strike prices of the options were to be at prevailing market rates at the time of exercise. The risk of any adverse price movements as well as the benefit of any up-turn was borne by ENA through a series of swap agreements. Enron Corp. guaranteed the obligations of the other companies in the Enron group and provided cash collateral ($59.5 million) in relation to Barclays’ exposures to the Enron group (including in respect of the SOX transactions).

24. **JGB/LAB Trust** – Barclays, as Agent, for $92,517,750, two-year credit facility to monetize Enron’s shareholding in Catalytic and Avici Corporation through loans to two trusts (JGB Trust with respect to Catalytic shares and LAB Trust with respect to Avici shares). Credit Agreement entered into December 7, 2000. The financing involved a notes and certificates structure, incorporating a total return swap between Enron N.A. and the Trusts. The $52.2m LAB Trust tranche prepaid in full March 2001. Remaining loans repaid in full October 2001.

25. **London Metals Exchange (LME) Warrant Facility and Physical Metals Facility** – Two linked multiple monetization facilities ($750m LME warrants; $1bn physical metals) for utilization by either Enron Metals Limited or Enron Metal and Commodities Limited. The warrants facility was put in place in September, 2000 for a term of 12 months and was renewed for a further 3 months in 2001. The physical metals facility was put in place in November 2000 for 12 months with an option for Enron to extend for a further 6 months. The warrants facility could be increased with an offsetting decrease in the physical facility but not vice versa. When the facilities were utilized, Barclays received, in exchange for the purchase price, title to either the warrants or to the physical metals and granted options to Enron to repurchase equivalent commodities. Barclays hedged the price risk on the London Metals Exchange. The utilization at December 2, 2001 was $830m on the physical metals facility and $896m on the warrants facility.

26. **Cocoa Facilities** – Single monetization facility (€40m) for utilization by Enron Metals Limited. The transaction took place in December 2000 and had a term of 2 months. Under the facility, Barclays received, in exchange for the purchase price, title to cocoa in LFFE designated warehouses from Enron. Barclays granted Enron a call option exercisable at the end of the term.
27. Enron Metals Ltd. Loan – Barclays had $149.5m in unsecured loans outstanding to MG PLC at the time MG PLC was acquired by Enron in October 2000. MG PLC was renamed Enron Metals Ltd. Loans were repaid December 2000.

28. Yosemite Bridge (Crude Oil) Swap – $110m (£66m) crude oil swap entered in December 1999 for 90 days, subsequently extended an additional 31 days. Barclays paid cash to Enron N.A. upfront in settlement of the fixed leg and received the value of the floating leg at maturity. The oil market risk was sold by Barclays to Toronto Dominion in a swap with fixed and floating cashflows both at maturity at a price that was related to the Enron price but reflected the impact of the different fixed cashflow date. This transaction along with similar transactions by Enron with Royal Bank of Scotland and Salomon Smith Barney comprised the bridge financing associated with the Sterling bond issue described in #48 below.

29. Project Cactus – In 1994, Sheffield Receivables Corp., a securitization conduit sponsored by Barclays, entered into a $400m facility to purchase from Cactus Hydrocarbon III Production Payment Trust certificates representing interests in a limited partnership that owned oil and gas production payments. Enron’s relationships with Cactus and the limited partnership included an Enron subsidiary acting as general partner of the limited partnership, various Enron subsidiaries being obligated to purchase the hydrocarbons and Enron Funding Corp. entering into a commodity swap with Cactus. Sheffield funded its certificate purchases through issuances of commercial paper. Barclays arranged and agented a syndicated liquidity facility ($412 million) to support Sheffield’s payment obligations on the commercial paper. These arrangements were extended through 1999.

30. Clear Lake Cogeneration LP – Barclays, as Agent, for $115 million term loan facility and $10 million revolving credit facility for Clear Lake Cogen, which was wholly-owned by Enron. These were limited recourse facilities secured by liens on project contracts and assets. The facilities were established in 1994 with original maturity in 2003. The loans were repaid in 1997.

31. JLP Investment LP Trust – Barclays, as Agent, for $29.1 million seven-year syndicated credit facility and as purchaser of $900,000 of trust certificates. Transaction entered into in September 1995 to monetize the forecast dividend stream payable to Enron by JEDI. Prepaid in 1997.

32. Lost Creek Gathering Company LLC – Barclays, as Agent, for $66 million senior secured credit facility established in September 1999 to fund the construction of the Wind River pipeline. During construction the credit facility was several guaranteed by the project sponsors in proportion to their respective ownership stakes: 65% for Burlington Resources Inc. and 35% for Enron Corp. Upon completion of the project (and the resulting termination of the sponsor guarantees), Enron sold 1 ownership stake in the project to Northern Border Pipeline on October 5, 2001.

33. Richmond Power Marketing Inc. – Barclays, as Agent, for non-recourse project finance facility established in late 1990’s relating to a power plant subsequently purchased by Enron in 1995. Enron sold the plant to VEPCO in 1997 and, at that time, the facility was repaid with proceeds from the Cash V facility described in #4 above.
B. Barclays as participant (or swap counterparty) in facilities led or arranged by other banks

34. 5-year Revolving Credit Facility – $1.25b syndicated facility. Original maturity May 18, 2005. Administrative agents are JPM/Chase and Citibank. Barclays is a participant.

35. 364-day Revolving Credit Facility – $1.75b syndicated credit facility. Original maturity May 13, 2002. Administrative agents are JPM/Chase and Citibank. Barclays is a participant.

36. 5-year Letter of Credit Facility – $500m syndicated facility. Original maturity May 13, 2005. Administrative agents are JPM/Chase and Citibank. Barclays is a participant.


38. Brazil Power Development Trust – $460.75m syndicated loan, guaranteed by Enron Corp., entered into December 2000 to fund construction of Brazilian power project. Original maturity August 31, 2002. Secured by the project’s assets, which include several natural gas turbines being constructed. West LB as Lead Arranger and Administrative Agent. Barclays as participant with a $19 m share of commitments ($14m outstanding).


40. Rawhide Investors L.L.C. – $699m syndicated loan. Loan is to Rawhide, an investor in an Enron subsidiary that owns project assets in the US, Argentina and Brazil. Original maturity March 28, 2002. Citicorp as Agent. Barclays as participant with a $35m share.

41. Brazos VPP Trust – $250m syndicated finance facility. Facility enabled an SPV (Brazos VPP Limited Partnership) to purchase oil and gas volumetric production payments (VPP’s) from third parties. Original maturity December 31, 2005. Secured by VPP’s. Bank of America as Agent. Barclays as participant with $12m share of commitments.

42. JEDI SPV1, L.L.C. – $13m Term Loan – 364-day syndicated credit facility supported by approximately 12m shares of Enron stock valued at the face amount of the loan via a share-settled swap between the SPV and Enron Corp. Chase as Agent and Arranger. Entered into December 1999. Maturity extended to June, 2001. Barclays served as one of four underwriters (Chase, Lehman, CSFB) initially funding $128.375 m each. After bank syndication Barclays’ share as participant was reduced to $38.875 m.
2042

Confidential Treatment Requested

43. **JEDI II Bridge Loan** – $500m. Chase as Agent for a six-month loan. JEDI II is a joint venture which included Enron subsidiaries as the 1% General Partner and a 49% Limited Partner, and CALPERS as a 50% limited Partner. Entered into December 1997. Barclays and Chase committed $100m each and four other banks committed $75m each. Repaid through financing referenced in #44 below.


46. **Delta Energy Corporation Commodity Swaps** – Entered into December 31, 1998. Delta, an SPV, borrowed $500m from a Citibank conduit and used the proceeds to purchase and prepay for $300m worth of natural gas and $200m of crude oil at an agreed price. Barclays entered into offsetting energy swaps with Delta and an Enron subsidiary (Enron Capital and Trade Resources). The structure unwound November 17, 1999.

47. **Commodity Swap** – executed September 27, 2001. Barclays served as a swap counterparty to both Enron North America and CSFB for the energy price component of a $300m commodity-linked financing (crude oil prepay) provided to Enron by CSFB.


Enron’s Enablers

The muck generated by Enron continues to spread, and last week it embraced two of the world’s biggest financial institutions—J.P. Morgan Chase and Citigroup. We’re not the type to easily bash business. But from the evidence we’ve looked at, these banks deserve the heat they’re now getting.

This unsavory business involved “structured finance” deals that helped Enron hide some of its debt. Structured financings are transactions backed by bonds or loans called collateralized debt obligations. They are always fiendishly complicated and involve off-shore—and off-balance sheet—special-purpose entities. In the Enron arrangements, the instruments of choice were contracts for the future delivery of oil or gas for which Enron received its payment in advance of delivery.

These deals are now being investigated for criminal and civil liability by the Securities and Exchange Commission, Manhattan District Attorney Robert Morgenthau, the Federal Reserve Bank of New York and the Justice Department. But we did get a glimpse of what looks like financial fraud in congressional hearings last week. The outline that emerged from the Senate seems to show that Citigroup and Morgan were energetically helping Enron disguise reality from investors.

About a decade ago, Chase Manhattan Bank (now merged with J.P. Morgan) set up a special-purpose entity named Mahonia. Its very special purpose was to reduce Enron’s taxes. By trading prepaid oil and gas contracts with Mahonia, Enron was able to transfer tax liabilities from one period to another.

As the years rolled by, the cash-up-front property of the contracts proved irresistible and Enron increasingly tapped Mahonia as a source of financing. The money flowed back and forth, the size of the transactions grew bigger and bigger and the repayment periods got longer and longer. Enron booked the money as cash from trading operations, thereby pumping up its cash flow and obscuring the size of its debt. Meanwhile, Morgan hedged its risk with credit derivatives and surety bonds from insurance companies.

Citigroup’s structured financing was similar. The bank set up schemes—with names like Yosemite, Delta and Roosevelt—designed to make the financing of Enron look like trading activity. Money was raised from investors through the sale of credit-linked notes. Then Citigroup shipped that money to off-shore special-purpose entities, which, in turn, sent the money back to Enron, allowing Enron to borrow money but record the loans as prepay contracts.

The result of this daisy chain was that Enron got almost $8 billion that may have overstated its cash flow by 20%. That money also decreased Enron’s debt by 40%, allowing it to avoid nasty credit downgrades. Meanwhile, a few, the banks made hundreds of million of dollars in fees and commissions.

Then there are the broader malign effects. These financings and their accounting were cleverly crafted to fool other big-time investors in the structured deals themselves, insurance companies and Enron investors. Since the banks sold this type of financing to other energy companies, those investors were hoodwinked too. And don’t forget the banks’ own shareholders. As the details of their Enron deals have become known, investors in Citigroup and Morgan have watched their stock sink like a stone.

At the Senate hearings, Citigroup and Morgan defended themselves by arguing that it is up to their clients to properly account for, and disclose, these deals. This is not ethically reassuring. It sounds like the getaway car driver denying knowledge of what was going on inside the bank.

But the big loser in all this was the efficiency of financial markets. Good markets depend on transparency—investors need to have a grip on reality for capital to flow to its best uses. These structured financings were opaque in the extreme. Even if they were technically legal, they were in substance designed to mislead. What’s legal isn’t always ethical.

Citigroup CEO Sandy Weill all but admits this when he says that he wishes he never heard of Enron, and that while the practice was legal and standard, Cit won’t do it again. While they await the legal consequences, the CEOs of Citigroup and Morgan could start to reclaim the reputations of their institutions by showing they can clean out their own stables without government order.
August 15, 2002

Mary D. Robertson
Chief Clerk
Permanent Subcommittee on Investigations
8617 Groveland Drive
Springfield, VA 22153

Re: Transcript of Testimony of Moody's Investors Service

Dear Ms. Robertson:

Enclosed please find corrections made by John C. Diaz and Pamela M. Stumpp to the transcript of their testimony before a hearing of the Permanent Subcommittee on Investigations on July 23, 2002. Mr. Diaz and Ms. Stumpp testified on behalf of Moody's Investors Service at the hearing, which focused on the role of financial institutions in the collapse of Enron Corp. ("Enron").

Moody's would also like to provide additional clarification to a portion of its testimony, referenced on pages 112 to 114 of the enclosed transcripts. In a colloquy between Senator Fitzgerald and the panelists, Senator Fitzgerald referenced a conversation between Robert Rubin of Citibank and Peter Fisher, the Undersecretary of the Treasury for Domestic Financial Markets, regarding Enron and the credit rating agencies. Senator Fitzgerald indicated that Mr. Rubin had called Undersecretary Fisher to ask whether a Treasury official would "ask credit rating agencies to give Enron a break," and that Undersecretary Fisher declined to do so. Senator Fitzgerald then asked questions of the rating agency representatives on the panel, regarding whether anyone from Citibank or "any banks" called the rating agencies to "lobby you to give Enron a break."

In formulating her initial response to these questions, Ms. Stumpp mistakenly believed that Senator Fitzgerald was asking whether anyone from the government had contacted Moody's in order to lobby on behalf of Enron. As Moody's received no such contacts from any government officials, Ms. Stumpp at first replied "No." Moody's did, however, receive some phone calls from investment bankers in November 2001 regarding Enron and a proposed merger between Enron and Dynegy, Inc. ("Dynegy"). Although Ms. Stumpp believes that these bankers did not call to "lobby" on behalf of Enron, had she fully understood Senator Fitzgerald's questions, she would have augmented her answer to indicate that Moody's had received these calls.
As the line of questioning continued, Mr. Diaz and Ms. Stumpf did in fact amplify their answer in that regard. Mr. Diaz referenced his previous testimony before the Committee on Governmental Affairs, in which he discussed these contacts from investment bankers regarding Enron and the Dynegy merger deal. Ms. Stumpf then also provided additional detail regarding a meeting that Moody's had with investment bankers regarding the potential merger. However, to ensure that the Subcommittee has the most complete record possible, Moody's wanted to provide this additional clarification to the Subcommittee.

Moody's again wishes to thank the Subcommittee staff for their assistance in this matter. Please do not hesitate to contact me if you have any additional questions.

Sincerely,

Lanny A. Breuer

Enclosures

cc: Linda J. Gustitus, Chief Counsel/Staff Director, Permanent Subcommittee on Investigations
    Robert L. Roach, Counsel & Chief Investigator, Permanent Subcommittee on Investigations
WHAT MERRILL KNEW

"Enron believes they can structure anything to be off-balance sheet."
—Merrill Lynch internal email, May 19, 2000, Bates MS 19571

"[T]hey [LJM] do a bunch of balance sheet deals similar to your barge deal . . . ."
—Merrill Lynch internal email, April 12, 2001, Bates MS 21257

"Merrill Lynch received a request from Enron that Merrill Lynch provide a $25 million [loan] . . . . such [loan] would not be drawn. . . . The loan commitment is required by Enron’s accountants to insure that the structure receives off-balance sheet treatment."
—Merrill Lynch Interoffice Memorandum, December 10, 1998, Bates MS 06910

Prepared by U.S. Senate Permanent Subcommittee on Investigations, July 2002
NIGERIAN BARGE CHRONOLOGY

**June 1999**

Enron purchases 9 power barges for $56.5 million from the government of Philippines. Each of these barges operates as a floating electricity generator. Three of the nine barges are located in Nigeria. Enron contributes the Nigerian barges to a company it has created, Enron Nigeria Barge Limited (ENBL), in exchange for 100% of the company's stock, consisting of Preferred A, Preferred B and Common shares.

**Mid to Late-December 1999**

Enron, through Jeff McMahon, asks Merrill to invest in the Nigerian barges so that Enron's African division can book a $12 million gain on the transaction and make its earnings target. In the course of negotiations, Merrill agrees to invest based upon Enron guarantees that it will arrange for the resale of Merrill's interest in the barges at a profit within six months time, i.e., by June 30, 2000. Merrill also asks Enron to guarantee it a specified rate of return on its investment. Enron ultimately agrees to provide Merrill with a $250,000 upfront fee and assure it receives a 15% per annum rate of return.

**Late December 1999**

Merrill insists that the guarantee conveyed by McMahon be confirmed by Enron's chief financial officer Andrew Fastow. In a conference call between Enron and Merrill, Mr. Fastow confirms that Enron will ensure that Merrill will not own an interest in the barges in six months time and that Merrill will be "taken out" of the barge investment by June 30, 2000. In interviews with the Subcommittee staff, Merrill indicated it would not have proceeded with the transaction but for the representations made by Enron that it would be taken out within six months. Merrill also indicated it was aware that Enron was treating this transaction as a sale.

**December 29, 1999**

To complete the transaction, Merrill establishes a wholly owned corporation called Ebarge, LLC, which it later re-domiciles in the Cayman Islands. On December 29, 1999, just before the end of the fourth quarter, Ebarge purchases an interest in the Nigerian barges for $28 million. Specifically, Ebarge pays ENBL, the Enron entity that owns the three Nigerian power barges, $28 million by making a $7 million cash investment and entering into a $21 million loan financed by another Enron-related entity, Enron Nigeria Power Holding, Ltd. In exchange, Ebarge receives ENBL’s Preferred A and Common Shares. Shortly thereafter, Merrill also receives the agreed-upon $250,000 fee from Enron. Enron's guarantee to arrange for the resale of Merrill's interest in the barges by June 30, 2000, with a 15% return on its investment appears in an early version of the transaction documents, but not in the final written agreement. One Merrill employee told the Subcommittee staff that Enron informed Merrill that the assurances could not be put into writing.
June 13, 2000

Over the course of the following 6 months, Merrill reminds Enron on multiple occasions of its promise to arrange for the resale of Merrill’s interest in the barges. A June 13, 2000 email from one Merrill employee to another asks: “As we approach June 30, 2000 I am getting questions concerning Ebarge, LLC. It was our understanding that [Merrill] would be repaid its equity investment as well as a return on its equity by this date. Is this on schedule to occur?”

June 14, 2000

A Merrill employee drafts a letter to Enron reminding it of its obligation to arrange for the resale of Merrill’s interest by a date certain with an agreed upon profit: “Enron has agreed to purchase the shares from Ebarge by June 30, 2000 for a purchase price . . . of $7,510,976.65.”

Later the same day, Dan Boyle of Enron informs Merrill that “Enron has lined up a new buyer” – LJM2, a Fastow-run partnership – to purchase Merrill’s interest in the barges. A June 14 email by a Merrill employee notes that the conversation with Boyle “pre-empted our letter” and that the “new buyer will purchase our ownership interest in the Ebarge for the agreed upon amount.”

June 29, 2000

On June 29, 2000, LJM2 purchases Merrill’s interest in Ebarge for $7.525 million, which is equal to the agreed-upon 15% rate of return, and assumes the $21 million loan. Merrill’s total profit from the transaction is $775,000 ($7.525 million + $250,000 fee - $7 million initial layout). Notwithstanding loan documents which seem to require Ebarge to pay interest on the loan, Ebarge apparently did not pay any interest, maintaining that Enron was obligated to pay those sums. The evidence indicates that Enron may have also guaranteed LJM2 that it would receive a fee and specified rate of return on its “investment” in the barges.

An internal LJM2 document describing the transaction, prepared by an employee who works for both Enron and LJM2, explains why LJM2 purchased Merrill’s interest in the barges: “Enron sold the barges to Merrill Lynch (ML) in December of 1999, promising that Merrill would be taken out by sale to another investor in June, 2000. The project could not be sold by June, so without LJM2’s purchase Enron would have had to strain the LM/Enron relationship or repurchase the assets and reverse earnings and funds flow on the original transaction.”

September 2000

As part of a larger transaction involving both Enron and LJM2, AES Corporation purchases LJM2’s interest in Ebarge for $31.2 million. Approximately $23 million is used to pay off the outstanding loan ($21 million initial loan + accrued interest) held by the Enron affiliate. LJM2 apparently received the remaining $8.2 million ($7.525 million return of initial layout + 15% return + 350,000 fee + $25,000 in “expenses”).

Prepared by U.S. Senate Permanent Subcommittee on Investigations, July 2002
Nigerian Barge Transaction

The Favor
Enron asks Merrill to invest $28 million in barges ($7 million of cash) so Enron can book sales income of $12 million in 1999 financial statements.

The Condition
Merrill agrees only if Enron will guarantee a resale of Merrill's interest within 6 months with a $250,000 up-front fee and 15% return on equity.

The Secret Guarantee
Enron and Merrill exclude guarantee from written agreement to maintain accounting deception that a true sale occurred. Enron pays Merrill the $250,000 fee.

The Resale
At six month date, LJM2 buys Merrill's interest for $7.525 million, the agreed-upon amount. Enron and LJM2 sell barges to third party 3 months later.
# NIGERIAN BARGE TRANSACTION

<table>
<thead>
<tr>
<th>ENRON'S GUARANTEE</th>
<th>LJM2'S PURCHASE</th>
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<tbody>
<tr>
<td>Takeout By June 30, 2000</td>
<td>Purchase on June 29, 2000</td>
</tr>
<tr>
<td>Return of Equity</td>
<td>Purchase Price</td>
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<td>$7,000,000</td>
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<tr>
<td>Return on Equity$</td>
<td>Fee (paid by Enron)</td>
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<tr>
<td>$7,525,000</td>
<td>Total to Merrill</td>
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<tr>
<td>Fee (paid by Enron)</td>
<td>Total to Merrill</td>
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<tr>
<td>$250,000</td>
<td>$7,775,000</td>
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1 Assuming 15% interest at 6 months.

Factors Leading to Non-Recognition of Revenue in a Sales Transaction Under Generally Accepted Accounting Principles

Under SEC Staff Accounting Bulletin No. 101 - Relevant factors pointing to non-recognition of revenue in a sales transaction are:

- The seller has significant obligations for future performance to directly bring about resale of the product by the buyer.
- The risks of ownership did not pass from the seller to the buyer.
- The seller provides interest-free or significantly below market financing to the buyer beyond the seller's customary sales terms and until the products are resold.

How Nigerian Barge Deal Failed to Meet Generally Accepted Accounting Principles

- Enron had significant obligations for future performance to directly bring about resale of the Nigerian barges by Ebarge (a Merrill Lynch SPE).
- The risks of ownership did not pass from Enron to EBarge.
- Neither EBarge nor Merrill paid interest on the financing provided by Enron.

MERRILL LYNCH ANALYSTS’ RELATIONSHIP WITH ENRON AND IMPACT ON FEES

July 15, 1997
Merrill Lynch analyst, John Olson, downgrade’s Enron’s equity rating.

April 18, 1998
Memo from Investment Banking Division officials to Merrill Lynch’s President stating that Merrill Lynch was not selected as lead or co-manager of $750 million common stock offering. “...the decision was based solely on the research issue and was intended to send a strong message as to how ‘viscerally’ Enron’s senior management feels about our research effort.” Merrill Lynch’s President was asked to call Ken Lay and Jeff Skilling in an attempt to have Merrill Lynch inserted as a co-manager.

April 28, 1998
Merrill Lynch having been added as a co-manager on the common stock offering begins calling potential investors about this investment. Merrill Lynch provides its calling list to Andy Fastow and Enron’s investor relations group on April 28, 30, and May 4.

August 30, 1998
John Olson leaves Merrill Lynch.

November 16, 1998
New analyst, Donato Easley, upgrades Enron’s equity rating.

January 18, 1999
E-mail from Investment Banking Division to Merrill Lynch’s President with an update on Merrill’s “relationship with Enron since you spoke to their CEO, Ken Lay, last spring regarding our difficult relationship in Research. It is clear that your responsive message was appreciated by the Company, and any animosity in that regard seems to have dissipated in the ensuing months...To that end, we have recently been awarded two significant mandates by Enron...Total fees to Merrill Lynch for these two transactions alone should be $40-50 million.”

Excerpts, lasting approximately 7 minutes, are taken from a videotaped portion of a presentation about LJM2 made by Andrew S. Fastow and Michael J. Kopper of Enron Corporation on or about September 16, 1999, for Merrill Lynch’s Private Equity Group representatives. Location of presentation was Merrill Lynch North Tower Building at 250 Vesey Street, New York City, New York. The complete videotape, about 50 minutes in length (bates stamped MS 21269), was produced by Merrill Lynch in response to a Subcommittee subpoena.
TRANSCRIPT OF EXCERPTS FROM VIDEO TAPE RECORDING

LJM2 PRESENTATION BY
ANDREW S. FASTOW AND MICHAEL J. KOPPER OF ENRON CORP.
BEFORE
MERRILL LYNCH PRIVATE EQUITY GROUP REPRESENTATIVES

On or about September 16, 1999

MR. FASTOW: This is what I'd like to do. I mean, being CFO of Enron is as good a CFO position as anyone could have in America, I think. This is what I want to be my next step. I want to have an investment business, and this is a unique opportunity to set it up with unique access to deals and to develop that track record I need to develop.

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MR. FASTOW: Let me simply say I can do twice better than anyone else since I will have better information than anyone else. [Laughter.]  

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MR. FASTOW: The business units own their assets at Enron, manage their portfolios, manage their risks in their portfolios. Do I know everything that's going on? Do I have to sign off on every deal that goes in there? Yes. So I'm in the unique position of not having the ownership or the responsibility or obligation to sell the assets, but I know everything about them and I've been involved in their approval and maybe in their structuring.

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MERRILL LYNCH PARTICIPANT: Isn't your privileged position of having better information than any other bidder going to deter other bidders which in turn [inaudible] Enron . . .

MR. FASTOW: Really, it isn't. It is in Enron's best interest because Enron needs the capital, number one, okay? They want to expand their business, huge opportunities.

Number two, I'm not going to buy a deal and pay a lower price than someone else would pay in the market. It's that simple. So think about it as no harm, no foul. Even if someone three years from now comes back and says LJM2 -- LJM2 earned a 300 percent IRR; Enron must have sold those deals at the wrong price. It was the best price in the market that they could get. We have competing quotes to validate it. So, again, if I didn't earn 300 percent, someone else would have earned 310 percent.
MERRILL LYNCH PARTICIPANT: Do the other bidders that are out there know that there's an insider there that can [inaudible] have this opportunity? Are they aware that you're there? Or is this sort of like—like going to an auction . . .

MR. FASTOW: It's like an auction. It's . . .

MERRILL LYNCH PARTICIPANT: --where there is a house bid on the inside and you don't know what that house bid is?

MR. FASTOW: That's right.

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MR. FASTOW: The principals have all been involved in virtually all aspects of the fund business. That's a little hard to read, but I think you get the idea. We've been doing this for a while. We've been together as a team for a while. And I think we understand the issues that our investors will have, and the philosophy is generally to address those issues before they become issues. [Chart displayed in background: “Involvement of Principals in Price Funds,” listing Andrew Fastow, Michael Kopper, Ben Gilsan and Anne Yaeger.]

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CHART DISPLAYED BY MR. FASTOW:

Why LJM2 Is Unique

1. Preferred access to proprietary deal flow

2. Enron and its investments have significantly outperformed the market

3. Investments analyzed/operated/structured by Enron

4. Ability for LJM2 to evaluate investments with full knowledge

5. LJM2 speed and knowledge advantage

6. Financial expertise of Principals

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MERRILL LYNCH PARTICIPANT: As you probably have all concluded, this transaction is probably going to take a bit of extra work in developing investor-potential investor lists. And as we’re probably a good week or two away from having a final offering memorandum, what I’d like to endeavor to do definitely within the next week, and particularly in connection with a conversation we plan to have or we have scheduled with Andy about a week from now, is really have all of you think about the specific targeted investors we’d like to go to with this.

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MERRILL LYNCH PARTICIPANT: This is really a culmination of what has been, Andy, I believe, about a five-year discussion with you about fundraising in one form or another. In fact, I dusted off the file the other day, and I do have 1994 correspondence.

MR. FASTOW: I won’t tell you what Ben’s first reaction was four years ago. [Laughter.]

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MERRILL LYNCH PARTICIPANT: In addition, I failed to introduce at the beginning of the program here, we also have the benefit of some great Merrill Lynch resources in connection with this transaction.

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MR. FASTOW: No, we haven’t taken it out to the institutional market. We’ve had a couple of discussions, obviously, with Ben and then the team here and with one other team that probably you know the people over there. And—but we—we haven’t taken it out into the market until we felt we got the consensus from the people who know the market best. You’re—you’re the people who know the market best. And so we count a lot on Ben and David and the team here, their counsel as well as their ability to [inaudible]. So I didn’t think—I agreed with them, until very recently, until we had the track record to show, four prior deals and things like that, with varying degrees of involvement, it probably wasn’t something we should take out. But I think now it’s something we can take out. And, again, based on the initial response from institutions that know us very well, our banks, et cetera, it’s something that—that people are comfortable with. So I think we have a real opportunity here to bust it wide open.

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MERRILL LYNCH PARTICIPANT: As you would expect, Andy as chief financial officer at Enron, is heavily banked, so to speak. And as a result, there are five or six of the name brand banks who have stepped up and said they’ll commit to this. I mean, if—if anything, what we—our objective here is to—is to modulate the size of the banks because the real money that Andy wants to get at is the pension fund money and, to a lesser extent, insurance.
UNIDENTIFIED VOICE: Never going to get to the billion or 2 billion fund by doing commercial —

MERRILL LYNCH PARTICIPANT: Right. Right. That will stick and grow. And all the, as you can imagine, the name brand commercial banks know Andy, know Enron. It's a quick, easy decision for them, or straightforward. It's a straightforward decision.

---

MR. FASTOW: I think you have to go back to the volume of the deals and the nature of the deals. The prime hunting ground is going to be highly complex, structured deals that have to be moved in a short time frame. There just isn't enough of a market for that.

---

MERRILL LYNCH PARTICIPANT: A couple more mundane questions. Ben and Michael, do they work for Enron or do they work for the fund? And are they compensated by the fund or by Enron?

MR. FASTOW: All of the— all of the issues related to my compensation that I addressed are the same with them. They're employees of Enron, and, again, until we're in a position where it would be prudent to step out of that role as employees of Enron, we will continue to be employees of Enron. Base and bonus are pretty much within a defined range for all of us at this point, and we would work arrangements with Enron to make sure enough of our time was available to be involved in LJM to accomplish what we have to accomplish at LJM.

---

MERRILL LYNCH PARTICIPANT: Okay. Thank you, everybody, for your attention here—

MR. FASTOW: Thanks very much. Thanks especially given the weather.

MERRILL LYNCH PARTICIPANT: And now you can have lunch.

- End of Tape -

Prepared by U.S. Senate Permanent Subcommittee on Investigations, July 2002
EXECUTIVE SUMMARY

Entity: Special Purpose Vehicle

Facility: $75 Million Equity

Request: $75 Million

Expected Rating:

Moody's: B, B3

Maturity: Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

NA

Company Counsel:

Vincent & Elias

Underwriter Counsel:

NA

Fee:

Proposed $210,000 plus 15% per annum or a flat 22.5% return per annum.

ML Research Coverage:

Lee I. Kaiser

Jeff McMahon, EVP and Treasurer of Enron Corp., has asked ML to purchase $75 million equity in a special purpose vehicle that will allow Enron Corp. to book $81 million of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barges mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $230 million. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by Merrill Lynch. The SPE will be capitalized by our SMIM investment and a $210 million non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $46 million in the project. Enron is in active negotiations with several equity investors, including Matsonian. However, they are not able to close the transaction with a long-term holder by year-end. Enron will 'sell' our exit from the transaction with third party investors. Das Bayly will have a conference call with senior management of Enron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.
<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>CICG</th>
<th>Project Name:</th>
<th>Enron Nigerian Stores Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Financial Commitment:</td>
<td>$7 million</td>
</tr>
</tbody>
</table>

**SPONSOR:**

- Originator: Rob Furst
- Mgmt. Unit Controller: 
- Mgmt. Unit Head: 
- Group Finance Director: 
- Group EVP: 

**Other Reviews**

- Debt Markets Capital Committee: 
- Chief Financial Officer: 
- Group/Date: 
- Peer Project Review: 
- Executive Committee: 
- Date: 
- Audit and Finance Committee: 
- Date Approved: 
- Other: 

---

MS 05331
Appendix

we are at risk - no response is legal

I. PROPOSED CORPORATE STRUCTURE

Transaction Structure

- Purchase Equity Contribution
  - 2% 7.00 Million
- Acquisition Loan (from Euros to $P) 11.99 Million
- Total Purchase Price
  - $23.00 Million

Basic 2% Internal Rate of Return on Invested equity for Purchaser.
Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed
Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock: two preferred and one common. The purchaser will purchase the Preferred A Shares and the Common Shares. Earnings will own the Preferred B Shares. The summary below indicates the economic interest of each shareholder class before and after the Trigger Date. In each case, the table indicates the cash flow rights of each shareholder class after the previous class shareholder has received their percentage share of the cash flow.

<table>
<thead>
<tr>
<th></th>
<th>Pre Trigger Date</th>
<th>Post Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purchaser)</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B (Earns)</td>
<td>9.9% of CF After Pref A</td>
<td>99.9% of CF After Pref A</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
<td>100.0% of CF After Pref Pref A &amp; B</td>
<td>100.0% of CF After Pref Pref A &amp; B</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 50% of the cash flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Earnings Preferred B Shares receive approximately 99.9% of the cash flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the cash flow.

real E up only agent from E

MS 05332
II. **BARGE PROJECT ECONOMIC SUMMARY**

<table>
<thead>
<tr>
<th>Cost Summary (US $000) *</th>
<th>$23,000</th>
<th>15,890</th>
<th>40,800</th>
<th>1,014</th>
<th>1,200</th>
<th>2,119</th>
<th>181</th>
<th>$45,614</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Barges</td>
<td></td>
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<td></td>
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<tr>
<td>Barge Upgrades and Onshore Cost</td>
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<td></td>
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<td>Total EPC</td>
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<td>Mobilization</td>
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<tr>
<td>Development Costs</td>
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<td></td>
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<tr>
<td>Working capital and Spares</td>
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<tr>
<td>Contingency</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total Costs</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Projection of 92% of Net Cash Flow (US $000)*

<table>
<thead>
<tr>
<th>Year 2002</th>
<th>Year 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>$9,112</td>
<td>$12,362</td>
</tr>
<tr>
<td>$13,768</td>
<td>$2,450</td>
</tr>
<tr>
<td>$30,681</td>
<td></td>
</tr>
</tbody>
</table>

The $45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is $44.1 million, and 92% of the three year cash flow is $39.7 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of senior secured debt. The proposed debt period is three years with an interest rate of 13% per year.

III. **ENRON OVERVIEW**

Merrill Lynch’s relationship with Enron Corp. (the “Company” or “Enron”) has developed significantly over the past year as Enron will generate more than $40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead managed America’s 1st Enron’s international water utility subsidiary, IPC ($700 million)
  - Advised on subsequent $335 million acquisition of ACO Expans Management Inc.
  - Currently working on several key side advisory assignments
  - Co-led for $500-750 million high yield issuance (currently on hold)
- Co-managed a New issue Common Equity offering for Enron Corp. ($865 million)
Currently working with the CFO to raise a £500 million private equity fund (LJM)

Currently planning to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications)

Company Overview

Enron is a global diversified energy company. It is the largest buyer and seller of natural gas and electricity in the world and owns 33,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were $34 billion and its equity market capitalization was approximately $12 billion. For the year ended December 31, 1994, Enron generated revenue of $31.3 billion, up 52% over the year ended December 31, 1993. The Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1993 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) a telecommunications subsidiary (Enron Communications) and an international water company (Amuri). Enron's regulated business includes two operations - natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's federally regulated interstate natural gas pipelines, and Portland General (Enron recently announced the sale of Portland General which should close in the next year), an electric distribution, transmission, and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron’s newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Amuri, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Amuri is a $150 million publicly traded international waste company (70% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global waste industry, including acquiring existing waste and wastewater systems via privatization, providing waste and wastewater related services to municipal and industrial waste markets and developing and managing waste resources.
Subject: Enron Corp.

Jeff, McMillan, EVP and Treasurer of Enron Corp., has asked ML to purchase $700M of equity in a special purpose vehicle that will allow Enron Corp. to book $1BOM of earnings. The transaction must close by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they believe our hold will be for less than six months. The investment would have a 23.5% return.

The Transaction:

Enron will have 3 large mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is $300 million. Enron wants to monetize the first 3 years of cash flow for $280M. They will do this by establishing a special purpose vehicle. The special purpose vehicle will be capitalized by our $700M investment and a $21M loan from Enron Corp. Enron has a total investment of $444 M in the project. Enron is in active negotiations with several equity investors, including Mansen. However, they are not able to close the transaction with a long-term hold by year-end.

ML Rational for pursuing this transaction:

Enron is a top client to Merrill Lynch. Enron views the ability to participate in transactions like this as a way to differentiate ML from the pack and add significant value. I complain several financings like this at CSFB and they all worked to CSFB's advantage. I strongly recommend we complete this transaction.
Nigeria Barge Project Sell Down  
Transaction and Shareholder Structure  
17 December 1999

The following transaction structure has been developed to allow the Purchaser to purchase 90% of the projected after-tax cash flow to be generated over three (3) years by the 50 MW Nigeria Barge Project (the "Barge Project") while 1) funding the purchase price with 25% equity and 75% seller financed debt, 2) basing the purchase price on the net present value of such cash flow and providing a projected yield to purchaser of approximately 25% on invested equity and 3) allowing Enron to book a gain based on the sale of such cash flows.

Following extensive review and discussion with Enron accounting staff and outside auditors, the following structure has been developed and approved to ensure the desired accounting treatment for the transaction. Whereas the structure is more complex than desired and originally envisaged, it is necessary to meet all of the objectives for the transaction.

A Few Definitions
Cash Flow: The operating distributable cash flow generated by the Barge Project from all revenues less all expenditures including but not limited to operating and administrative costs, fuel, all taxes and debt service; and as further delineated in the Financial Model.

Cumulative Cash Flow: The aggregate monthly cumulative Cash Flow commencing on the commercial operations of the Barge Project and ending on the Trigger Date (as defined below).

Early Liquidation: The termination of the Power Purchase Agreement or the otherwise wind-up of Enron Nigeria Barge Ltd. prior to the Trigger Date.

Liquidation Proceeds: The cash proceeds from the Early Liquidation of the Barge Project excluding proceeds (if any) from the sale or disposition of the barges.

Trigger Cash Flow: The projected Cash Flow (approximately $44.1 million) to be generated by the Barge Project during its first 3 years of operations.

Trigger Date: The date upon which the Cumulative Cash Flow equals the Trigger Cash Flow.

Transaction Structure
Purchaser Equity Contribution $7.00 Million
Acquisition Loan (from Enron to Purchaser) $21.00 Million
Total Purchase Price $28.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser’s Interest in the Barge Project

Shareholder Structure
There will be three classes of stock, two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common Shares. Enron will own the Preferred B shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

MS 06169
Economic Interest (Percent of Cash Flow ("CF")

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Pre Trigger Date</th>
<th>Post Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purchaser)</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B (Enron)</td>
<td>9.9% of CF After Pref A</td>
<td>99.0% of CF After Pref A</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
<td>100.00% of CF After Pref A &amp; B</td>
<td>100.00% of CF After Pref A &amp; B</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.

Early Liquidation
In the event of an Early Liquidation, the Purchaser shall receive via the Preferred A Shares an amount stipulated in an appendix to be attached to the Share Purchase Agreement. Generally, the Early Liquidation proceeds payable to Purchaser via the Preferred A Shares and included in the appendix shall be designed to ensure the Purchaser a 25% internal rate of return on invested equity. Upon an Early Liquidation, the Preferred B Shares shall then receive 99.0% of the remaining Liquidation Proceeds after the liquidation payment to the Preferred A shares and all Phase I Facilities (as defined in the Power Purchase Agreement). The Common shares shall receive 100.00% of the remaining Liquidation Proceeds after the payments to the Preferred A and Preferred B Shares.

Return Considerations
If the Cumulative Cash Flow equals the Trigger Cash Flow at the end of 3 years of operations, the return to the Purchaser would be approximately 25%.

If the Cumulative Cash Flow equals the Trigger Cash Flow before the end of 3 years, then the return to the Purchaser would exceed 25%. If the Trigger Cash Flow level is reached after the end of 3 years, the Purchaser’s return may be below 25%. It is intended for the Purchaser to take this risk and upside opportunity.

If there is an early liquidation, and there are sufficient liquidation proceeds (which the letter of credit shall ensure) the liquidation payment schedule is designed to ensure the Purchaser a approximate 25% return on invested equity.

Voting Rights
Each share class shall have the following number of shareholder votes and shall also appoint the same number of directors to the Board of Directors. This structure is necessary to ensure conformity to Nigerian law.

<table>
<thead>
<tr>
<th>Share Class</th>
<th>Votes</th>
<th>Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Preferred B</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Common</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
1.4 Barge Project Economic Summary

Cost Summary (US$000)

- Power Barges: $25,000
- Barge Upgrades and Onshore Cost: $5,800
- Development Costs: $1,014
- Total EPC: $40,800

Working Capital and Spares: $2,119
Contingency: $181
Total Costs: $45,014

Projection of 90% of Net Cash Flow (US$000)

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>Total</th>
</tr>
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<tr>
<td></td>
<td>$9,213</td>
<td>$13,562</td>
<td>$13,706</td>
<td>$3,410</td>
<td>$44,191</td>
</tr>
</tbody>
</table>

The $45.0 million project costs are to be paid by Euron. The net cash flow projected over the three year Phase I project life is $44.1 million, and 90% of the three year cash flow is $39.7 million.

It is the intention of Euron to provide to the Investor monthly distributions of net cash flow, and to have an Euron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.
Americas Credit Flash Report: Week ending 12/23/99

Summary
- Slow week in advance of holidays and Y2K countdown.
- Most unusual transaction of the week was IBK request to approve Enron Corporation "relationship" loan – ML asked to invest of $7mm equity in Nigerian power project.

1. Framework Issues/Exceptions
   none

2. Significant Credit Events of the Week
   Enron Corporation (ML-8)
   - Requested by Enron Corporation to make a $7mm equity investment in an Enron sponsored Nigerian power project. The project consists of three barge-mounted power plants Enron will place into service in Nigeria in February 2000. Enron had been speaking with another investor that apparently could not close on the deal prior to year-end. The transaction will allow Enron to move assets off-balance sheet and book future cash flows currently as 1999 earnings (approximately $12mm). The proposal went to DMCC and has been signed off on by Tom Davis. IBK was supportive based on Enron relationship (approx. $40mm in annual revenues) and assurances from Enron management that we will be taken out of our $7mm investment within the next 3-6 months. Enron itself will have $45mm invested in the project. (T. Trinko/P. Wood).

Bridge Information Systems (ML-8)

3. Significant Credit Events of the Week
   Banco Latinoamericano de Exportaciones (BLADEX) (ML-7)
   -

4. Significant Credit Events of the Week
   REDACTED
   BY
   PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

MS 06151
3. Other Counterparty Issues

REDACTED
BY
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

4. New Product Commentary
None

5. Other Initiatives
None
December 23, 1999

Mr. Jeff McMahon
Executive Vice President and Treasurer
Enron Corp.
1400 Smith Street
Houston, TX 77002-7369

Dear Mr. McMahon:

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") is pleased to act as exclusive advisor to Enron Corp. ("Enron") for the sale of equity in Enron Nigeria Barge Ltd ("ENB"), representing the rights to certain cash flows generated via the sale of electricity to Lagos State Government under a power purchase agreement (together with the Equity Investment, as defined below, the "Transaction"). Lagos State Government's obligations under the power purchase agreement will be guaranteed by the Federal Republic of Nigeria.

As Enron's advisor, Merrill Lynch will (i) form a U.S. special purpose entity (the "SPE"), and (ii) fund the purchase by the SPE of a non-controlling $28 million equity interest in ENB, $21 million of which the SPE will borrow from Enron or an affiliate on a non-recourse basis (the "Equity Investment"). The SPE will receive a yield of approximately 13.00% per annum on $7 million of its equity investment. The SPE or its equity interest in ENB will be subsequently sold to third party equity investors or purchased by Enron or an affiliate. The closing of the Equity Investment will be subject to documentation acceptable to the parties, and the Transaction complying with all applicable laws and regulations.

1. Fees and Expenses

As compensation for Merrill Lynch assisting in the structuring of the Transaction, as advisor, Enron will pay to Merrill Lynch an advisory fee (the "Advisory Fee") equal to $250,000. Payment of the Advisory Fee will occur upon closing of the Equity Investment.

Enron shall be responsible for all costs and expenses incurred in structuring, placing and closing the Transaction. Enron shall be obligated to pay all costs and expenses of the Transaction regardless of whether the Transaction is actually consummated. Such costs and expenses shall include, but not be limited to, reasonable legal fees and disbursements of counsel to the SPE and Merrill Lynch, as well as the cost of establishing the SPE, its ongoing fees and expenses, filing and recording fees and reasonable out-of-pocket expenses of Merrill Lynch.
4. Notice, Defense and Settlement

As Indemnified Party shall notify Euron in writing promptly after it receives notice of any claim or commencement of any action or proceeding with respect to which it may seek indemnification hereunder; provided, however, that failure to notify Euron shall not relieve Euron from any liability that it may have to such Indemnified Party except to the extent Euron is materially prejudiced by such failure. Euron will assume the defense of such action or proceeding and will employ counsel satisfactory to the Indemnified Parties and will pay the fees and expenses of such counsel. Notwithstanding the preceding sentence, an Indemnified Party will be entitled to employ counsel separate from counsel for Euron and from any other party in such actions if such Indemnified Party determines that a conflict of interest exists which makes representation by counsel chosen by Euron not advisable or if such Indemnified Party reasonably determines that Euron's assumption of the defense does not adequately represent its interest. In such event, the fees and disbursements of such separate counsel will be paid by Euron.

Euron will not, without Merrill Lynch's prior written consent, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding in respect of which indemnification could be sought under the indemnification provision of this Agreement (whether or not Merrill Lynch or any other Indemnified Party is a actual or potential party to such claim, action or proceeding), unless such settlement, compromise or consent includes an unconditional release of each Indemnified Party from all liability arising out of such claim, action or proceeding.

In the event Merrill Lynch or any Indemnified Party is requested or required to appear as a witness in any action brought by or on behalf of or against Euron or any shareholder or any participant in a transaction covered hereby in which Merrill Lynch or such Indemnified Party is not named as a defendant, Euron will reimburse Merrill Lynch for all expenses incurred by it in connection with such Indemnified Party's appearing and preparing to appear as a witness, including, without limitation the fees and disbursements of its legal counsel, and to compensate Merrill Lynch in an amount to be mutually agreed upon.


The representations, warranties, indemnities, and agreements of Euron and its officers or representatives shall remain in full force and effect regardless of any investigation made by or on behalf of Euron or Merrill Lynch or any of its affiliates, and shall survive the consummation of the Transaction.

6. Amendments; Survival of Provisions

No waiver, amendment or other modification of this Agreement shall be effective unless in writing and signed by each party to be bound. The provisions relating to expenses, indemnification, limitations on the liability of Indemnified Parties, contribution, settlements, choice of law and waiver of the right to trial by jury will survive any termination of this letter agreement.
7. Parties

This Agreement shall inure to the benefit of and be binding on Enron, Merrill Lynch and their respective successors. Enron has retained Merrill Lynch to act as an independent contractor, and any duties of Merrill Lynch arising out of its engagement shall be owed solely to Enron. This Agreement does not confer any rights upon any person other than Enron, including, but not limited to, any security holder, employee, or creditor of Enron. This Agreement incorporates the entire understanding of the parties with respect to this engagement of Merrill Lynch by Enron, and supersedes all previous agreements regarding such engagement, should they exist.

8. Governing Law

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

9. Consent to Jurisdiction and Waiver of Jury Trial

Enron hereby: (1) consents to personal jurisdiction and service of process in any court in which a claim subject to this Agreement is brought against Merrill Lynch or any other indemnified Party, and (2) waives all right to trial by jury in any action, proceeding or counterclaim (whether based upon contract, tort or otherwise) related to or arising out of the engagement of Merrill Lynch pursuant to, or the performance by Merrill Lynch of the services contemplated by, this Agreement.

Please confirm that the foregoing correctly sets forth our agreement by signing and returning to Merrill Lynch the enclosed duplicate copy of this Agreement.

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

By: __________________________
Title: _________________________

Agreed and accepted as of the date written above:

ENRON CORP.

By: __________________________
Title: _________________________

December 31, 1992
Page 4 of 4

2073
December 29, 1999

Mr. Andrew S. Fallow
Executive Vice President and Chief Financial Officer
Enron Corp.
1400 Smith Street
Houston, TX 77002-7149

Dear Mr. Fallow:

Merrill Lynch Pierce, Fenner & Smith Incorporated ("Merrill Lynch") is pleased to act as exclusive advisor to Enron Corp. ("Enron") for the sale of equity in Enron Nigeria Marga Ltd. ("ENM" aka "Transaction").

As Enron's advisor, Merrill Lynch will (1) form a UK special purpose entity (the "SPE"), and (2) fund the purchase by the SPE of a non-controlling 25% equity interest in ENM. 22.5 million of which the SPE will acquire from Enron or an affiliate on a non-recourse basis (the "Equity Investment"). The closing of the Equity Investment will be subject to documentation acceptable to the parties, and the Transaction complying with all applicable laws and regulations.

1. Fees and Expenses

As compensation for Merrill Lynch assisting in the structuring of the Transaction, as advisor (the "Services"). Enron will pay to Merrill Lynch an advisory fee (the "Advisory Fee") equal to $20,000. Payment of the Advisory Fee will occur upon closing of the Equity Investment.

Enron shall be responsible for all costs and expenses incurred in structuring, placing and closing the Transaction. Enron shall be obligated to pay all costs and expenses of the Transaction regardless of whether the Transaction is actually consummated. Such costs and expenses shall include, but not be limited to, reasonable legal fees and disbursements owed to the SPE and
Merrill Lynch

Merrill Lynch, as well as the cost of establishing the ERE, its ongoing fees and expenses, filing and recording fees and reasonable out-of-pocket expenses of Merrill Lynch.

2. Indemnification, Contribution and Limit on Liability

Earen will indemnify and hold harmless Merrill Lynch and its affiliates, and its and their respective directors, officers, employees, agents and controlling persons (Merrill Lynch and such persons being an "Indemnified Party") from and against any and all loss, damage, and liability, joint or several, as incurred, to which such Indemnified Party may become subject under any applicable United States federal or state or non-U.S. law or otherwise, and related to or arising out of the engagement of Merrill Lynch pursuant to, and the performance by Merrill Lynch of the Services as contemplated by, this Agreement provided, however, that Earen will not be liable under clause (a) hereof to the extent that any loss, claim, damage or liability is found in a final judgment by a court to have resulted from Merrill Lynch's bad faith or gross negligence in performing the Services described above. Earen will also reimburse any Indemnified Party for all expenses (including counsel fees and expenses) as they are incurred in connection with the investigation of, preparation for or defense of any pending or threatened claim or any action or proceeding arising therefrom, whether or not such Indemnified Party is a party and whether or not such claim, action or proceeding is brought by or on behalf of Earen. No Indemnified Party shall have any liability (whether direct or indirect, in specie or ten or otherwise) to Earen or its security holders or creditors related to or arising out of the engagement of Merrill Lynch pursuant to, or the performance by Merrill Lynch of the Services contemplated by, this Agreement except to the extent that any loss, claim, damage or liability is found in a final judgment by a court to have resulted from Merrill Lynch's bad faith or gross negligence.

If the indemnification provided for in this Agreement is for any reason held unenforceable, Earen will contribute to the losses, claims, damages and liabilities, as incurred, for which such indemnification is held unenforceable in such proportion as is appropriate to reflect the relative benefits to Earen, on the one hand, and Merrill Lynch, on the other hand, of the Transaction (whether or not the Transaction is consummated), provided, however, that no person guilty of fraudulent misrepresentation (within the meaning of Section 11 of the Securities Act of 1933) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For the purposes of this paragraph, the relative benefits to Earen and Merrill Lynch of the Transaction shall be deemed to be in the same proportion that the total value of equity in ENB planned or contemplated to be planned, been to the Advocate Fee paid or contemplated to be paid, provided, however, that, to the extent permitted by applicable law, in no event shall the Indemnified Parties be required to contribute an aggregate amount in excess of the aggregate Advisory Fee actually paid to Merrill Lynch under this Agreement.

3. Notice, Defense and Settlement

An Indemnified Party shall notify Earen in writing promptly after it receives notice of any claim or the commencement of any action or proceeding with respect to which it may seek
indemnifying hereunder provided, however, that failure to notify Earen shall not relieve Earen from any liability that it may have to such Indemnified Party except to the extent Earen is materially prejudiced by such failure. Earen will assume the defense of such action or proceeding and will employ counsel satisfactory to the Indemnified Parties and will pay the fees and expenses of such counsel. Notwithstanding the preceding sentence, an Indemnified Party will be entitled to employ counsel separate from counsel for Earen and from any other party in such action if such Indemnified Party determines that a conflict of interest exists which makes representation by counsel chosen by Earen not advisable or if such Indemnified Party reasonably determines that Earen's assumption of the defense does not adequately represent its interest. In such event, the fees and disbursement of such separate counsel will be paid by Earen.

Earen will not, without Merrill Lynch's prior written consent, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding in respect of which indemnification could be sought under the indemnification provision of this Agreement (whether or not Merrill Lynch or any other Indemnified Party is an actual or potential party to such claim, action or proceeding), unless such settlement, compromise or consent includes an unconditional release of each Indemnified Party from all liability arising out of such claim, action or proceeding.

In the event Merrill Lynch or any Indemnified Party is requested or required to appear as a witness in any action brought by or on behalf of or against Earen or any affiliate or any participant in a transaction covered hereby in which Merrill Lynch or such Indemnified Party is not named as a defendant, Earen will reimburse Merrill Lynch for all expenses incurred by it in connection with such Indemnified Party's appearing and preparing to appear as a witness, including, without limitation the fees and disbursements of its legal counsel, and in compensation Merrill Lynch is to be mutually agreed upon.


The representations, warranties, indemnities, and agreements of Earen and its officers or representatives shall remain in full force and effect regardless of any investigation made by or on behalf of Earen or Merrill Lynch or any affiliates, and shall survive the consummation of the Transaction.
Merrill Lynch

5. Amendment; Survival of Provisions

No waiver, amendment or other modification of this Agreement shall be effective unless in writing and signed by each party to be bound. The provisions relating to expenses, indemnification, limitations on the liability of Indemnified Parties, contribution, severability, choice of law and waiver of the right to trial by jury will survive any termination of this letter agreement.

6. Parties

This Agreement shall inure to the benefit of and be binding upon [Party] and [Merrill Lynch] and their respective successors. [Party] has retained Merrill Lynch to act as an independent contractor and any duties of Merrill Lynch arising out of its engagement shall be owed solely to [Party]. This Agreement does not confer any rights upon any person other than [Party], including, but not limited to, any security holder, employee, or creditor of [Party]. This Agreement supersedes the entire understanding of the parties with respect to this engagement of Merrill Lynch by [Party], and supersedes all prior agreements regarding such engagement, should they exist.

7. Governing Law

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.
Merrill Lynch

Please confirm that the foregoing correctly sets forth our agreement by signing and returning to Merrill Lynch the enclosed duplicate copy of the Agreement.

MERRILL LYNCH, FERGUS, FENNER & SMITH
INCORPORATED

By: [Signature]
Title: [Title]

Agreed and Assented to as of the date written above:
ENRION CORP

By: [Signature]
Title: [Title]
Handwritten note at bottom of Merrill Lynch Facsimile Cover Sheet:

“... reputational risk i.e. aid/abet Enron income stmt [statement] manipulation ...”

–Handwritten note of Merrill employee on Merrill document dated 12/21/99, MS 06518
Confidential Memorandum

Preferred Stock Representing a
Set Duration 90% Economic Interest in
ENRON NIGERIA BARGE LTD.

IMPORTANT NOTICE TO RECIPIENT

The information contained in this Preliminary Information Memorandum (this "Information Memorandum") is being furnished by Enron Nigeria Barge Holdings Ltd., a Cayman Islands company ("Enron"), to a limited number of selected persons who have expressed interest in acquiring redeemable preference shares (the "Shares") of Enron Nigeria Barge Ltd. (the "Company") entitled, subject to the terms of the Share Purchase Agreement (as hereinafter defined), to a distribution of 90% of the Cash Flows of the Company, a private, limited liability company incorporated under the laws of the Federal Republic of Nigeria and a wholly owned subsidiary of Enron.

The sole purpose of this Information Memorandum is to provide preliminary background information on a confidential basis to assist the recipient in deciding whether to proceed with an investment in the Company and the Shares. This Information Memorandum is not an offer, nor is it intended to provide the basis of any credit or any other evaluation and is not to be considered as a recommendation by the Company or any other person that any recipient of this Information Memorandum should purchase the Shares or provide loans or other credit to the Company or any of its affiliates. Each recipient of this Information Memorandum contemplating purchasing shares of, or otherwise investing in, the Company must make (and will be deemed to have made) its own independent investigation and appraisal of the operations, financial condition, prospects, creditworthiness, status and affairs of the Company, the Project and any other matter it considers relevant to a decision to purchase the Shares, or to provide loans or other credit to the Company, including, without limitation, its own independent investigation and appraisal of the risks.

This Information Memorandum is directed at persons whose ordinary activities involve them, as principal or as agent, in acquiring, holding, managing or disposing of investments of this nature. It would be imprudent for other persons to respond to this Information Memorandum.

No representation or warranty (express or implied) regarding the accuracy or completeness of the information contained in this Information Memorandum is hereby made by the Company or any of its shareholders or its or their affiliates or advisors. The only representations or warranties that will be made in connection with the proposed financing will be such representations and warranties, if any, set forth in the definitive, written Share Purchase Agreement for the sale and purchase of the Shares.

The information contained in this Information Memorandum, except where the context expressly states otherwise, has been based on the assumption that the Project is implemented as described herein. Any financial projections in this Information Memorandum are estimates prepared and set out for illustrative purposes only, have been prepared using data available to date and do not constitute a forecast. Such financial projections may be affected by changes in economic and other circumstances and the reliance, if any, that the recipient of this Information Memorandum places upon such projections is a matter for its own commercial judgment. No representation or warranty

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(expressed or implied) is made about the accuracy or completeness of any of the information contained in this Information Memorandum or any other written or oral information, including, without limitation, any projection, forecast, opinion, information, advice, assumption or estimate. Therefore, nothing contained in this Information Memorandum is, or should be relied on by any interested person or recipient as, a representation as to the future performance of the company, any of its respective affiliates, the project or the shares, or as a representation that any projection, forecast, assumption or estimate will be achieved. Recipient and its respective representatives each hereby agrees that by accepting this information memorandum neither the company, its respective affiliates, nor any of their representatives shall have any liability to recipient or any of its representatives resulting from the use of any such information by recipient or its representatives and no person will have any liability relating to such information or for any errors therein or omissions therefrom. Neither the company, its respective affiliates, nor any of their representatives make any representation or warranty about the tax effect or the legal effect of any arrangement described in this information memorandum or any other information given to any interested persons or recipients, except for particular representations and warranties, if any, which may be made by the seller in the share purchase agreement when, as and if executed, and subject to the limitations and restrictions specified in the share purchase agreement. Each interested person should conduct its own independent investigation and analysis of the company and the shares and the information set forth in this information memorandum or otherwise supplied by Enron, the company or any of their representatives and affiliates.

Certain documents and agreements are described herein in summary form and, in the case of agreements or amendments to agreements not yet executed, are described based on drafts of such agreements or amendments as proposed by the Company. The summaries do not purport to be complete descriptions of such documents and agreements. They are intended only to assist in a reading of such documents and agreements, are qualified in their entirety by reference to the actual documents and agreements and should not be relied on as a basis for contracting. With respect to the discussions herein concerning the development, financing, construction and operation of the Project, the Company has not yet finalized (or in certain cases commenced) negotiation of the documents and agreements that will be required in connection therewith; consequently, said discussions merely reflect the Company's assumptions and current expectations concerning the manner in which the Project will be developed, financed, constructed and operated and should in no event be viewed as either (i) a final, complete or accurate description as to how such matters will ultimately be resolved or (ii) a representation or warranty (expressed or implied) from the Company that such matters will be resolved as discussed herein.

This Information Memorandum contains descriptions and other information believed to be accurate as of the date hereof. The delivery of this Information Memorandum at any time does not
imply that the information in it is correct as of any time after the date set out on the cover hereof, or that there has been no change in the operations, financial condition, prospects, creditworthiness, status or affairs of the Company or the Project, or of any other person since that date.

The information contained herein is proprietary to the Company and its shareholders. By accepting delivery of this Information Memorandum and any other information concurrently or separately submitted in conjunction herewith, the recipient agrees not to permit its duplication, dissemination or disclosure, in whole or in part, and, if the recipient is not interested in purchasing the Shares or any portion thereof, the recipient agrees to return the same to the Company.

Unless prior written consent has been obtained from the Company or unless disclosure of specific information is required by law, the recipient agrees not to divulge to any person any information about the Project, the Company or its shareholders or affiliates, or the fact that such information has been made available to the recipient. In no event shall the recipient divulge any such information without giving the Company advance notice and an opportunity to take any action the Company deems reasonable under the circumstances.

Additional information about the contents of this Memorandum may be obtained from the following persons:

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Facsimile: +44 20 7783 8438

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Houston, Texas 77002
Attn: Keith Sparks
Telephone: 713 646 7209
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Abbreviations

EE&CC - Enron Engineering & Construction Company
ENBL - Enron Nigeria Barge Ltd. or "the Company"
ENPH - Enron Nigeria Power Holdings Ltd.
EPC - Engineering, Procurement and Construction
FSA - Fuel Supply Agreement
IPP - Independent Power Producer
LSG - Lagos State Government of Nigeria
NEPA - Nigeria Electric Power Authority
O&M - Operation and Management
PPA - Power Purchase Agreement
TDA - Transmission and Distribution Agreement
YFP - Y.F. Power
EXECUTIVE SUMMARY

Introduction

Enron, its affiliates, and Y.F. Power ("YFP"), an affiliate of Yinka Folawiyo and Sons Ltd. ("Yinka Folawiyo") have nearly completed development of a 3 x 30 MW emergency power barge mounted gas turbine electric power facility (the "Barges") to be located in Ijara, Lagos, Nigeria and are developing a 548 MW long term power generation facility, both with electrical capacity and energy sales to the National Electric Power Authority ("NEPA") as directed by the Lagos State Government of Nigeria ("LSG"). Enron affiliate, Enron Nigeria Power Holdings Ltd. ("ENPH") is expected to enter into a Power Purchase Agreement (the "PPA") with NEPA as purchaser, the Federal Republic of Nigeria ("FRN") as guarantor and NEPA as transmission and distribution provider to provide a combination of emergency and long term electrical energy and capacity. In turn, LSG is expected to have first right to direct the transmission and distribution of the power sold under the PPA.

Under the PPA, Phase I covers the thirteen (13) year three (3) month operating period for the Barges and Phase II covers a 20 year operating period for the 548 MW gas fired power plant (the "Power Plant"). Phase III covers the thirteen (13) year three (3) month operating period for 180 MW of additional barge mounted power generation.

Phase I, Phase II and Phase III of the Project are being developed by Enron affiliates and YFP, an affiliate of Yinka Folawiyo, a Nigerian holding company with interests in shipping, cement, construction, agriculture, fishing, energy and banking. During Phase I of the Project, Yinka Folawiyo is to receive an annual fee for their participation and during Phase II, an equity ownership position.

Enron desires to sell Shares in the Company entitled to distribution of 90% of the net cash flow expected to be generated by the Company over the initial three years of operation of the Barges in the form of preferred and common shares. Enron currently holds 100% of the preferred and common shares of the Company. Finally, an affiliate of Enron is available to provide up to 75% of the purchase price with seller financed debt.

Figure No.1 shows the contractual structure for the Project and the relationship of the various Enron entities involved in the Project as of the date of signing the PPA. Figure No. 2 shows the Preferred Share Structure.
Figure No. 1

Nigerian Power Barge, Power Plant 
& Additional Power Ownership Structure
1.2 Project Description

1.2.1 Phase I – The Barges

Under the PPA, ENPH will provide power for thirteen (13) years three (3) months from commercial operations of the Barges. The Barges shall be initially fired of No. 2 Diesel Fuel with an expectation to convert them to gas within 15 months of the commercial operations date. First power is expected by the end of February 2000. The pricing for Phase I under the PPA is based on the following:

- 13 years 3 months of capacity and energy with payment in US$.
- Capacity Payment of $30.04 per KW-Month (approx. $0.028/kWh).
- Fuel Cost will be a pass-through (approx. $0.056/kWh on No.2 Diesel Fuel), substantially less on gas.

LSG will provide to Enron a Standby Letter of Credit ("Standby L/C") in the amount of US$31,000,000. The Standby L/C is expected to be issued by Citibank London. LSG will also establish for Enron an Escrow Account for the term of the project, whereby electricity sales proceeds from a select group of commercial and industrial customers shall be collected and held to ensure payment to ENPH under the terms of the PPA.

ENPH is indirectly 100% owned by Enron Corp., a Delaware corporation. Affiliates of Enron have provided procurement and technical services during the construction of the Barges and will provide technical assistance and operation services for the Barges. A consortium of three local diesel fuel oil suppliers have been contracted to supply the 690 metric tons of fuel per day required by the three Barges. Arrangements to secure gas from existing and planned production is underway.

1.2.2 Phase II – The Power Plant

In addition to the Power Barges, ENPH may provide long term electrical energy and capacity to LSG over a 20 year period. Under the PPA, ENPH expects to finance, build, own, operate and maintain a Power Plant, to be located near Agbara, Lagos State, Nigeria – near the Benin border. The Power Plant is to be owned by Enron Nigeria Power Ltd. which is expected to be 60% owned by Enron Nigeria IPP Holdings Ltd. and 40% by YPF.

In respect of the Power Plant, LSG and the FRN are to provide Enron Nigeria IPP Holdings Ltd. an additional Standby L/C in the amount of US$56,000,000, as well as, rights to an Escrow Account for the term of the project. First power from the Power Plant is expected by the end of December 2002. The pricing for Phase II of the PPA is based on the following:

- 20 years of capacity and energy with payment in US$.
- Capacity Payment of $20.23 per KW-Month.
- Fuel Cost is a pass-through with per kwh price based on delivered gas cost.

Whereas the PPA also contemplates the construction of an offshore gas pipeline from the Delta Region of Nigeria to the Power Plant, ENPH is reviewing a number of alternatives including the use of the existing Escrow to Lagos Pipeline.
1.2.3 Phase III Emergency Power

In addition to the Power Barges, ENPH shall have the option to provide at least 180MW of additional emergency power ("Additional Power") under substantially the same terms as the Power Barge. Enron currently owns an additional 6 power barges of approximately 180 MW. Subject to further due diligence and completion of the terms related to the Additional Power, Enron expects to install such power barges as soon as practicable. The additional power barges may initially use distillate fuel. However, Enron expects to convert such barges to gas as soon as commercially reasonable.

1.3 Project Status

On August 13, 1999, an affiliate of ENPH signed a Memorandum of Understanding ("MOU") with LSG in connection with the Barges and the Power Plant. Under the MOU, Enron was granted a 90 day exclusive negotiation period with LSG, and the FPA was required to be executed within 90 days of LSG issuing a notice to ship order ("NTS") for the Barges.

LSG issued the NTS order on September 6, 1999 and committed to pay transportation charges in the event the FPA is not concluded within the 90 day period. The Barges are presently in Lagos, Nigeria following delivery from Cebu, Philippines.

With respect to the Power Plant, a site has been identified and rights to the site are provided under the FPA. The FPA also grants all permits and approvals for the Barges, the Power Plant and the Pipeline.

Enron has identified a consortium of three local distributors for the fuel supply and is presently negotiating the Fuel Supply Agreement ("FSA") is nearly ready for execution. Discussions with potential gas suppliers is also underway.

Outstanding conditions for the projects include finalizing the Standby L/C, the Escrow Account, the FSA and environmental approvals. Additionally, the Power Plant requires securing of third party debt financing for at least 70% of the project.
1.4 Barge Project Economic Summary

Cost Summary (US$000)

- Power Barges: $25,000
- Barge Upgrades and Onshore Cost: $15,800
- Total EPC: $40,800
- Mobilization: 1,014
- Development Costs: 1,500
- Working Capital and Spares: 2,119
- Contingency: 181
- Total Costs: $45,614

Projection of 90% of Net Cash Flow (US$000)

<table>
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<tr>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
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<td>$9,213</td>
<td>$13,362</td>
<td>$13,706</td>
<td>$3,410</td>
<td>$39,691</td>
</tr>
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</table>

The $45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is $44.1 million, and 90% of the three year cash flow is $39.7 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.
2. Facilities Description

2.1 The Barges

The project consists of three Power Barges with a combined nominal net output of approximately 90 MW and certain ancillary systems and facilities located on-shore. The Power Barges are moored in Lagos Lagoon in close proximity to the National Electric Power Authority’s (NEPA) 132/33/11 kV Ijora substation on Iddo Island in Lagos.

Mitsubishi manufactured the Power Barges, which are not self-propelled. Each Barge has one General Electric (GE) PPG631 gas turbine and an Ahlstrom air to air cooled generator installed on board for the generation of electricity. Control of the gas turbine generator is provided by a GE Mark IV Speedtronic control system located in an in-line control cab onboard the Barge.

Approximately 30 MW of 50 Hz power at 11.5 kV is generated on each Barge by its gas turbine generator operating in open cycle on light distillate fuel. The output of each generator is stepped up to 132 kV through its own 45 MVA transformer at which voltage is evacuated from the Barges, combined with the output of the other Barges, and delivered to NEPA’s Ijora substation. These Barges, which were originally designed by GEC Ahlstrom to generate 60 Hz power at 13.8 kV and step up to 69 kV or 138 kV, have been converted to produce 50 Hz power at 11.5 kV.

Each Power Barge has an essentially self-contained power plant. In addition to the gas turbine generator, control system and step-up transformer mentioned above, other electrical equipment on each Barge includes a generator circuit breaker, a unit auxiliary transformer, switch gear and overhead connection to shore. Gas turbine support systems on board each Barge include: a standard type, three stage, non-self-cleaning inlet air filtration system, a diesel engine generator gas turbine starting (including black start) system, oil lubrication and cooling system, exhaust gas stack, fuel storage, treating, handling and forwarding equipment, an off-line water wash system, and CO₂ and sea water fire protection systems.

Each Barge has 2.5 million liters of fuel oil storage capability (approximately 9.5 days supply at a 90%-100%-100%-100% load factor) on board. The Power Barges are refueled by fuel barges that operate in Lagos harbor. Since none was originally provided, each gas turbine has been modified with a water injection skirt for NOₓ abatement.

The raw water storage and treatment facilities and the de-mineralized water storage and forwarding systems required for gas turbine water injection are located on-shore. Additional on-shore facilities include the electrical dead and structure from which the single circuit 132 kV transmission line to the Ijora substation runs, roads, parking facilities, fencing, lighting and buildings for maintenance, warehousing and administrative offices.

Barge dimensions are as follows:

- **Length**: 46 meters
- **Width**: 22 meters
- **Depth**: 4.4 meters
- **Draft (when loaded)**: 3.5 meters
- **Gross Weight**: 3,646 tons
These Power Barges are three of the nine that Enron recently acquired from NAPOCOR, an electric utility company in the Philippines. NAPOCOR employed the Barges in peaking service since about the 1990 time frame. Since acquiring them, Enron has refurbished both the gas turbines and the Barge hulls to address areas requiring attention as identified by the inspection that Enron conducted prior to the acquisition.

The actual fired hours, equivalent operating hours, starts, and fired hours since last overhaul of each of these gas turbines are as follows:

<table>
<thead>
<tr>
<th>Barge Number</th>
<th>Actual Fired Hours</th>
<th>Equivalent On Hours</th>
<th>Starts</th>
<th>Fired Hours Since Last Overhaul</th>
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<tr>
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<td>47,692</td>
<td>2,465</td>
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<td>208</td>
<td>23,300</td>
<td>34,866</td>
<td>1,705</td>
<td>3,800</td>
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<td>209</td>
<td>27,500</td>
<td>41,223</td>
<td>1,945</td>
<td>10,625</td>
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</tbody>
</table>

2.1.1 The Barges Site

As mentioned above, the three Power Barges are to be moored in Lagos Lagoon adjacent to the south side of NEPA's Ijora substation on Eko Island in Lagos. The on-shore facilities are located on property to be leased by the Company adjacent to the barge jetty and the Ijora Substation.

2.1.2 Fuel Supply

A consortium of three local diesel fuel oil suppliers are expected to supply the 690 metric tons of fuel per day required by the 3 x 30 MW Power Barges under a three-year FSA. Each barge has 2,100 mt of fuel storage capacity on board. The consortium has local storage of approximately 45,000 mt of fuel, 30,000 mt, which will be dedicated to the Barges. Every third day, a fuel barge will re-supply the Power Barges with 2,000 mt, topping them off. Two of the local suppliers receive their fuel from local refineries and the third has a contract with a Dutch company, Chinimex, which has an arrangement with a Balinese refinery. Two of the three have extensive operations in the Lagos area, owning and operating transport vessels and refueling Barges. All three suppliers have extensive contracts and operations in place with most of the major oil companies in Nigeria (Chevron, Shell, Total, Elf, etc.). Specific logistics and the interaction between the three suppliers are being finalized.

Enron shall use commercially reasonable efforts to convert the Barges, including the Additional Power, to gas as soon as practicable. The target conversion date is fifteen months after commercial operations of the Barges. Enron is currently conducting due diligence as to the appropriate site for gas based generation for the Barges as well as the most appropriate source of gas supply and transportation.

2.1.3 Engineering, Procurement and Construction

Enron Engineering & Construction Company ("EE&CC") has been engaged by the Company to perform the turnkey engineering, procurement and construction ("EPC") for the Project. In its capacity as turnkey EPC Contractor, EE&CC will have total responsibility managing the project and for

MS 06531
providing a completely operational power facility. EPC for the project includes development engineering, detailed engineering and construction management.

Development engineering consisted of developing preliminary design specifications, geological analysis, environmental considerations, design schematics, right of ways, project cost estimates, schedules, quality assurance and the process control plan.

The detailed design work consisted of developing detailed engineering and design, bid and construction drawings, bid specifications, material procurement, job books, expediting, shop inspection, project management, cost control, permits and other detailed activities.

The construction management effort consists of field inspection, mechanical completion, commissioning, start-up, facility turnover, completion of as-built drawings, final project documentation, and post completion review.

2.1.4 Operations and Maintenance

Figure No. 3 outlines the operations and maintenance and administrative services arrangements for the Project.

Operational Energy Corp. ("OEC"), a subsidiary of Enron Corp., will provide technical, operations and maintenance services to the Company in exchange for a fee under the Operations and Maintenance Agreement (the "O&M Agreement"). The O&M Agreement allows for adjustments to the OEC fee, should the plant operate below agreed performance levels. OEC will be responsible for providing a budget and maintenance schedule for the Company’s approval on an annual basis as well as meeting the operating requirements stipulated in the PPA.
Figure No. 3.
Operations and Maintenance Diagram
Phase 1 - Burgos Project

- Rupin Nigeria Engineers Ltd. (Cayman)

- Gas Connections

- Gas Licences

OEC

- Rupin Nigeria Engineers Ltd. (Nigeria)

- Energy (G)

- NEPA (Procurements)

(1) Operations and Maintenance Agreement
(2) Gas Supply and Management Agreement
(3) Power Purchase Agreement
2.2 Additional Emergency Power

In addition to the Power Barges, ENPH shall have the option to provide at least 180 MW of additional emergency power ("Additional Power") under substantially the same terms of the PPA. Enron currently owns an additional 6 power barges of approximately 180 MW. Subject to further due diligence and completion of the terms related to the Additional Power, Enron expects to install such power barges as soon as practicable. The additional power barges will initially use distillate fuel. However, Enron expects to convert such barges to gas as soon as commercially reasonable.

2.3 The Power Plant

The Power Plant is expected to consist of five General Electric PG9171E combustion turbine generators ("CTGs") (or similar technology from another vendor) operating in open cycle. It will have a nominal, net new and clean output of approximately 548,000 kW (approximately 110 MW per turbine) at the site average ambient (design) conditions of 27.2°C (81°F), 82.5% relative humidity, and an atmospheric pressure of 14.696 psia. The CTGs are to be configured to burn natural gas using Dry Low NOx ("DLN") combustors to reduce NOx pollutant discharge at the stack to 25 ppm.
3. CONTRACTUAL ARRANGEMENTS

Figure No. 1 outlines the contract structure for the Barges. The following summaries provide additional information on the contracts. The actual contracts are provided in the Appendices.

3.1 Power Purchase Agreement

The PPA is to be entered into by and between ENPH and LSG, NEPA and the FRN and covers the sale and purchase of 90MW of capacity and energy from the Barges over a thirteen year three month term (Phase I) and the subsequent sale and purchase of 548MW of capacity and energy from the Power Plant over a 20 year period (Phase II). ENPH is expected to assign its Phase I PPA rights and obligations to the Company and its Phase II PPA rights and obligations to Euron Nigeria Power Ltd.

LSG is the power purchaser and is responsible for making the capacity and energy payments under the PPA. NEPA is responsible for transmission and distribution of the power to end users and the FRN guarantees the obligations of LSG and NEPA. However, it is anticipated that the LSG rights and obligations as purchaser under the PPA will be assigned to NEPA, resulting in NEPA serving as purchaser and the party responsible for transmission and distribution.

Several noteworthy aspects of the PPA are further addressed below. The full PPA is provided as an appendix.

3.1.1 Letter of Credit

The letter of credit is to be a standby letter of credit (the "Standby L/C") issued by a minimum A-rated offshore financial institution. Citibank London is expected to be the offshore Standby L/C bank. ENPH will be entitled to draw upon the Standby L/C in the event that LSG, NEPA or the FRN fail to meet their obligations under the PPA, particularly their payment obligations. The Standby L/C will be $31 million – equal to approximately six months worth of projected revenues for the Barges and $76 million for the Power Plant. If at any time the Standby L/C is drawn upon, it must be immediately replenished to the initial amount. The Standby L/C is revolving, meaning it must always be in place, and replenished if drawn.

Figure No. 4 provides a summary of the Standby L/C and Escrow Account Structure.

3.1.2 Escrow Account

Under the terms of the PPA, NEPA and LSG are required to establish an escrow account into which revenues from electricity sales to a select group of industrial and commercial customers will be paid. During Phase I, the minimum balance in the Escrow Account is to be $7.5 million and $18.0 million in Phase II. Escrow funds above the minimum level are subject to periodic release after the Company (or in the case of the Power Plant, Euron Nigeria Power Ltd.) is paid for the electrical capacity and energy.

In the event electrical capacity and energy payments are not paid as agreed, the funds in the escrow account may be released to the Company (and to Euron Nigeria Power Ltd. in the case of the Power Plant).

Figure No. 4 provides a summary of the Standby L/C and Escrow Account Structure.
Figure No. 4

Escrow Account & Letter of Credit Structure

- Federal Government Guarantor
  \[\text{US$}\]

- Lagos State
  \[\text{N}\]

- Nigerian Escrow Bank
  \[\text{N}\]

- Sino Nigeria Power Holding Ltd.
  \[\text{US$}\]

- Offshore Escrow Bank
  \[\text{US$ 7.0 million Phase I}\]
  \[\text{US$ 15 million Phase II}\]

- 6 Month Standby Letter of Credit Bank
  \[\text{US$ 11 million - Phase I}\]
  \[\text{US$ 16 million - Phase II}\]

- Select Industrial and Commercial Customers
  \[\text{N}\]
3.2 Fuel Supply Contract

The FSA is expected to be entered into with a consortium of three local fuel suppliers. The fuel will be required to meet designated quality standards and will be tested regularly. The fuel supplier will be required to provide a performance letter of credit of $3 million issued by an A-rated financial institution that can be drawn upon by the Company in the event of fuel supplier non-performance.

Under the PPA, the cost of fuel is a pass through to the electricity purchaser. Within 15 months of the commercial operations date, the Company shall have converted the Barges to gas fuel and commercial operations on gas. Otherwise the Company shall have the right to invoke the buyout provisions under the PPA. In any event, the Company has commercial discussions with potential gas suppliers and early indications are that the 15 month schedule to conversion is achievable.

The FSA is provided as an appendix.

3.3 Engineering Procurement and Construction

EE&CC is the EPC Contractor. A lump sum, turnkey EPC Agreement is expected to be executed between the Company and EE&CC. All project EPC activities performed by EE&CC or its subcontractors are to be performed by qualified companies and individuals experienced in the required work. The contracts shall be in writing and approved in accordance with EE&CC requirements. EE&CC will identify the required contract activities, determine responsibility and assure bid and approval requirements are met.

The EPC Agreement provides guarantees, on EE&CC’s part, for first power from the first barge and for project completion. Committer's Liquidated Damages (LDs) associated with not meeting those guaranteed first power and project completion dates, due strictly to the fault of EE&CC, are also provided for in the Agreement.

Inasmuch as the project is employing “used” equipment, the EPC Agreement does not provide for either performance or availability guarantees or LDs associated with such guarantees.

3.4 Operations and Maintenance

OEC is the O&M Contractor for the Project, and is expected to provide the expertise and management resources necessary to ensure that the operations and maintenance activities are carried out in accordance with the Company’s objective of obtaining maximum availability with minimal capital expenditures during the three year term of the O&M Agreement. For this purpose, the O&M activities will be carried out on a “conditions based maintenance” basis. Barge operations and maintenance staff will be employed by OEC, or its designee, and shall have the authority to plan and direct the activities required to execute OEC’s responsibilities under the O&M Agreement.

The O&M Agreement is provided as an appendix.
4. PROJECT ECONOMICS

4.1 Assumptions

The economic assumptions are provided in the Financial Model.
APPENDICES

See attached files.
The following transaction structure has been developed to allow the Purchaser to purchase 90% of the projected after tax cash flow to be generated over three (3) years by the 90 MW Nigeria Barge Project (the "Barge Project") while: 1) funding the purchase price with 25% equity and 75% seller financed debt; 2) basing the purchase price on the net present value of such cash flow and providing a projected yield to purchaser of approximately 25% on invested equity; and 3) allowing Enron to book a gain based on the sale of such cash flows.

Following extensive review and discussion with Enron accounting staff and outside auditors, the following structure has been developed and approved to ensure the desired accounting treatment for the transaction. Whereas the structure is more complex than desired and originally envisaged, it is necessary to meet all of the objectives for the transaction.

A Few Definitions
Cash Flow: The operating distributable cash flow generated by the Barge Project from all revenues less all expenditures including but not limited to operating and administrative costs, fuel, all taxes and debt service; and as further delineated in the Financial Model.

Cumulative Cash Flow: The aggregate monthly cumulative Cash Flow commencing on the commercial operations of the Barge Project and ending on the Trigger Date (as defined below).

Early Liquidation: The termination of the Power Purchase Agreement or the otherwise winding up of Enron Nigeria Barge Ltd. prior to the Trigger Date.

Liquidation Proceeds: The cash proceeds from the Early Liquidation of the Barge Project excluding proceeds (if any) from the sale or disposition of the barges.

Trigger Cash Flow: The projected Cash Flow (approximately $44.1 million) to be generated by the Barge Project during its first 3 years of operations.

Trigger Date: The date upon which the Cumulative Cash Flow equals the Trigger Cash Flow.

Transaction Structure
Purchaser Equity Contribution $7.00 Million
Acquisition Loan (from Enron to Purchaser) $28.00 Million
Total Purchase Price $35.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed
Loan secured by Purchaser’s interest in the Barge Project

Shareholder Structure
There will be three classes of stock, two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common Shares. Enron will own the Preferred B shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

MS 06540
Economic Interest (Percent of Cash Flow ("CF")

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Pre Trigger Date</th>
<th>Post Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purchaser)</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B (Enron)</td>
<td>99% of CF After Pref A</td>
<td>99% of CF After Pref A</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
<td>100.00% of CF After Pref A &amp; B</td>
<td>100.00% of CF After Pref A &amp; B</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 90% the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enron Preferred B Shares receive approximately 99% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.

Early Liquidation

In the event of an Early Liquidation, the Purchaser shall receive via the Preferred A Shares an amount stipulated in an appendix to be attached to the Share Purchase Agreement. Generally, the Early Liquidation proceeds payable to Purchaser via the Preferred A Shares and included in the appendix shall be designed to ensure the Purchaser a 25% internal rate of return on invested equity. Upon an Early Liquidation, The Preferred B Shares shall then receive 99.0% of the remaining Liquidation Proceeds after the liquidation payment to the Preferred A shares and all Phase I Facilities (as defined in the Power Purchase Agreement). The Common shares shall receive 100.00% of the remaining Liquidation Proceeds after the payments to the Preferred A and Preferred B Shares.

Return Considerations

If the Cumulative Cash Flow equals the Trigger Cash Flow at the end of 3 years of operations, the return to the Purchaser would be approximately 25%.

If the Cumulative Cash Flow equals the Trigger Cash Flow before the end of 3 years, then the return to the Purchaser would exceed 25%. If the Trigger Cash Flow level is reached after the end of 3 years, the Purchaser’s return may be below 25%. It is intended for the Purchaser to take this risk and upside opportunity.

If there is an early liquidation, and there are sufficient liquidation proceeds (which the letter of credit shall ensure) the liquidation payment schedule is designed to ensure the Purchaser an approximate 25% return on invested equity.

Voting Rights

Each share class shall have the following number of shareholder votes and shall also appoint the same number of directors to the Board of Directors. This structure is necessary to ensure conformity to Nigerian law.

<table>
<thead>
<tr>
<th>Share Class</th>
<th>Votes</th>
<th>Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Preferred B</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Common</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

MS 06541
**Proposed Structure**

**TIME LINE**

1. PPA is between Enron Nigeria Power Holding Ltd. and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd., which in turn assigns the rights to Enron Nigeria Barge Ltd.

2. Enron Nigerian Barge Ltd. A & B Preferred and Common Shares are issued to Enron Nigeria Barge Holding Ltd.

3. Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. to a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd.
Dear Kathy,

I can't help it. I'm in love.

With love,

Brenda

*(Handwritten note)*

- Don't count on me
- I'm not so easy
- I'm not a pig

MS 05298
LIMITED LIABILITY COMPANY AGREEMENT
OF
EBARGE, LLC

This Limited Liability Company Agreement (this "Agreement") of Ebarge, LLC, dated and effective as of December 29, 1999, is entered into by ML IBK Positions, Inc., as the sole member (the "Member").

The Member has formed a limited liability company pursuant to and in accordance with the Delaware Limited Liability Company Act (6 Del.C. § 18-101, et seq.), as amended from time to time (the "Act"), and hereby agrees as follows:

1. **Name.** The name of the limited liability company formed is Ebarge, LLC (the "Company").

2. **Certificates.** The Member and William R. Fuhs are authorized persons within the meaning of the Act. The Member and William R. Fuhs are hereby authorized to execute, deliver and file any other certificates (and any amendments and/or restatements thereof) necessary for the Company to qualify to do business in a jurisdiction in which the Company may wish to conduct business.

3. **Purposes.** The Company has been formed for the object and purpose of, and the nature of the business to be conducted and promoted by the Company is, engaging in any lawful act or activity for which limited liability companies may be formed under the Act.

4. **Powers.** In furtherance of its purposes, but subject to all of the provisions of this Agreement, the Company shall have the power and is hereby authorized to:

   (a) Acquire by purchase, lease, contribution of property or otherwise, own, hold, sell, convey, transfer or dispose of any real or personal property that may be necessary, convenient or incidental to the accomplishment of the purposes of the Company;

   (b) Act as a trustee, executor, nominee, bailee, director, officer, agent or in some other fiduciary capacity for any person or entity and to exercise all of the powers, duties, rights and responsibilities associated therewith;

   (c) Take any and all actions necessary, convenient or appropriate as trustee, executor, nominee, bailee, director, officer, agent or other fiduciary, including the granting or approval of waivers, consents or amendments of rights or powers relating thereto and the execution of appropriate documents to evidence such waivers, consents or amendments;

   (d) Operate, purchase, maintain, finance, improve, own, sell, convey, assign, mortgage, lease or demolish or otherwise dispose of any real or personal property that may be necessary, convenient or incidental to the accomplishment of the purposes of the Company;
(c) Borrow money and issue evidences of indebtedness in furtherance of any or all of the purposes of the Company, and secure the same by mortgage, pledge or other lien on the assets of the Company;

(f) Invest any funds of the Company pending distribution or payment of the same pursuant to the provisions of this Agreement;

(g) Prepay, in whole or in part, refinance, recast, increase, modify or extend any indebtedness of the Company and, in connection therewith, execute any extensions, renewals or modifications of any mortgage or security agreement securing such indebtedness;

(h) Enter into, perform and carry out contracts of any kind, including, without limitation, contracts with any person or entity affiliated with the Member, necessary to, in connection with, convenient to, or incidental to the accomplishment of the purposes of the Company;

(i) Employ or otherwise engage employees, managers, contractors, advisors, attorneys and consultants and pay reasonable compensation for such services;

(j) Enter into partnerships, limited liability companies, trusts, associations, corporations or other ventures with other persons or entities in furtherance of the purposes of the Company;

(k) To enter into, execute and deliver, without any further act, approval or vote of the Member, notwithstanding any of the provisions of this Agreement, the Act or any applicable law, rule or regulation, including, without limitation:

(i) The Share Purchase Agreement, dated December 29, 1999, between the Company and Enron Nigeria Barge Holding Ltd.;

(ii) The Pledge Agreement, dated December 29, 1999, between the Company and Enron Nigeria Power Holding Ltd.;

(iii) Loan Agreement, dated December 29, 1999, between the Company and Enron Nigeria Power Holding Ltd.;

(iv) The Shareholders' Agreement, dated December 29, 1999, between the Company, Enron Nigeria Barge Holding Ltd. and Enron Nigeria Barge Ltd.;

(v) The Tax Indemnity Letter, dated December 29, 1999, from the Company to Enron Nigeria Power Holding, Ltd., Enron Nigeria Barge Ltd. and Enron Nigeria Barge Holding Ltd.;

(vi) The Stock Power form pertaining to 999 Ordinary Shares;

(vii) The Stock Power form pertaining to 1 Ordinary Share; and
(viii) The StockPower form pertaining to 1,000 Preferred A Shares.

do such other things and engage in such other activities related to the foregoing as may be
necessary, convenient or incidental to the conduct of the business of the Company, and have and
exercise all of the powers and rights conferred upon limited liability companies formed pursuant
to the Act.

5. **Principal Business Office.** The principal business office of the Company shall
be located at World Financial Center, North Tower, 250 Vesey Street, New York, New York
10281.

6. **Registered Office.** The address of the registered office of the Company in the
State of Delaware is c/o The Corporation Service Company, 1013 Centre Road, Wilmington,
Delaware 19805.

7. **Registered Agent.** The name and address of the registered agent of the Company
for service of process on the Company in the State of Delaware are The Corporation Service
Company, 1013 Centre Road, Wilmington, New Castle County, Delaware 19805.

8. **Members.** The name and the mailing address of the Member are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>ML IBK Positions, Inc.</td>
<td>World Financial Center</td>
</tr>
<tr>
<td></td>
<td>North Tower</td>
</tr>
<tr>
<td></td>
<td>250 Vesey Street</td>
</tr>
<tr>
<td></td>
<td>New York, New York 10281</td>
</tr>
</tbody>
</table>

9. **Limited Liability.** Except as otherwise provided by the Act, the debts,
obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be
solely the debts, obligations and liabilities of the Company, and the Member shall not be
obligated personally for any such debt, obligation or liability of the Company solely by reason of
being a member of the Company.

10. **Capital Contributions.** The Member is deemed admitted as the Member of the
Company upon its execution and delivery of this Agreement. The Member has contributed
$7,000,000.00 in cash, and no other property, to the Company.

11. **Additional Contributions.** The Member is not required to make any additional
capital contribution to the Company. However, the Member may at any time make additional
capital contributions to the Company.

12. **Allocation of Profits and Losses.** The Company’s profits and losses shall be
allocated solely to the Member.

13. **Distributions.** Distributions shall be made to the Member at the times and in the
aggregate amounts determined by the Member. Notwithstanding any provision to the contrary
contained in this Agreement, the Company shall not make a distribution to the Member on
account of his interest in the Company if such distribution would violate Section 18-607 of the Act or other applicable law.

14. **Management.** In accordance with Section 18-402 of the Act, management of the Company shall be vested in the Member. The Member shall have the power to do any and all acts necessary, convenient or incidental to or for the furtherance of the purposes described herein, including all powers, statutory or otherwise, possessed by members of a limited liability company under the laws of the State of Delaware. The Member has the authority to bind the Company.

15. **Officers.** The Member may, from time to time as it deems advisable, select natural persons who are employees or agents of the Company and designate them as officers of the Company (the "Officers") and assign titles (including without limitation, President, Vice President, Secretary, and Treasurer) to any such person. Unless the Member decides otherwise, if the title is one commonly used for officers of a business corporation formed under the Delaware General Corporation Law, the assignment of such title shall constitute the delegation to such person of the authorities and duties that are normally associated with that office. Any delegation pursuant to this Section 15 may be revoked at any time by the Member. An Officer may be removed with or without cause by the Member. The Member hereby appoints the following officers to manage the affairs of the Company:

<table>
<thead>
<tr>
<th>Name</th>
<th>Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>James A. Brown</td>
<td>Chairman of the Board and President</td>
</tr>
<tr>
<td>Joseph S. Valenti</td>
<td>Vice President - Finance and Treasurer</td>
</tr>
<tr>
<td>Gerard Haugh</td>
<td>Vice President and Secretary</td>
</tr>
<tr>
<td>Kira J. Toone</td>
<td>Vice President, Assistant Secretary and Assistant Treasurer</td>
</tr>
<tr>
<td>Frank J. Conley</td>
<td>Vice President and Assistant Secretary</td>
</tr>
<tr>
<td>William R. Fula</td>
<td>Vice President and Assistant Secretary</td>
</tr>
</tbody>
</table>

16. **Other Business.** The Member may engage in or possess an interest in other business ventures of every kind and description, independently or with others. The Company shall not have any rights in or to such independent ventures or the income or profits therefrom by virtue of this Agreement.

17. **Exculpation and Indemnification.** No Member or Officer shall be liable to the Company or any other person or entity who has an interest in the Company for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Member or Officer in good faith on behalf of the Company and in a manner reasonably believed to be within the scope of the authority conferred on such Member or Officer by this Agreement, except that a Member or Officer shall be liable for any such loss, damage or claim incurred by reason of such Member's or Officer's willful misconduct. To the full extent permitted by applicable law, a Member or Officer shall be entitled to indemnification from the Company for any loss, damage or claim incurred by such Member or Officer by reason of any act or omission performed or
omitted by such Member or Officer in good faith on behalf of the Company and in a manner reasonably believed to be within the scope of the authority conferred on such Member or Officer by this Agreement, except that no Member or Officer shall be entitled to be indemnified in respect of any loss, damage or claim incurred by such Member or Officer by reason of willful misconduct with respect to such acts or omissions; provided, however, that any indemnity under this Section 17 shall be provided out of and to the extent of Company assets only, and the Member shall not have personal liability on account thereof.

18. Assignments. The Member may at any time assign in whole or in part its limited liability company interest in the Company. If the Member transfers all of its interest in the Company pursuant to this Section 18, the transferee shall be admitted to the Company upon its execution of an instrument signifying its agreement to be bound by the terms and conditions of this Agreement. Such admission shall be deemed effective immediately prior to the transfer, and, immediately following such admission, the transferor Member shall cease to be a member of the Company.

19. Resignation. The Member may at any time resign from the Company. If the Member resigns pursuant to this Section 19, an additional member shall be admitted to the Company, subject to Section 20 hereof, upon its execution of an instrument signifying its agreement to be bound by the terms and conditions of this Agreement. Such admission shall be deemed effective immediately prior to the resignation, and, immediately following such admission, the resigning Member shall cease to be a member of the Company.

20. Admission of Additional Members. One or more additional members of the Company may be admitted to the Company with the written consent of the Member.


(a) The Company shall dissolve and its affairs shall be wound up upon the first to occur of the following: (i) the written consent of the Member, (ii) at any time there are no members of the Company unless, within 90 days of the occurrence of the event that terminated the continued membership of the last remaining member of the Company (the "Termination Event"), the personal representative of the last remaining member agrees in writing to continue the Company and to the admission to the Company of such personal representative or its nominee or designee as a Member, effective as of the occurrence of the Termination Event, and such successor or its nominee or designee shall be admitted upon its execution of an instrument signifying its agreement to be bound by the terms and conditions of this Agreement, or (iii) the entry of a decree of judicial dissolution under Section 18-802 of the Act.

(b) The bankruptcy of the Member shall not cause the Member to cease to be a member of the Company and upon the occurrence of such an event, the business of the Company shall continue without dissolution.

(c) In the event of dissolution, the Company shall conduct only such activities as are necessary to wind up its affairs (including the sale of the assets of the Company in an orderly manner), and the assets of the Company shall be applied in the manner, and in the order of priority, set forth in Section 18-804 of the Act.
22. **Separability of Provisions.** Each provision of this Agreement shall be considered separable, and if for any reason any provision or provisions herein are determined to be invalid, unenforceable or illegal under any existing or future law, such invalidity, unenforceability or illegality shall not impair the operation of or affect those portions of this Agreement that are valid, enforceable and legal.

23. **Entire Agreement.** This Agreement constitutes the entire agreement of the Member with respect to the subject matter hereof.

24. **Governing Law.** This Agreement shall be governed by, and construed under, the laws of the State of Delaware (without regard to conflict of laws principles), all rights and remedies being governed by said laws.

25. **Amendments.** This Agreement may not be modified, altered, supplemented or amended except pursuant to a written agreement executed and delivered by the Member.

26. ** Sole Benefit of Member.** Except as expressly provided in Section 17, the provisions of this Agreement (including Section 11) are intended solely to benefit the Member and, to the fullest extent permitted by applicable law, shall not be construed as conferring any benefit upon any creditor of the Company (and no such creditor shall be a third-party beneficiary of this Agreement), and no Member shall have any duty or obligation to any creditor of the Company to make any contributions or payments to the Company.
IN WITNESS WHEREOF, the undersigned, intending to be legally bound hereby has duly executed this Agreement as of the date first written above.

ML IBK Positions, Inc.

By:  

Name: Joseph S. Valente  
Title: Vice President
SHARE TRANSFER FORM

<table>
<thead>
<tr>
<th>Consideration Money</th>
<th>Certificate Lodged with the Registrar for examination by Registrar</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>ENRON NIGERIA BARGE LIMITED</th>
</tr>
</thead>
</table>

Description of Shares: ORDINARY SHARES OF $1.00 EACH

<table>
<thead>
<tr>
<th>Number or Amount of Shares and in figures, column only, number and denomination of units (if any)</th>
<th>WORDS</th>
<th>FIGURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>TWE NINETY-NINTEEN AND NINETY-EIGHT KILO ORDINARY SHARES</td>
<td>999</td>
<td>ORDINARY SHARES</td>
</tr>
</tbody>
</table>

Name(s) of Registered holder[s] should be given in full. The address should be given where there is only one holder.

In the name[s] of ENRON NIGERIA BARGE HOLDING LIMITED

BENTLEY BUILDING, PORT A

GEORGETOWN, GRAND CAYMAN, CAYMAN ISLANDS

We hereby transfer the above security out of the name aforesaid to the person[s] named below:

Signature of the Transferor:

1. [Signature] Date: 12/30/99

2. [Signature] Date: 12/30/99

Full name[s], full postal address[es] including state of the person to whom the security is transferred:

ENRBCE, LLC

C/O ML LEASING EQUIPMENT Corp.

250 VESSEY ST.

NEW YORK, NY 10281

U. S. A.

I, the undersigned, declare this 30th day of December, 1999.

[Signature]

J. M. SMITH

Permanemn Subcommittee on Investigation

EXHIBIT #215

MS 05183
# SHARE TRANSFER FORM

<table>
<thead>
<tr>
<th>Consideration Money</th>
<th>Certificate Lodged</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>with the Registrar</td>
</tr>
<tr>
<td></td>
<td>(for redemption by bearer)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name of COMPANY</th>
<th>ERIXON NIGERIA LIMITED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description of Shares</td>
<td>ORDINARY SHARES OF N1,000 EACH</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number or Amount of Shares and in figures column only, number and denomination of shares (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>WORDS</td>
</tr>
<tr>
<td>FIGURES</td>
</tr>
<tr>
<td>ONE ORDINARY SHARE</td>
</tr>
<tr>
<td>1 ORDINARY SHARE</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name[s] of Registered holder[s] should be given in full. The address should be given where there is only one holder</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the name[s] of ERIXON NIGERIA LIMITED 1st FLOOR BUILDING NO. 210, 2ND FLOOR, GRAND GATAN, KOTA KITA, JEPARA</td>
</tr>
</tbody>
</table>

We hereby transfer the above security out of the name aforesaid to the person[s] named below:

**Signature of the Transferor:**

1. **Signature:** [Signature]
   **Date:** 12/30/99
2. **Assistant Secretary,**
   **Date:** 12/30/99

**Full name[s], full postal address[es] including state of the person to whom the security is transferred:**

**IBRAGE, INC.**

C/O T.R. LEVIN, EQUIPMENT COND.

250 VESSEY ST.

NEW YORK, NY 10014

**State:** NY

**SIGNATURES SUBSCRIBED TO AND DATED BETWEEN THE 1ST DAY OF JANUARY 1999, TO THE 30TH DAY OF DECEMBER 1999:**

**JULIUS D. DEBROW**

**CHIEF EXECUTIVE OFFICER**

**CHIEF FINANCIAL OFFICER**

**CHIEF OPERATING OFFICER**

**CEO**

**CFO**

**COO**

**MS 05184**
### SHARE TRANSFER FORM

<table>
<thead>
<tr>
<th>Consideration Money</th>
<th>Certificate Lodged with the Registrar for acceptance or approval</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Description of Shares</th>
<th>PREFERRED 'A' SHARES OF $1,000 EACH</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Number or Amount of Shares and in Figures column only, number and denomination of units (if any)</th>
<th>WORDS</th>
<th>FIGURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>ONE THOUSAND PREFERRED 'A' SHARES</td>
<td>1,000 PREFERRED 'A' SHARES</td>
<td></td>
</tr>
</tbody>
</table>

Name(s) of Registered holder(s) should be given in full. The address should be given where there is only one holder.

Name(s) of Registered holder(s) in the name(s) of DNW NIGERIA BORNEO LIMITED BORNEO BUILDING DICKSON, SIBUYAN CITY, DINAGAT ISLANDS

We hereby transfer the above security out of the name stated to the person(s) named below:

Signature of the Transferor:

1. [Signature]
   Date: 12/30/99

2. [Signature]
   Date: 12/30/99

Full name(s), full postal address(es) including state of the person to whom the security is transferred:

[Signature]

Address to and subscribed to the Board of Directors on 1st October 1999.

MS 05568
EXECUTION COPY

Dated 22 December 1999

ENRON NIGERIA POWER HOLDING, LTD.
(as Lender)

and

EBARGE, LLC
(as Borrower)

____________________________

LOAN AGREEMENT

____________________________

Permanent Subcommittee on Investigations
EXHIBIT #216a.

MS 04994
THIS LOAN AGREEMENT (this "Agreement") is made on 29 December 1999.

BETWEEN:

(1) ENRON NIGERIA POWER HOLDING, LTD., a company registered in the Cayman Islands with its registered office at the Huntlaw Building, Fort Street, George Town, Grand Cayman, Cayman Islands (together with its successors and permitted assigns, the "Lender"); and

(2) EBARGE, LLC, a limited liability company registered in Delaware, with its registered office at c/o ML Leasing Equipment Corp., 250 Vesey Street, New York, New York, 10281 (together with its successors and permitted assigns, the "Borrower").

WHEREAS, the Lender has agreed to lend and the Borrower has agreed to borrow and repay the Lender a fixed interest rate US Dollar term loan in each case on the terms and subject to the conditions of this Agreement,

IT IS AGREED as follows:

1. INTERPRETATION

1.1 Definitions

In this Agreement:

"Acquisition" means the acquisition by the Borrower from the Seller of the Shares.

"Business Day" means a day (other than a Saturday or a Sunday) on which banks are open for business in New York City.

"Default" means an Event of Default or an event which, with the giving of notice, expiry of any applicable grace period or determination of materiality by the Lender specified (in any such case) in Clause 13 (Default) (or any combination of the foregoing), would constitute an Event of Default.

"Dollars", "US Dollars", "US$" or "$" means the lawful currency for the time being of the United States of America.

"ENBL" means Enron Nigeria Bargé Limited, a company organised under the laws of the Republic of Nigeria.

"Event of Default" means an event specified as such in Clause 13.1 (Events of Default).

"Finance Document" means:

(a) this Agreement; or
(b) the Pledge Agreement.

"Financial Indebtedness"
means (without double counting) any indebtedness in respect of:

(a) moneys borrowed;
(b) any debenture, bond, note, loan stock or other security;
(c) any acceptance credit;
(d) receivables sold or discounted (otherwise than on a non-recourse basis);
(e) the acquisition cost of any asset to the extent payable before or more than 150 days after the time of acquisition or possession by the party liable where the advance or deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
(f) any lease entered into primarily as a method of raising finance or financing the acquisition of the asset leased;
(g) any currency swap or interest swap, cap or collar arrangement or any other derivative instrument;
(h) any amount raised under any other transaction having the commercial effect of a borrowing or raising of money; or
(i) any guarantee, indemnity or similar assurance against financial loss of any person.

"Full Repayment Date" means 31 December 2002.

"Interest Period" has the meaning specified in Clause 6.1.

"Loan" means the loan made or to be made by the Lender to the Borrower pursuant to clause 2.1(a) of this Agreement or the principal amount outstanding of that loan from time to time.

"Material Adverse Effect" means any event, occurrence or circumstance having, or being reasonably likely to have, a material adverse effect on the ability of the Borrower to perform and comply with its payment obligations hereunder.

"Material Agreement" means the Share Purchase Agreement and/or the Shareholders Agreement.

"Maximum Rate" means, on any day, the highest rate of interest on the Loan permitted by applicable law (if any) on such day.

"Party" means a party to this Agreement.

"Permitted Transaction" means:

(a) a reconstruction, amalgamation, reorganisation, merger or consolidation of the Borrower on terms approved by the Lender; or
(b) a disposal of assets permitted by the terms of this Agreement.

"Pledge Agreement" means the Pledge Agreement dated the date hereof between the Borrower and the Lender in relation to the Shares.

"Power Purchase Agreement" means the power purchase agreement dated 6th December 1999 by and among Enron Nigeria Power Holdings Limited and the other entities named therein.

"Repayment Date" means the last Business Day of each Interest Period.

"Security Interest" means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having the effect of conferring security.

"Seller" means Enron Nigeria Barge Holdings Limited, a company organised under the laws of the Cayman Islands.

"Share Purchase Agreement" means the share purchase agreement dated 29 December 1999 between the Seller and the Borrower in relation to the Shares.

"Shareholders Agreement" means the shareholders agreement dated 29 December 1999 between the Seller and the Borrower in relation to ENBL.

"Shares" means 1000 preferred A shares and 1000 ordinary shares of ENBL.

"United States" and "U.S." mean the United States of America.

1.2 Construction

(a) In this Agreement, unless the contrary intention appears, a reference to:

(i) "assets" includes real, personal, tangible and intangible properties, revenues and rights of every description;

an "authorisation" includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration and notarisation;

a "month" is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month, except that:

(1) if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that calendar month; or

(2) if an Interest Period commences on the last Business Day of a calendar month, that Interest Period shall end on the last Business Day in the calendar month in which it is to end; and
a "person" shall be construed as a reference to any person, firm, company, corporation, limited liability company, government, state, agency of a state or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing;

a "regulation" includes any regulation, rule, official directive, request or guideline (whether or not having the force of law, but if not having the force of law being of a type with which the person concerned is accustomed to comply) of any governmental body, agency, department or regulatory, self-regulatory or other authority or organisation;

(ii) a provision of a law is a reference to that provision as amended or re-enacted;

(iii) a Clause or a Schedule is a reference to a clause of or a schedule to this Agreement;

(iv) a person includes such person's successors and permitted transferees, novatees, and assigns;

(v) a contract or other document is a reference to that contract or other document as amended, novated, supplemented, restated, replaced or renewed; and

(vi) a time of day is a reference to New York time.

Unless the contrary intention appears, a term used in any notice given under or in connection with this Agreement has the same meaning in that notice as in this Agreement.

The table of contents to and the headings in this Agreement are for convenience only and are to be ignored in construing this Agreement.

Unless the context otherwise requires, and otherwise defined herein, words and expressions defined in the Share Purchase Agreement and the Power Purchase Agreement shall have the same meanings when used in this Agreement.

THE FACILITY

Loan

Subject to the terms of this Agreement, the Lender shall on the date hereof make to the Borrower a Loan in an amount equal to US$21,000,000.

No more than one Loan shall be made.

Conditions Precedent

The obligations of the Lender to the Borrower under this Agreement are subject to the following conditions precedent:

execution of the Pledge Agreement; and
(b) satisfaction of all conditions precedent under the Share Purchase Agreement and Shareholders Agreement (other than any condition relating to the satisfaction of conditions precedent under this Agreement).

2.3 Disbursement

Subject to the terms hereof, the Lender shall disburse the Loan to the Borrower on the date hereof in such manner as shall be agreed by the Lender and the Borrower, including, without limitation, the transfer of funds into a bank account of the Borrower or another person specified by the Borrower.

3. APPLICATION OF PROCEEDS

(a) The Borrower shall apply the Loan made to it for the purposes of financing the cost of the Acquisition.

(b) Without affecting the obligations of the Borrower in any way, the Lender is not bound to verify the application of the Loan.

4. REPAYMENT

On each Repayment Date the Borrower shall repay the Loan in the amount of US$773,010.33, or such lesser amount as shall have been received by the Borrower for such repayment period from ENBL. The Borrower shall repay the remainder of the Loan in full on the Full Repayment Date.

5. PREPAYMENT AND CANCELLATION

5.1 Voluntary prepayment

The Borrower may at any time, by giving not less than 3 Business Days' prior notice to the Lender, prepay the Loan, in whole or in part, together with all accrued and unpaid interest hereunder, then due and payable.

5.2 Mandatory prepayment

The Borrower shall prepay the Loan, together with all other amounts payable by the Borrower under this Agreement upon the happening of the earlier of the following events:

(a) liquidation of ENBL; or

(b) the receipt by the Borrower of distributions from ENBL following any buy-out of the Phase I Facilities pursuant to clause 18 of the Power Purchase Agreement.

5.3 Miscellaneous provisions

(a) All prepayments under this Agreement shall be made together with accrued interest on the amount prepaid.
(b) No prepayment is permitted except in accordance with the express terms of this Agreement.

(c) No amount prepaid may subsequently be re-borrowed.

6. INTEREST PERIODS

6.1 Interest periods

The Loan will have successive interest periods as specified in this Clause 6.1 (each an "Interest Period"). The first Interest Period shall commence on the date hereof and will end on 30 April 2000. Subsequent Interest Periods will commence on the expiry of the preceding Interest Period and shall have a length of 1 month.

6.2 Overrunning of repayment dates

If an Interest Period would otherwise overrun the date when all the outstanding principal amount of the Loan has been repaid or, without limitation, prepaid, that Interest Period shall be shortened so that it ends on such date.

7. INTEREST

7.1 Interest rate

(a) The rate of interest on the Loan for each of its Interest Periods is 12 percent per annum.

(b) Interest shall not be compounded.

(c) Interest shall be calculated based on a 365-day year and the actual number of days elapsed.

7.2 Due dates

(a) Except as otherwise provided in paragraph (b) below or elsewhere in this Agreement, accrued interest on the Loan is payable by the Borrower on the last day of each Interest Period.

(b) Subject to the provisions of Clause 7.3 (Default interest), the last payment of accrued interest on the Loan shall be made by the Borrower on the last day of the last Interest Period or on the date of a mandatory prepayment or acceleration pursuant to Clause 5.2 (Mandatory prepayment) or Clause 13.14 (Acceleration).

7.3 Default interest

If the Borrower fails to pay all amounts payable by it under this Agreement on the Repayment Date, it shall forthwith on demand by the Lender pay interest on the overdue amount from the due date up to the date of actual payment, as well after as before judgment, at two percent (2%) per annum in excess of the rate specified in Clause 7.1 (Interest rate).

7.4 Maximum rate

MS 05000
Notwithstanding any provision contained herein or in any document related hereto, the Lender shall in no circumstance be entitled to receive, collect or apply as interest on the Loan any amount in excess of the Maximum Rate. If the Lender ever receives, collects or applies as interest any such excess, the amount that would be excessive interest hereunder shall be deemed to be a partial prepayment of principal on the Loan and treated hereunder as such. In determining whether or not interest paid or payable exceeds the Maximum Rate, the Borrower and the Lender shall, to the maximum extent permitted under applicable law, amortize, prorate, allocate and spread, in equal parts, the total amount of interest throughout the entire contemplated term of the Loan so that the interest rate is uniform throughout the entire term and the rate or amount of interest on account of the Loan does not exceed the Maximum Rate.

8. **PAYMENTS**

8.1 **Place**

All payments by the Borrower under this Agreement shall be made to the account of the Lender at such bank in the United States as it may notify to the Borrower for this purpose.

8.2 **Currency and funds**

Payments under this Agreement to the Lender shall be made in Dollars for value on the due date.

8.3 **Set-off and counterclaim**

All payments made by the Borrower hereunder shall be made without set-off or counterclaim.

8.4 **Non-business days**

(a) If a payment hereunder is due on a day which is not a Business Day, the due date for that payment shall instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not).

(b) During any extension of the due date for payment of any principal under this Agreement interest is payable on the principal at the rate payable on the original due date.

8.5 **Partial payments**

(a) If the Lender receives a payment insufficient to discharge all the amounts then due and payable by the Borrower hereunder, the Lender shall apply that payment towards the obligations of the Borrower hereunder in the following order:

(i) first, in or towards payment pro rata of any accrued interest due but unpaid under this Agreement;

(ii) secondly, in or towards payment pro rata of any principal due but unpaid under this Agreement; and

(iii) thirdly, in or towards payment pro rata of any other sum due but unpaid under this Agreement.
(b) Paragraph (a) above shall override any appropriation made by the Borrower.

9. NOT USED

10. ILLEGALITY

If it is or becomes unlawful or contrary to any regulation in any jurisdiction for the Lender to give effect to any of its obligations as contemplated by this Agreement or to fund or maintain its participation in the Loan, then:

(a) the Lender shall promptly notify the Borrower accordingly; and

(b) the Borrower shall, on the latest day permitted by the relevant law or regulation, prepay the Loan together with all other amounts payable by it to the Lender under this Agreement.

11. REPRESENTATIONS AND WARRANTIES

11.1 Representations and warranties

The Borrower makes the representations and warranties set out in this Clause 11 (Representations and warranties) to the Lender.

11.2 Status

(a) It is a Delaware limited liability company; and

(b) it has the power to own its assets and carry on its business as it is being conducted.

11.3 Powers and authority

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into, performance and delivery of, this Agreement and the transactions contemplated by this Agreement.

11.4 Legal validity

This Agreement constitutes its legal, valid, binding and enforceable obligation, subject, as to enforceability, to applicable bankruptcy, insolvency and similar laws affecting creditors’ rights generally and to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

11.5 Non-conflict

The entry into and performance by it of, and the transactions contemplated by, this Agreement do not and will not:

(a) conflict with any U.S. law or regulation, judicial or official order;
2126

(b) conflict with its Certificate of Formation or Operating Agreement; or

c) conflict with any document which is binding upon it.

11.6 No default

No Event of Default or Default is outstanding or will result from the Loan.

11.7 Authorisations

All authorisations required of the Borrower by the laws of Delaware or by any other applicable law in the United States in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, this Agreement have been obtained or effected (as appropriate) and are in full force and effect.

11.8 Litigation

No litigation, arbitration or administrative proceedings involving the Borrower are current or, to its knowledge, pending or threatened:

(a) to restrain the entry into, exercise of any of its rights, and/or performance or enforcement of or compliance with any of its obligations, hereunder; or

(b) which have a Material Adverse Effect.

11.9 Assets

The Borrower is and will remain the legal and/or beneficial owner of all its assets free from any Security Interests, other than the Pledge Agreement.

11.10 No commitment

The Borrower has no Financial Indebtedness (other than the Loan made hereunder).

11.11 Payment of taxes

The Borrower has paid all taxes, assessments and other governmental charges imposed on it that have become due and payable.

11.12 Investment Borrower Act of 1940

Neither the Borrower, nor any of its Subsidiaries, is an "investment company" within the meaning of the U.S. Investment Borrower Act of 1940, as amended.

11.13 Times for making representations and warranties

The representations and warranties set out in this Clause 11 (Representations and warranties) are made by the Borrower, unless it is expressly provided to the contrary, on the date of this Agreement.
11.14 Qualifications to representations

The Borrower shall promptly disclose to the Lender if any representation and warranty to be made under this Clause 11 (Representations and warranties) ceases to be correct as at the date it is to be made. Any misrepresentation which has arisen or which may arise and which has been disclosed to the Lender may be waived only by a written instrument executed by the Lender expressly setting forth such waiver.

12. UNDERTAKINGS

12.1 Duration

The undertakings in this Clause 12 (Undertakings) remain in force from the date of this Agreement for so long as any amount in respect of principal or interest payable under this Agreement is outstanding.

12.2 Information - miscellaneous

The Borrower shall promptly supply to the Lender such information in the possession or control, of the Borrower regarding its financial condition and operations as the Lender may reasonably request and which the Borrower is able to provide without breaching any legal obligation or regulation.

12.3 Notification of default

The Borrower shall notify the Lender of any outstanding Default (and the steps, if any, being taken to remedy it) promptly (and in any event within five days) upon an executive officer of the Borrower becoming aware of its occurrence.

12.4 Authorisations

The Borrower shall promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under or for the validity or enforceability of this Agreement; provided, that the Lender shall use all reasonable efforts to keep the Borrower properly informed in relation to any laws or regulations in Nigeria that may be binding upon the Borrower and relevant to the transaction reflected in this Agreement.

12.5 Pari-passu ranking

The Borrower shall procure that its payment obligations hereunder do and will rank at least pari passu with all its other present and future unsecured and unsubordinated obligations, except for obligations which are mandatorily preferred by law applying to companies generally.

12.6 Disposals

The Borrower shall not sell, transfer, encumber or otherwise dispose of, grant any security over, or cease to exercise control over any of the Shares acquired by it except strictly in accordance with the provisions of the Pledge Agreement, the Share Purchase Agreement and Shareholders Agreement.
12.7 Change of business

The Borrower shall procure that no substantial change is made to the general nature or scope of
the business of the Borrower from that carried on at the date of this Agreement. An extension
into ancillary businesses does not constitute a change in the general nature or scope of the
business of the Borrower for the purposes of this Clause 12.7.

12.8 Constitutional documents

The Borrower will not, without the prior consent of the Lender or as required by applicable law,
amend or seek or agree to amend or replace its Certificate of Formation in any way which would
be likely materially and adversely to affect the interests of the Lender hereunder.

12.9 Compliance with laws

The Borrower shall comply in all material respects with all applicable laws and regulations,
whether domestic or foreign, having jurisdiction over it or any of its assets, failure to comply
with which has a Material Adverse Effect; provided, that the Lender shall use all reasonable
efforts to keep the Borrower properly informed in relation to any laws or regulations in Nigeria
that may be binding upon the Borrower and relevant to the transaction reflected in this
Agreement.

13. DEFAULT

13.1 Events of Default

Each of the events set out in Clauses 13.2 (Non-payment of principal) to 13.13 (Repudiation of
Material Agreements and Finance Documents) (inclusive) is an Event of Default (whether or not
cause by any reason whatsoever outside the control of the Borrower or any other person).

13.2 Non-payment of principal

The Borrower does not pay on the due date any amount of principal payable by it to the Lender
hereunder at the place and in the currency in which it is expressed to be payable and such non-
payment continues unremedied for 3 Business Days from the receipt by the Borrower of notice
of non-payment from the Lender.

13.3 Breach of other obligations

The Borrower fails to comply with any other undertaking hereunder and such failure continues
unremedied for 30 days from the earlier of the Borrower becoming aware of such failure and
receipt by the Borrower of notice of such non-compliance from the Lender.

13.4 Misrepresentation

A representation, warranty or statement made in this Agreement is incorrect in any material
respect when made or deemed to be made by reference to the facts and circumstances then
subsisting and, if the circumstances causing the misrepresentation are capable of remedy within
that period, that misrepresentation is not remedied within 28 days of the earlier of the Borrower
becoming aware of the misrepresentation and receipt by the Borrower of notice from the Lender requiring remedy.

13.5 Cross default

Any Financial Indebtedness of the Borrower exceeding in the aggregate $250,000 becomes prematurely due and payable or is placed on demand as a result of an event of default (however described) under the document relating to such Financial Indebtedness.

13.6 Insolvency; Insolvency proceedings

(a) An involuntary case shall be commenced against the Borrower and the petition shall not be dismissed, stayed, bonded or discharged for a period of 60 days; or a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Borrower in an involuntary case, under any applicable bankruptcy, insolvency or other similar law now or hereinafter in effect; or any other similar relief shall be granted under any applicable federal, state or local law; or the board of directors of the Borrower (or any committee thereof) adopts any resolution or otherwise authorizes any action to approve any of the foregoing;

(b) a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over the Borrower or over all or a substantial part of the assets of the Borrower shall be entered and such decree or order shall not be stayed, dismissed or discharged for a period of 60 days; or an interim receiver, trustee or other custodian of the Borrower or of all or a substantial part of the assets of the Borrower shall be appointed or a warrant of attachment, execution or similar process against any substantial part of the assets of the Borrower shall be issued and any such event shall not be stayed, dismissed, bonded or discharged for a period of 60 days; or the board of directors of the Borrower (or any committee thereof) adopts any resolution or otherwise authorizes any action to approve any of the foregoing;

(c) the Borrower shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case, or to the conversion of an involuntary case to a voluntary case, under any such law, or shall consent to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its assets; or the Borrower shall make any assignment for the benefit of creditors or shall be unable or fail, or shall admit in writing its inability, to pay its debts as such debts become due, or the board of directors of the Borrower (or any committee thereof) adopts any resolution or otherwise authorizes any action to approve any of the foregoing; or

(d) any other step (including petition, proposal or convening a meeting) is taken with a view to the rehabilitation, administration, custodianship, liquidation, winding-up or dissolution of the Borrower or any other insolvency proceedings involving the Borrower, and, in the case of any such step taken by any person other than the Borrower, is not withdrawn, discharged or stayed within 60 days, except for any which arises from a Permitted Transaction.

13.7 [Intentionally deleted.]

13.8 [Intentionally deleted.]
13.9 Cessation of business

The Borrower ceases to carry on all or a substantial part of its business, other than in connection with a Permitted Transaction.

13.10 Unlawfulness

It is or becomes unlawful for the Borrower to perform any of its material obligations hereunder.

13.11 Expropriation

The authority or ability of the Borrower to conduct its business is wholly or substantially curtailed by any expropriation or renationalization by or on behalf of any governmental authority.

13.12 Breach of Material Agreements and Finance Documents

The Borrower commits a material unremedied breach of any Material Agreement or any other Finance Document and such failure continues unremedied for 30 days from the earlier of the Borrower becoming aware of such failure and receipt by the Borrower of notice of such non-compliance from the Lender.

13.13 Repudiation of Material Agreements and Finance Documents

Any Material Agreement or any other Finance Document is repudiated in accordance with its terms.

13.14 Acceleration

(a) The Lender shall have the right, by notice to the Borrower at least three (3) Business Days following the occurrence of an Event of Default (other than in the case of an Event of Default under Clause 13.6, in which case such notice shall not be required and acceleration shall be automatic) to demand that all or part of the Loan, together with accrued interest under this Agreement be immediately paid, whereupon they shall become immediately due and payable.

(b) The Lender agrees that it will look solely to the Collateral (as such term is defined in the Pledge Agreement) for repayment of the Loan and all other amounts accrued under this Agreement, and that neither the Borrower nor any of its partners, employees or agents (including, without limitation, any of the persons set forth in Clause 19 (No Recourse) hereof) is personally liable to the Lender for any amounts due under this Agreement.

(c) Notwithstanding the non-recourse nature of the Borrower's obligations under this Agreement, it is understood and agreed that foreclosure actions (or similar proceedings) may be maintained against the Borrower but any judgment obtained shall be enforced only against the Collateral (as such term is defined in the Pledge Agreement), it being further understood and agreed that nothing herein shall be construed in any way so as to affect or impair the lien of the Pledge Agreement, or to affect or impair the holder's right to foreclose on said security as provided by applicable law or, subject only to the aforesaid limitation upon enforcement of any judgment against the Borrower or any of its partners, employees or agents or against any of the persons set forth in Clause 19 (No Recourse)
hereof, otherwise to limit or restrict any of the rights and remedies of the Lender in any foreclosure proceeding or other enforcement of payment of the Loan out of and from the Collateral (as such term is defined in the Pledge Agreement).

14. CHANGES TO THE PARTIES

14.1 Transfers by the Borrower

The Borrower may not assign, transfer, novate or dispose of any of, or any interest in, its rights and/or obligations under this Agreement without the prior written consent of the Lender, which consent shall not be unreasonably witheld or delayed.

14.2 Transfers by the Lender

The Lender shall have the right to assign, transfer or novate its rights and/or obligations under this Agreement without the consent of the Borrower.

15. SEVERABILITY. COUNTERPARTS

(a) If a provision of this Agreement is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

(i) the legality, validity or enforceability in that jurisdiction of any other provision of this Agreement; or

(ii) the legality, validity or enforceability in other jurisdictions of that or any other provision of this Agreement.

(b) This Agreement may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement.

16. NOTICES

16.1 Giving of notices

Except as otherwise expressly provided herein in any particular case, all notices, approvals, consents, requests and other communications hereunder shall be in writing and shall, if addressed as provided in Clause 16.2 (Addresses for notices), be deemed to have been given, (i) when delivered by hand, (ii) one Business Day after being sent by a private nationally or internationally recognized overnight courier service, or (iii) when sent by telecopy, if immediately after transmission the sender's facsimile machine records in writing the correct answer back. However, a notice given in accordance with the above but received on a day that is not a Business Day or after business hours in the place of receipt will only be deemed to be given on the next Business Day in that place.

16.2 Addresses for notices

The address, telex number and facsimile number of each Party for all notices under or in connection herewith are:

MS 05008
for the Borrower – those specified in the Share Purchase Agreement; and

for Lender: Enron Nigeria Power Holding Ltd.
333 Clay Street, Suite 1800
Houston, Texas 77002
Attention: Senior Vice President, Africa
Fax Number: (713) 646-7453

with a copy of all legal notices to:

Enron Asia Pacific/Africa/China
333 Clay Street, Suite 1800
Houston, Texas 77002
Attention: General Counsel
Fax number: (713) 345-5538

17. GOVERNING LAW

This Agreement, any amendments hereeto in the form of supplemental agreements or otherwise, and any disputes between the Parties arising under or in connection with this Agreement shall be governed by and construed in accordance with the laws of the State of New York, United States of America. Any claim or controversy in connection with this Agreement shall be settled by arbitration conducted under the Rules of Conciliation and Arbitration of the International Chamber of Commerce ("ICC Rules") not inconsistent with the provisions of this Agreement. The arbitration proceeding may commence at the request of either Party and shall be conducted before a panel of three (3) arbitrators, one (1) appointed by each Party and one (1) by the two so chosen. If an arbitrator is not appointed within twenty (20) days of request by either Party, any New York court of competent jurisdiction shall appoint such arbitrator. Judgment may include costs and attorneys' fees and may be entered in any court of competent jurisdiction. The arbitration shall be conducted in New York, NY, United States of America or other such place as the Parties may agree, in the English language. Arbitration shall be the sole method of resolving disputes not settled by mutual agreement. The determination of the arbitrators shall be final and binding on all Parties and may be enforced by appropriate judicial order.

18. WAIVER OF SOVEREIGN IMMUNITY

The Borrower represents and warrants that this Agreement and the incurring by the Borrower of the Loan are commercial rather than public or governmental acts and that the Borrower is not entitled to claim immunity from set-off, action, legal proceedings, attachment prior to judgement, other attachment, execution of judgement or enforcement proceedings with respect to itself or any of its assets on the grounds of sovereignty or otherwise under any law or in any jurisdiction where an action may be brought for enforcement of any of the obligations arising under or relating to this Agreement. To the extent that the Borrower or any of its assets has or hereafter may acquire any right to immunity from set-off, action, legal proceedings, attachment prior to judgement, other attachment, execution of judgement or enforcement proceedings on the grounds of sovereignty or otherwise, the Borrower hereby irrevocably waives such rights to immunity in respect of its obligations arising under or relating to this Agreement.
19. NO RECOUSE

The Borrower's obligations under this Agreement are intended to be the obligations of the limited liability company only and no recourse for the payment of the Loan and for any other amount due under this Agreement or for any claim based hereon or thereon or otherwise in respect thereof, shall be had against any member of the Borrower or any incorporator, managing member, officer, director or Affiliate, as such, past, present or future of any such managing member (or the general partner thereof) or of any successor corporation to such managing member (or the general partner thereof) or of any member of the Borrower, or against any direct or indirect parent corporation of such managing member (or the general partner thereof) or of any member of the Borrower or any other subsidiary or Affiliate of any such direct or indirect parent corporation or any incorporator, shareholder, officer or director, as such, past, present or future, of any such parent or other subsidiary or Affiliate.

[Remainder of Page Left Intentionally Blank]
IN WITNESS WHEREOF the parties have duly executed this Agreement on the day and year first above written.

ENRON NIGERIA POWER HOLDING, LTD.

By: _

Name: 

Position: 

EBARGE, LLC

By: 

Name: 

Position: 

[Signature Page to Loan Agreement]
IN WITNESS WHEREOF the parties have duly executed this Agreement on the day and year first above written.

ENRON NIGERIA POWER HOLDING, LTD.

By: __________________________________________
Name: ________________________________________
Position: ______________________________________

EBARGE, LLC

By: __________________________________________
Name: ________________________________________
Position: Vice President & Treasurer

[Signature Page to Loan Agreement]

MS 05012
DATED 29 DECEMBER 1999

ENRON NIGERIA BARGE HOLDING LTD.

- and -

EBARGE, LLC

- and -

ENRON NIGERIA BARGE LTD.

______________________________
SHAREHOLDERS' AGREEMENT

EXHIBIT #216b.
SHAREHOLDERS AGREEMENT dated 29 December, 1999

BETWEEN:

(1) ENRON NIGERIA BARGE HOLDING LTD., a company registered in the Cayman Islands with its registered office at Huntlaw Building, Fort Street, George Town, Grand Cayman, Cayman Islands ("Enron");

(2) EBARGE, LLC, a limited liability company registered in Delaware, with its registered office at c/o ML Leasing Equipment Corp., 250 Vesey Street, New York, New York 10281 ("Ebarge"); and

(3) ENRON NIGERIA BARGE LTD., a company registered in Nigeria with its registered office at 35 Moloney Street, Lagos, Nigeria (the "Company").

WHEREAS:

(A) Enron and Ebarge are parties to an agreement dated 29 December, 1999 (the "Share Purchase Agreement") whereby, inter alia, Ebarge agrees to purchase certain shares in the Company from Enron.

(B) The authorised share capital of the Company as at the date hereof is N10,000,000 divided into 1,000 preferred A shares of N1,000 each, 8,000 preferred B shares of N1,000 each, and 1,000 ordinary shares of N1,000 each.

(C) The issued share capital of the Company is held by the Parties as set forth in Schedule 1 hereto.

(D) The Parties have entered into this Agreement in order to provide for the governance of the Company and certain other matters pertaining to the relationship between them.

IT IS AGREED as follows:

1. Interpretation and Definitions

1.1 In this Agreement, the following terms shall (unless the context requires otherwise) have the following respective meanings:

"A Directors" means the Directors appointed from time to time by the holders of the A Shares.

"A Shares" means the 1,000 preferred A shares of N1,000 each in the capital of the Company, defined as such in the Articles.

"A Shareholders" means the holders from time to time of the A Shares.

"Affiliate" means with respect to any Person, any other Person that (a) controls or owns the first Person, (b) is owned or controlled by the first Person, or (c) is under common ownership or control with the first Person, where "own" means ownership of 50% or more of the equity interests or rights to distributions on account of equity of the Person and "control" means the power to direct the management or policies of the Person, whether through the ownership of voting securities, by contract, or otherwise.

"Articles" means the articles of association of the Company in force from time to time.
"B Directors" means the Directors appointed from time to time by the holders of the B Shares.

"B Shares" means the 8,000 preferred B shares of N1,000 each in the capital of the Company, defined as such in the Articles.

"B Shareholders" means the holders from time to time of the B Shares.

"Board" means the board of directors of the Company from time to time.

"Business Day" means a day other than a Saturday or a Sunday on which banks are open for business in Lagos, Nigeria.

"Communication" has the meaning specified in clause 16.1.

"Completion" has the meaning given to such expression in the Share Purchase Agreement.

"Control" means in relation to a company, any one or more of:

(a) legal and/or beneficial ownership of shares carrying the right to exercise at least 50% of the votes entitled to be cast at general meetings of the shareholders of the company, or any holding company of that company; or

(b) the right to appoint directors or other officers to the board or equivalent governing bodies of the company, or any holding company of that company, who have the right to exercise at least 50% of the votes entitled to be cast at meetings of such directors or other officers; or

(c) the right (legal or de facto) to manage or direct the management of the company, or any holding company of that company.

"Court" has the meaning specified in clause 18.1.

"day" means a calendar day.

"Director" or "Directors" means a director or the directors from time to time of the Company.

"Engagement Letter" means the letter of even date herewith between Merrill Lynch, Pierce, Fenner & Smith Incorporated and Enron Corp. relating to the acquisition of certain of the Shares and certain ancillary matters connected therewith.

"Fair Market Value" means the value which is stated in writing by the firm of PriceWaterhouseCoopers, or such other accountancy firm of international repute as the Parties may agree, whose charges shall be borne by the Company, to be in their opinion the fair value of the Shares concerned on a sale between a willing seller and a willing purchaser, having regard to the rights and restrictions attached to such Shares.

"Major Decisions" has the meaning specified in clause 5.1.

"N" or "Naira" means the lawful currency of the Republic of Nigeria.

"Offer Price" has the meaning given in the Articles.

"Ordinary Directors" means the directors appointed from time to time by the holders of the Ordinary Shares.
"Ordinary Shareholder" means a holder of Ordinary Shares.

"Ordinary Shares" means the 1,000 ordinary shares of N1,000 each in the capital of the Company.

"Party" or "Parties" means any party to this Agreement or all of them, as the context requires.

"Person" includes any individual, corporation, company, limited liability company, partnership (general or limited), business, trust, or other governmental or non-governmental entity or association.

"Power Purchase Agreement" means the power purchase agreement dated 6 December 1999 made by and among Enron Nigeria Power Holding Ltd, Lagos State, the Federal Republic of Nigeria and the National Electric Power Authority of Nigeria.

"Sale Notice" has the meaning specified in the Articles.

"Shareholder" means a holder of Shares.

"Share Purchase Agreement" has the meaning specified in recital (A).

"Shares" means the Ordinary Shares and/or the A Shares and/or the B Shares, as the context shall require.

"Transfer" means to sell, transfer, assign, pledge, charge, or grant a security interest over, or otherwise to dispose; and "Transferees" and similar expressions shall be construed accordingly.

"United States" and "US" means the United States of America.

1.2 Except where the context requires otherwise, references to clauses or Schedules are to clauses of or Schedules to this Agreement.

1.3 Headings are inserted for convenience only and shall not affect the construction of this Agreement.

1.4 References to any gender include all others if applicable in the context.

1.5 All uses of "include" or "including" mean without limitation.

1.6 References to a contract, agreement, or other document mean that contract, agreement, or document as amended, modified, or supplemented, if applicable, from time to time.

2. Existing Business and Interests of the Company

2.1 Existing Business of the Company. The business of the Company is the financing, development, ownership and/or operation of, initially, three (3) barge mounted electricity generating units located or to be located in Lagos, Nigeria, or activities ancillary thereto.

2.2 Best Interests of the Company. The Parties acknowledge that the business of the Company shall be conducted by the Directors in the best interests of the Company on sound commercial profit-making principles so as to generate the maximum achievable maintainable cash flows available for distribution.
3. **Directors of the Company**

3.1 **Appointment.** The A Shareholders shall have the right, exercisable by notice in writing to the Company, to appoint at any time up to, but no more in aggregate at any one time than, one A Director. The B Shareholders shall have the right, exercisable by notice in writing to the Company, to appoint at any time up to, but no more in aggregate at any one time than, eight B Directors. The Ordinary Shareholders shall have the right, exercisable by notice in writing to the Company, to appoint at any time up to, but no more in aggregate at any one time than, one Ordinary Director.

3.2 **Removal.** Any A Director may be removed or replaced, with or without cause, and any vacancy may be filled by notice delivered to the Company by, the A Shareholders. Any B Director may be removed or replaced, with or without cause, and any vacancy may be filled by notice delivered to the Company by the B Shareholders. Any Ordinary Director may be removed or replaced with or without cause, and any vacancy may be filled by notice delivered to the Company by, the Ordinary Shareholders. To the extent that any further action (corporate or shareholder) is required to give full legal effect to any such notice, the Parties shall procure that such further action is taken promptly and in any event within 21 days of the date of the notice.

3.3 **Chairperson.** The position of chairperson of the Board shall be a nominee from time to time of the B Directors from among their number. The chairperson of the Board shall have a casting vote at all and any meetings of the Board.

3.4 **Actions of Directors.** The A Shareholders, the B Shareholders and the Ordinary Shareholders shall take all reasonable steps to ensure that their respective nominees as Directors at all times comply with the requirements of this Agreement. If a Director votes other than in accordance with the requirements of this Agreement, then:

(a) as between the Parties, the vote shall be deemed to be invalid and ineffective; and

(b) the Shareholder who nominated that Director will procure that such Director is immediately removed from office and replaced by a further nominee of such Shareholder.

3.5 **Payment of Directors.** The Directors will not be entitled to payment from the Company in their capacity as Directors, other than reimbursement of expenses in accordance with any agreement reached with the Company from time to time.

3.6 **Board meetings.** The Board will meet not less than twice in each year, and on any other occasion requested by a Director, by the Company giving not less than 10 Business Days' prior written notice to the Directors.

3.7 **Alternate directors.** Subject to the Articles, each Director shall be entitled to appoint, remove and replace from time to time an alternate director. In the absence of the Director appointing him, an alternate director shall have all powers of that Director in relation to the Board and be deemed to be a member of the Board for all purposes.

3.8 **Quorum.** The quorum for a meeting of the Board shall be five Directors (or their alternates). If a quorum is not present at any meeting of the Board proposed with due notice, the meeting shall be reconvened on the 10th Business Day after (and excluding) the date of the original meeting.

3.9 **Voting.** Subject to Clauses 3.10 and 3.11, each decision of the Board shall, if the decision does not constitute a Major Decision, require a majority affirmative vote of the Directors.
3.10 **Management.** The Directors shall, subject to the Articles and to applicable law (but to the fullest extent permitted thereby), have full and complete authority to conduct the day-to-day management and activities of the Company as they shall in their absolute discretion determine.

3.11 **Financing.** In the event that it would at any time, in the opinion of the Board be in the interests of the Company to seek or obtain any further financing or refinancing of the business or operations of the Company:

(a) the Board, or such Person or Persons as the Board may nominate, shall and shall be entitled to arrange, negotiate and conclude any such financing or refinancing on behalf of the Company; and

(b) the Shareholders shall co-operate in such financing or refinancing and shall provide such undertakings and such pledges, mortgages and charges over or in respect of the Shares as may reasonably be required in connection therewith.

3.12 **Indemnification.**

(a) The Shareholders shall procure that the Company shall indemnify each Director appointed under or following execution of this Agreement (and any alternate of such director) from all losses, costs, liabilities and expenses associated with that individual's service as a Director or alternate director; provided, however, that such indemnification shall not apply to actions constituting gross negligence or wilful misconduct.

(b) The Shareholders shall procure that the Company and the Company agrees that it shall (out of the funds of the Company) indemnify each Shareholder and its managing member (including the general partner thereof) and their respective officers, members, directors, employees, and agents from and against all losses, costs, liabilities, and expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred by such party in defending any proceedings, whether civil or criminal, arising in connection with this Agreement or as a result of such Shareholder's membership in the Company or involvement in the affairs of the Company, in which judgment is given in such party's favor, or in which such party is acquitted, or in connection with any application under Section 641 of the Decree (as defined in the Articles) in which relief is granted to such party by the Court.

4. **Shareholders**

4.1 **Meetings of Shareholders.** The Shareholders shall meet at least once every fiscal year, at such location and on such date and time as may be determined by the Board. Meetings of the Shareholders may be called by the Board, and shall be called by the Board upon the request of any Shareholder owning Shares representing at least 25% of a particular class of Shares, upon 10 Business Days' notice to all Shareholders. No business shall be acted upon at such a meeting that is not stated in the notice of the meeting.

4.2 **Quorum.** No action may be taken at a meeting of the Shareholders unless a majority of the B Shareholders are present at such meeting by way of authorised representative.
5. **Major Decisions**

5.1 **Major Decisions.** The Shareholders shall not, and shall procure that their appointees as Director shall not, make any Major Decision unless, in addition to any other consents or approvals that may be required, a majority of Directors have approved such Major Decision at a meeting of the Board or in writing (and subject and without prejudice to the provisions of the Articles). The following decisions constitute "Major Decisions":

(a) undertaking borrowings, or incurring other indebtedness, in excess of $5 million;

(b) mergers, consolidations, sale of all or substantially all of the assets, liquidation (partial or complete) or dissolution of the Company;

(c) issuing additional Shares in the Company or granting any right to acquire any other equity interest in (or instrument convertible into equity interests in) the Company;

(d) amendment to the memorandum of association of the Company or of the Articles; and/or

(e) a decision to wind up the Company.

6. **Taxation**

6.1 All matters in relation to taxation of the Company shall be treated or determined as the Board shall in its absolute discretion decide.

6.2 The Shareholders or any of them shall be entitled to procure that the Company pays all amounts required to be paid by the taxation codes and laws of Nigeria and any other applicable law, and withholds such amounts from distributions to the Shareholders to the extent required to be withheld by any such codes or law.

6.3 A Shareholder shall reimburse to the Company any amount distributed to the Shareholder in respect of which the Company has paid any withholding taxes on behalf of such Shareholder in accordance with applicable law, promptly following receipt from the Company of evidence of payment of such taxes.

6.4 The Shareholders acknowledge that the Company shall be treated as a partnership for the purposes of United States income tax, and that the Company shall not be otherwise characterised for the purposes of any tax returns, statements or reports filed by the Shareholders or any of their Affiliates with the income tax authorities of the United States. The Shareholders shall prepare and file, or shall procure the preparation and filing of, with the income tax authorities of the United States, any form, election, or application which in their reasonable opinion is necessary to cause the Company to be treated as a partnership for the purposes of United States income tax.

6.5 The Shareholders shall not amend the memorandum of association of the Company or the Articles where such amendment might reasonably be expected to cause the Company not to be treated as a partnership for the purposes of United States income tax.

6.6 None of Shareholders or their Affiliates shall take any action that might reasonably be expected to result in the Company:

(a) having income effectively connected with a United States trade or business for the purposes of United States federal income tax.
(b) receiving income from a United States source for such purposes; or
(c) otherwise being required to file a United States income tax return subject to
Clause 6.7.

6.7 Except to the extent that the Board otherwise determines and subject to clause 6.8, the
Shareholders shall prepare and file, or shall procure the preparation and filing of, with the
income tax authorities of the United States, for or in respect of the Company:

(a) any information and/or reporting returns for the purposes of United States income
tax;
(b) at the request of any Shareholder, an election under Section 754 of the United
States Tax Code, subject to the right of any Shareholder to seek to revoke any
such election in relation to subsequent transactions; and
(c) any other form, election, application or request reasonably determined by the
Board to be desirable,
and shall provide any information reasonably required from them for the purposes of any
such filing.

6.8 The Shareholders shall procure that the Company shall provide a copy of any filing
proposed to be made in accordance with this clause 6 to all Shareholders a reasonable
time prior to the making of such filing, and no such filing shall be made to the extent that
it might reasonably be expected to result in any increased direct or indirect tax cost to the
Company. The Shareholders shall procure that, as soon as reasonably practicable and not
later than 90 days following any such filing, the Company shall provide a copy of such
filing to each of the Shareholders.

7. [Not Used]

8. Transfer of Shares

8.1 General. Except as expressly provided in this Agreement or with the written consent of
each other Shareholder, no Shareholder may Transfer any of its Shares.

8.2 Transfers to Affiliates and Connected Persons. A Shareholder shall be free to sell and
transfer to an Affiliate of that Shareholder, on any terms and at any price, all or any of
its Shares, provided that:

(a) the proposed transferee shall first have executed and delivered an assumption-
document in accordance with clause 8.3; and
(b) any transfer pursuant to this clause 8.2 shall not release the transferring
Shareholder from any of its obligations or liabilities under or arising out of this
Agreement prior to the time of the transfer.

8.3 Transferee obligations. A Shareholder shall not Transfer any of its Shares unless prior
to any such Transfer the intended transferee assumes (in a written document on terms
reasonably satisfactory to the non-transferring Shareholders) all of such Shareholder’s
obligations under this Agreement.

9. Warranties

9.1 Mutual warranties. Each Shareholder warrants to the other Shareholders that:
(a) it is a duly organized, validly existing entity, is in good standing under the laws of the jurisdiction of its formation and has all requisite power and authority to enter into and to perform its obligations under this Agreement;

(b) its execution, delivery and performance of this Agreement have been authorised by all necessary corporate action on its part and that of its equity owners (if required) and do not and will not (i) violate any law, rule, regulation, order or decree applicable to it or (ii) violate its organisational documents;

(c) this Agreement is a legal and binding obligation of that Shareholder, enforceable against that Shareholder in accordance with its terms, except to the extent enforceability is modified by bankruptcy, reorganisation and other similar laws affecting the rights of creditors generally and by general principles of equity;

(d) there is no litigation pending or, to the best of its knowledge, threatened to which that Shareholder or any of its Affiliates or any Person that Controls that Shareholder is a party that could reasonably be expected to have a material adverse effect on the financial condition, prospects, or business of that Shareholder or its ability to perform its obligations under this Agreement.

10. Events of Default

10.1 Events of Default. It is an Event of Default, whether or not it is within the control of any Shareholder, if:

(a) material breach:

(i) any Shareholder breaches any material obligation under this Agreement;

(ii) another Shareholder gives written notice of the breach to the Shareholder in default and to the other Shareholders, and

(iii) where such breach is capable of remedy, the Shareholder in default does not remedy the breach within 30 days after the date of the notice;

(b) winding-up: an application or order is made for the winding-up of any Shareholder or a resolution is passed or any steps are taken to pass a resolution for such winding-up;

(c) receivers: a receiver, receiver and manager, trustee in bankruptcy, administrator or similar officer is appointed over the assets or undertaking of any Shareholder;

(d) arrangements: any Shareholder becomes insolvent and enters into or resolves to enter into any arrangement, composition or compromise with, or assignment for the benefit of, its creditors or any class of them;

(e) disposal of shares: any Shareholder Transfers or purports to Transfer any of its shares in breach of the Articles of this Agreement.

10.2 Effect of Event of Default. Without prejudice to any other right or remedy of the Parties under this Agreement or at law, if an Event of Default occurs in respect of a Shareholder such Shareholder shall be deemed to have issued to the remaining Shareholders, to be received on the last date on which any of the remaining Shareholders becomes aware of such Event of Default, a Sale Notice in accordance with the Articles in respect of all Shares held by such Shareholder, and specifying as the Offer Price the Fair Market Value of such Shares.
11. Dissolution and Liquidating

11.1 Events Causing Dissolution. The Company shall be dissolved and its affairs wound up upon the occurrence of any of the following events:

(a) the consent in writing to dissolve and wind up the affairs of the Company by the affirmative vote of Shareholders which in the aggregate own more than two-thirds (2/3) of all the Shares;

(b) the sale or other disposition by the Company of all or substantially all of its assets and the collection of all amounts derived from any such sale or other disposition, including all amounts payable to the Company under any promissory notes or other evidences of indebtedness taken by the Company (unless the Shareholders shall elect to distribute such indebtedness to the Shareholders in liquidation), and the satisfaction of contingent liabilities of the Company in connection with such sale or other disposition, or

(a) the occurrence of any other event that, under Nigerian law, would cause the dissolution of the Company or that would make it unlawful for the business of the Company to be continued.

11.2 Distributions Upon Dissolution.

(a) Upon the dissolution of the Company, the Board (or any other person or entity responsible for winding up the affairs of the Company) shall proceed without any unnecessary delay to sell or otherwise liquidate the assets of the Company, other than the Barges (as defined in the Power Purchase Agreement) or any of them, and pay or make due provision for the payment of all debts, liabilities and obligations of the Company.

(b) The Board (or any other person or entity responsible for winding up the affairs of the Company) shall distribute the net liquidation proceeds and any other liquid assets of the Company, accrued in accordance with clause 11.2(a), after the payment of all debts, liabilities and obligations of the Company, the payment of expenses of liquidation of the Company and the establishment of a reasonable reserve in an amount estimated by the Board to be sufficient to pay any amounts reasonably anticipated to be required to be paid by the Company, which shall be distributed to the Shareholders in proportion to their respective holdings of Shares (subject always to any preferential rights attaching to such Shares). With the written consent of all of the Shareholders, the Company's assets may be distributed in kind to the Shareholders in the manner set forth in the previous sentence using valuation mechanisms agreed in writing by all of the Shareholders.

1.3 Reasonable Time for Winding Up. A reasonable time shall be allowed for the orderly winding up of the business and affairs of the Company and the liquidation of its assets pursuant to clause 11.1 in order to minimize any losses otherwise attendant upon such a winding up.

2. Bank Accounts; Books and Records; Financial Statements

2.1 Bank Account. All funds of the Company shall be deposited in its name in such bank
accounts, time deposits or certificates of deposit, or other accounts at such banks as shall be designated by the Board from time to time, and the Board shall arrange for the appropriate conduct of such account or accounts.

12.2 Books and Records. The Board shall keep, or cause to be kept, accurate, full and complete books and accounts showing assets, liabilities, income, operations, transactions and the financial condition of the Company. Any Shareholder, or its respective designee, shall have access thereto at any reasonable time during regular business hours and shall have the right to copy said records at its own expense.

12.3 Financial Statements and Information.

(a) All financial statements prepared pursuant to this clause 12.3 shall present fairly the financial position and operating results of the Company and shall be prepared in accordance with generally accepted accounting principles and any applicable legal requirements relating to local statutory accounting and reporting standards.

(b) Within 90 days after the end of each financial year of the Company, the Board shall prepare and submit or cause to be prepared and submitted to the Shareholders: (i) an audited balance sheet, together with audited statements of profit and loss, Shareholders' equity and changes in financial position for the Company during such year; (ii) a report of the activities of the Company during the year; and (iii) an audited statement showing any amounts distributed to the Shareholders in respect of such year.

13. Shareholder obligations

(a) Each Shareholder covenants that neither it nor any of its Affiliates nor any of their officers, directors, employees, agents or stockholders shall make, or cause to be made, in connection with the business or affairs of the Company, any payments, loans or gifts or promises or offer of payments, loans or gifts of any money or anything of value, directly or indirectly:

(i) to or for the use or benefit of any official or employee of any government or agency or instrumentality thereof;

(ii) to any political party, or official or candidate thereof, or

(iii) to any other Person either as an advance or as a reimbursement if it knows that any part of such payment, loan or gift will be directly or indirectly given or paid by such other Person to an official, party, party official or candidate referred to in sub-paragraph (i) or (iii) above, or will reimburse such other Person for payments, gifts, or loans previously made, to any such official, party, party official or candidate.

(b) Each Shareholder shall provide, on or before the 30th day after notice from one of the other Shareholders so requesting, the requesting Shareholder with certification to the effect that it has not, and its Affiliates and their personnel have not, made or sought any payments, directly or indirectly, in violation of this clause 13.

14. Conflicts and further assurances
14.1 **Conflicts.** In the event of any conflict between the provisions of this Agreement and the Articles, the provisions of this Agreement shall prevail as between the Shareholders.

14.2 **Further assurances.** The Parties shall, and shall cause their respective Affiliates and the Company to: (a) exercise all voting and other rights and powers available to them so as to give effect to the provisions of this Agreement; and (b) if necessary ensure any required amendment to the memorandum or articles of association of the Company as may be necessary to give effect to the intent and purpose of this Agreement.

15. **Confidentiality**

15.1 **Duty of confidence.** Each Shareholder shall, and shall cause its Affiliates to, keep confidential all written and/or electronically stored data in relation to the business, operation and affairs of the Company; provided, however, that this obligation of confidentiality shall not apply to any disclosure of information:

(a) that is in or enters the public domain without a breach of a duty of confidentiality by the disclosing Person;

(b) the disclosure of which is required by law, regulation, legal process, or order of any court or governmental body having jurisdiction or pursuant to the regulations of any securities exchange upon which any of the Parties is listed;

(b) to its Affiliates, and to the employees, agents, consultants, bankers, financial and professional advisers of that Party or its Affiliate, provided that (i) they have a reasonable need to know the information and (ii) they are instructed and agree in writing to maintain such information confidential; or

(c) where such disclosure is reasonably required in connection with the financing or refinancing of the business or operations of the Company or of any Affiliate of the Company.

15.2 **Specific exceptions.** Notwithstanding the provisions of clause 15.1, in the course of a negotiation to sell Shares in accordance with clause 8, a Shareholder may disclose information that would otherwise be subject to the provisions of clause 15.1 to a prospective purchaser or adviser; provided that such Person shall first enter into a binding undertaking with the other Parties that such Person will (a) only use such information for the purpose of evaluating the proposed purchase of Shares, and (b) maintain the confidentiality of such information in accordance with the provisions of clause 15.1 as if it were party to this Agreement and bound by it.

15.3 **Remedy for breach.** Each Shareholder acknowledges that damages would be an insufficient remedy for a breach of clauses 15.1 or 15.2 and that any Party may apply for injunctive relief to compel compliance by a Shareholder with the provisions of such clauses. The provisions of clauses 15.1 to 15.3 inclusive are intended to benefit each Party and their respective Affiliates.

15.4 **Announcements.** Without prejudice to Clause 15.1, any announcement or circular or other publicity relating to this Agreement or any termination hereof shall prior to its publication be approved in writing by each of the Parties as to its content, form and manner of publication (such approval not to be unreasonably withheld or delayed) save
for any announcement, circular or other publicity required to be made or issued by any Party pursuant to the regulations of any securities exchange upon which it is or is to be listed. Save as permitted by the preceding sentence, no Party shall make any announcement or issue any circular or other publicity relating to this Agreement or any termination hereof, provided that such Party shall use its reasonable endeavours to provide a copy of such publicity five Business Days prior to the making or issue thereof.

15.5 Survival. The provisions of clauses 15.1 to 15.4 inclusive shall survive for a period of 3 years following any termination of this Agreement.

16. Notices

16.1 Manner of service. Any written communication or document, including process in any legal action or proceedings (a "Communication") which any Party may desire to give or deliver in connection with this Agreement shall be delivered by hand or sent by fax to the addressee at its address or fax number set out in clause 16.3 (any such notice sent by fax to be confirmed in hard copy form by post or by hand, provided that this shall not prevent the notice from having been effectively delivered upon receipt by the addressee of the relevant fax).

16.2 Time of notice. A Communication shall be deemed to have been given, if delivered by hand, at the time of delivery, or, if sent by fax, on the Business Day following the day on which the same shall have been transmitted (provided that a copy of the Communication is delivered by hand as soon as is practicable).

16.3 Addresses. At the date of this Agreement the addresses, fax numbers and, where applicable, contact names of the Parties for the purposes of Communications are as follows:

If the notice is to Enron:

Enron Nigeria Barge Holding Ltd.
333 Clay Street, Suite 1800
Houston, Texas 77002
Attention: Senior Vice President, Africa
Fax Number: 1 713 646 7433

with a copy of all legal notices to:

Enron Asia Pacific/Africa/China
333 Clay Street, Suite 1800
Houston, Texas 77002
Attention: General Counsel
Fax Number: 1 713 345 5538

If the notice is to Ebarge:

Ebarge, LLC
c/o ML Leasing Equipment Corp.
World Financial Center
North Tower
250 Vesey Street

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MS 04985
New York, New York 10281
Attention: William Fuchs
Telephone: (212) 449-9782
Telexcopy: (212) 449-1787

with a copy of each such notice to be simultaneously given, delivered or served to the
following address:

ML Leasing Equipment Corp.
Controller's Office
World Financial Center
South Tower 14th Floor
225 Liberty Street
New York, New York 10080
Attention: Kira Toome
Telephone: (212) 236-7203
Telexcopy: (212) 236-7584

The Parties may change their address, fax number or contact name for the purpose of
Communication by notice to the other Parties served in accordance with this clause.

16.4 Proof of service. In proving service of a Communication, it shall be sufficient to prove
that the envelope containing the Communication was properly addressed and delivered
to the address shown thereon, or that fax transmission of the Communication was made
after obtaining in person or by telephone appropriate evidence of the capacity of the
addressee to receive the same, as the case may be.

17. General

17.1 Regulations. The Parties shall cooperate with each other from time to time to ensure that
all information necessary or desirable for the making of (or responding to any requests
for further information consequent upon) any notifications or filings made in respect of
this Agreement, or the transactions contemplated hereunder are supplied to the Person
dealing with such notification and filings and that they are properly, accurately and
promptly made.

17.2 Successors and Assigns. Neither Party may assign any of its rights or obligations under
this Agreement in whole or in part without the approval of each of the other Parties. This
Agreement shall enure for the benefit of and be binding on the respective successors in
title and permitted assigns of each Shareholder who shall procure in transferring any of
its Shares in the Company that each such transferee shall execute an assumption
document as provided in Clause 8.3 hereof.
17.3 **No waiver.** No waiver by a Party of a failure or failures by any of the other Parties to perform any provision of this Agreement shall operate or be construed as a waiver in respect of any other or further failure whether of a like or different character or a waiver by any other Party. No failure or delay on the part of a Shareholder in exercising any right, power or privilege hereunder and no course of dealing between the Shareholders and the Company shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein expressly provided are cumulative and not exclusive of any other rights or remedies which a Shareholder would otherwise have at law or in equity or otherwise.

17.4 **Amendment.** Except where specifically provided, this Agreement may be amended only by an instrument in writing signed by duly authorized representatives of each of the Parties.

17.5 **No partnership or agency; no fiduciary duties.**

(a) Nothing in this Agreement (or in any of the arrangements contemplated hereby) shall be deemed to constitute a partnership between the Parties or any of them (other than in accordance with the provisions of clause 6), nor constitute any Party the agent of any other Party for any purpose.

(b) No Shareholder shall without the written consent of each of the other Shareholders enter into contracts with third parties as agent for the Company nor shall any Shareholder describe itself as agent as aforesaid or in any way hold itself as being agent as aforesaid or as representing the Company.

(c) Except as expressly and specifically provided in this Agreement or in another agreement in writing to which it is a party, no Shareholder and no Affiliate of a Shareholder shall by virtue of this Agreement or otherwise owe any duty of care, duty of loyalty or other fiduciary duty to any other Party or its Affiliates. In particular, but without limitation to the generality of the foregoing, nothing in this Agreement shall prevent a Shareholder or its Affiliate from carrying on or owning an interest in any other business or opportunity without having to offer that business or opportunity to the Company.

17.6 **Severance.** If any provision of this Agreement is finally determined to be, or becomes, invalid, illegal or unenforceable, or if the actions or matters contemplated by any of the provisions of this Agreement are finally determined to be, or become, illegal, then such provision shall, so far as invalid or unenforceable, be given no effect and shall be deemed not to be included in this Agreement, but without affecting or invalidating the remaining provisions of this Agreement. Notwithstanding the foregoing, the Parties shall thereafter negotiate in good faith in order to agree the terms of a mutually satisfactory provision achieving as nearly as possible the same commercial effect, to be substituted for the provision found to be invalid, illegal or unenforceable.

17.7 **Costs and expenses.** Costs and expenses incurred in connection with the negotiation, entering into and completion of this Agreement shall be paid in accordance with the Engagement Letter.

17.8 **Entire Agreement.** This Agreement sets out the entire agreement and understanding between the Parties with respect to the subject matter hereof, save for any agreement expressly contemplated by this Agreement. It is agreed that:

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MS 04987
(a) no Party has entered into this Agreement in reliance upon any representation, warranty or undertaking of any other Party which is not expressly set out or referred to in this Agreement;

(b) no Party shall have any remedy in respect of misrepresentation or untrue statement made by any other Party unless and to the extent that a claim lies for breach of a warranty under this Agreement;

(c) this clause shall not exclude any liability for fraudulent misrepresentation.

17.9 Counterparts. This Agreement may be entered into in any number of counterparts, each of which when executed by one or more Parties shall be an original, but all the counterparts shall together constitute one and the same instrument.

17.10 Limitation on Liability. Notwithstanding any other provision of this Agreement, no Shareholder nor any of its Affiliates shall be liable, whether in contract, tort, warranty, negligence, strict liability, or otherwise, for any special, indirect, incidental, or consequential damages arising out of or in connection with this Agreement or its status as a Shareholder or an Affiliate of a Shareholder.

17.11 No Recourse. The obligations of each of the Parties under this Agreement are intended to be the obligations of a limited liability company only and no recourse for the payment of any amount due under this Agreement or for any claim based hereon or thereon or otherwise in respect thereof, shall be had against any member of such Party or any incorporator, managing member, officer, director or Affiliate, as such, past, present or future of any such managing member (or the general partner thereof) or of any successor corporation to such managing member (or the general partner thereof) or of any member of such Party, or against any direct or indirect parent corporation of such managing member (or the general partner thereof) or of any member of such Party or any other subsidiary or Affiliate of any such direct or indirect parent corporation or any incorporator, shareholder, officer or director, as such, past, present or future, of any such parent or other subsidiary or Affiliate.
18. **Governing Law; Dispute Resolution**

This Agreement, any amendments hereto in the form of supplemental agreements or otherwise, and any disputes between the Parties, shall be governed by and construed in accordance with the laws of the State of New York, United States of America. Any claim or controversy in connection with this Agreement shall be settled by arbitration conducted under the Rules of Conciliation and Arbitration of the International Chamber of Commerce ("ICC Rules") not inconsistent with the provisions of this Agreement. The arbitration proceeding may commence at the request of either Party and shall be conducted before a panel of three (3) arbitrators, one (1) appointed by each Party and one (1) by the two so chosen. If an arbitrator is not appointed within twenty (20) days of request by either Party, any New York court of competent jurisdiction shall appoint such arbitrator. Judgment may include costs and attorneys' fees and may be entered in any court of competent jurisdiction. The arbitration shall be conducted in New York, NY, United States of America or other such place as the Parties may agree, in the English language. Arbitration shall be the sole method of resolving disputes not settled by mutual agreement. The determination of the arbitrators shall be final and binding on all Parties and may enforced by appropriate judicial order.

19. **Not Used**

20. **Waiver of Sovereign Immunity**

Each Party for itself and its Affiliates unconditionally and irrevocably agrees that:

(a) its obligations under this Agreement constitute private and commercial acts rather than public or governmental acts;

(b) to the extent that it may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgement or otherwise) or other legal process and to the extent that in any such jurisdiction there may be attributed to it or its assets or revenues such immunity (whether or not claimed), it shall not claim, and it irrevocably waives, such immunity to the full extent permitted by the laws of such jurisdiction; and

(c) it waives, to the fullest extent permitted by applicable law, any power, right or entitlement that it might otherwise have in any proceedings in connection with this Agreement to request or seek that any other Party should be required to provide security for the costs of such Party in such proceedings.

21. **Duration**

21.1 This Agreement shall continue in full force and effect until the first to occur of the following dates:

(a) the date on which the holders of shares of one class in the capital of the Company acquire all of the shares of each other class; or

(b) the date of the Company's winding-up, or its dissolution in accordance with clause 11,

Provided that the terms of this Agreement shall nevertheless continue to bind the Shareholders thereafter to such extent and for so long as may be necessary to give effect to the rights and obligations embodied herein.
AS WITNESS this Agreement has been signed by the duly authorised representatives of the Parties the day and year first before written.

ENRON NIGERIA BARGE HOLDING LTD.
By: James A. Hughes
Name: James A. Hughes
Title: Director

EBARGE, LLC
By: 
Name: 
Title: 

ENRON NIGERIA BARGE LTD.
By:James A. Hughes
Name: James A. Hughes
Title: Director

[Signature Page to Shareholders' Agreement]
AS WITNESS this Agreement has been signed by the duly authorised representatives of the Parties the day and year first before written.

ENRON NIGERIA BARGE HOLDING LTD.
By:
Name:
Title:

[Signature]

ENRON NIGERIA BARGE LLC
By: Joseph S. Valenti
Name: Joseph S. Valenti
Title: Vice President & Treasurer

ENRON NIGERIA BARGE LTD.
By:
Name:
Title:

[Signature Page to Shareholders' Agreement]
### SCHEDULE 1
Issued Share Capital

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Class of Shares</th>
<th>No. of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ebarge, LLC</td>
<td>Preferred A Shares</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>Ordinary Shares</td>
<td>1,000</td>
</tr>
<tr>
<td>Enron Nigeria Barge Holding Ltd.</td>
<td>Preferred B Shares</td>
<td>8,000</td>
</tr>
</tbody>
</table>
BENEFITS TO ENRON SUMMARY

Deal Name: Bargeco  
Dollar Amount: $7.5 million

Date: 6/29/00

Description of Transaction: Enron sold barges to Merrill Lynch (ML) in December of 1999, promising that Merrill would be taken out by sale to another investor by June, 2000. The project could not be sold by June, so without LJM2's purchase Enron would have had to strain the ML/Enron relationship or repurchase the assets and reverse earnings and funds flow on the original transaction.

Enron Business Unit Benefited: Enron International (Africa)

Did the deal result in a direct or indirect benefit to Enron? Indirect

Primary Benefit: Avoidance of earnings and funds flow reversal (Indirect)

Funds Flow Direct: 
Funds Flow Indirect: $28.0 million

Earnings Direct: $2.0
Earnings Indirect: $12.0 million

Fees Saved:

Other equity investors bidding on the transaction: none

Did the deal close with LJM? yes

Other benefits to Enron:
- Protected the Enron/ML relationship
- Speed of execution — under three weeks
- Complexity — Nigerian structured transaction
- Willingness of execution — Project was located in Nigeria, project was behind schedule and little time was available for due diligence.

Compiled by: Ace Roman

Permanent Subcommittee on Investigations
EXHIBIT #217
Confidential Treatment Requested
Valenti, Joseph S (IBK-NY)

From: Tuome, Kira (IBK-NY)
Sent: Tuesday, June 13, 2000 1:21 PM
To: "hughfinan@eabm.com"
Cc: Valenti, Joseph S (IBK-NY); Haugh, Gerard (IBK-NY)
Subject: Ebarge LLC

Alan,

As we approach June 30, 2000 I am getting questions concerning Ebarge, LLC. It was our understanding that Merrill Lynch IBK positions would be repaid its equity investment as well as a return on its equity by this date. Is this on schedule to occur? Please advise.

Regards,
Kira
Valenti, Joseph S (IBK-NY)  

From: Gary, G (IBK-NY)  
To: Valenti, Joseph S (IBK-NY)  
Subject: FYI, Enron Letter

--- Original Message ---

From: Torsell, Jean (IBK-NY)  
Sent: Wednesday, June 14, 2000 3:54 PM  
To: Valenti, Joseph S (IBK-NY)  
Subject: FYI, Enron Letter

Gary:

See below—latest info re Enron subject we discussed yesterday.

Jean

--- Original Message ---

From: Fure, Robert (IBK-NY)  
Sent: Wednesday, June 14, 2000 3:52 PM  
To: Torsell, Jean (IBK-NY)  
Subject: FYI, Enron Letter

FYI, all is well

--- Original Message ---

From: Fure, William R (IBK-NY)  
Sent: Wednesday, June 14, 2000 1:55 PM  
To: Wilson, Geoffrey (IBK-NY); Fure, Robert (IBK-NY)  
Subject: FYI, Enron Letter

Rob & Geoff,

I just had a call with Dan Boris (the pre-empted our letter) about the Nigerian Barge transaction. Enron has lined up a new buyer. This new buyer will purchase our ownership interest in the Barge for the agreed upon amount outlined in the previously forwarded memo. Additionally, Enron has already engaged V&E to draft the documentation necessary & there should be no problem wrapping this up rather quickly.

Thanks.

Bill

--- Original Message ---

From: Wilson, Geoffrey (IBK-NY)  
Sent: Wednesday, June 14, 2000 12:01 PM  
To: Fure, Robert (IBK-NY)  
Subject: Barge Letter

Rob-

Attached for your review is the letter to Enron concerning our equity investment in Enron Nigeria Barge Ltd. Let me know if you would like me to make any changes.

Regards,

Geoff Wilson  
Strategic Asset Lease & Finance Group  
(212) 449-6035

<< File: Letter1.doc >>
June 14, 2000

Mr. Dan Boyle
Enron Corp.
1400 Smith Street
Houston, TX 77002-7349

Re: Equity Investment in Enron Nigeria Barge Ltd.

On December 29, 1999, Ebarge LLC, a limited liability company controlled by Merrill Lynch ('Ebarge'), purchased 1,000 Preferred A Shares and 1,000 Ordinary Shares of Enron Nigeria Barge Ltd. for $28 million. $21 million of the $28 million purchase price was lent to Ebarge by Enron Nigeria Power Holding, Ltd. The remaining $7 million represents Ebarge's net equity investment in Enron Nigeria Barge Ltd. Enron has agreed to purchase the shares from Ebarge by June 30, 2000 for a purchase price, net of the balance on the loan from Enron Nigeria Power Holding, Ltd., of $7,516,976.65.

Please wire the amount to the following account on or before June 30, 2000:

Chase Manhattan Bank
For the Account of ML IBX Positions, Inc.
Account: 021-000-021
ABA#: 021-000-021

Our counsel, Whitman Breed Abbott & Morgan, will forward on to you for your execution prior to the transfer of funds, documentation including a Stock Purchase Agreement and Stock Transfers evidencing the transfer of shares from Ebarge LLC to Enron and the assumption of the Enron Nigeria Power Holding, Ltd. loan by Enron.

Sincerely,

Robert S. Furst
Managing Director

c/o: J. Brown
J. Torreselli
W. Fuhs
G. Wilson

MS 21431-
Candiddi, Curt (Private Equity Finance)

From: Candiddi, Curt (Private Equity Finance)
Sent: Friday, January 18, 2002 10:02 AM
To: Varentl, Joseph S (Private Equity Finance); Devine, John (GM- NY-Finance); Foskins, John
(CO & Co. Finance)
Cc: Carlin, Gary
(BKX-NY)
Subject: RE: vBarge

FYI, descriptions for the 2319 as provided by Joe Varentl

13019 - "Other Investments" not subject to SFAS #115
43111 - "IBM Strategic Equity" used for other non-highly liquid investments in equity securities not held by non-B/D
distributions from various partnerships (we got a K-1).

Curt Candiddi
Private Equity Finance
24 West 35th St., 7A
New York, NY 10001
W 212-486-2258
F 212-486-2259
C 917-387-2419
w candiddi@ Exchange.ni.com

--- Original Message ---
From: Varentl, Joseph S (Private Equity Finance)
Sent: Friday, January 18, 2002 8:58 AM
To: Candiddi, Curt (Private Equity Finance); Devine, John (GM- NY-Finance); Foskins, John (CO & Co. Finance)
Cc: Carlin, Gary (BKX-NY)
Subject: RE: vBarge

Folks,

As requested, here are the accounts that were hit:

a) $7,000,000 investment - Accrual 13019 on the books of MLB Positions, Inc.
b) $200,000 advisory fee - Accrual 43111 on the books of MLB/Faes
c) $250,000 return on equity - Accrual 48542 on the books of MLB Positions, Inc.

Any further questions, please let me know.

--- Original Message ---
From: Candiddi, Curt (Private Equity Finance)
Sent: Friday, January 18, 2002 8:00 AM
To: Varentl, Joseph S (Private Equity Finance); Devine, John (GM- NY-Finance); Foskins, John (CO & Co. Finance)
Cc: Carlin, Gary (BKX-NY)
Subject: RE: vBarge

On 12/30/99, ML, IBM Positions funded a STN $5,000,000 investment in vBarge, LLC through a direct payment to
Error! Notation not supported.
We are paid a fee of $250K at the time of funding. The funding was considered by vBarge as a bridge to permanent equity and the arrangement called for
them to pay interest at 1% per annum on such investment. The equity bridge was taken out on 6/12/02 for
$7,253K ($525K interest @ 13% for six months) in the form of the investment in vBarge LLC. The $525K fee plus the $250K interest totaled a 2.2% annualized return.

Any questions please call me or Joe Varentl, I am in JD today.

Curt Candiddi
Pension Finance
24 West 35th St., 7A
New York, NY 10001
W 212-486-2258
F 212-486-2259
C 917-387-2419
w candiddi@ Exchange.ni.com

1

Exhibit #220

MS 06146
Valenti, Joseph S (IBK-NY)

From: Toome, Kira (IBK-NY)
Sent: Thursday, May 04, 2000 5:42 PM
To: Gerlin, Gary (IBK-NY)
Cc: Valenti, Joseph S (IBK-NY)
Subject: Eharge LLC

Dear Gary,

Attached is the calculation of the income accrued for Eharge LLC:

Income accrued from 12/29/89-12/31/89
($7,000,000 * 10% * 2.3333) = $6,733.42

Income accrued from 1/1/00- 5/3/00
($7,000,000 * 15% * 124/366) = $355,737.70

Total income accrued to date $55,733.42 + $355,737.70 = $361,491.12

FYI, the investment is on the books of ML IBK positions. You may receive wiring instructions from either Gerard Hough or Mike DeSalle,

Regards,

Kira
SHARE PURCHASE AGREEMENT

THIS SHARE PURCHASE AGREEMENT (the "Agreement") made as of the 19th day of June, 2000, by and between LM2-EBARGE, LLC, a Delaware limited liability company (hereinafter referred to as the "Purchaser"), and ML IBK POSITIONS, INC., a Delaware corporation (hereinafter referred to as the "Seller").

WITNESSETH:

WHEREAS, the Seller is the record and beneficial owner of one (1) common share, par value $1.00, of EBARGE, LLC (the "Purchased Share"), constituting the entire share capital of EBARGE, LLC, a limited liability company incorporated under the laws of the Cayman Islands, B.W.I. (hereinafter referred to as the "Company"); and

WHEREAS, the Seller desires to sell, and the Purchaser desires to purchase, the Purchased Share upon and subject to the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the foregoing premises, the mutual agreements, representations, warranties and covenants herein contained, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I

PURCHASE AND SALE

1.1 Purchase of the Purchased Share. Simultaneously with the execution of this Agreement, the Seller shall sell to the Purchaser, and the Purchaser shall purchase from the Seller, the Purchased Share for the consideration specified in this Article I.

1.2 Purchase Price. The purchase price for the Purchased Share shall be seven million five hundred twenty-five thousand dollars ($7,525,000).

1.3 Payment of Purchase Price. Simultaneously with the execution of this Agreement, and in consideration for the Purchased Share, the Purchaser shall pay to the Seller the purchase price for the Purchased Share, by wire transfer of immediately available funds, to an account designated by the Seller, in the amount of seven million five hundred twenty-five thousand dollars ($7,525,000).

ARTICLE II

REPRESENTATIONS AND WARRANTIES

2.1 Representations and Warranties of Seller. The Seller hereby represents and warrants to the Purchaser that:
(a) **Due Organization.** Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

(b) **Purchased Share.** The Seller is the lawful owner of the Purchased Share, free and clear of restrictions on transfer, taxes, security interests, options, warrants, purchase rights, contracts, commitments, equities, claims, and demands resulting from the act or omission of the Seller. The Seller is not a party to any option, warrant, purchase right, or other contract or commitments that could require the Seller to sell, transfer, or otherwise dispose of any capital stock of the Company (other than this Agreement). The Seller is not a party to any voting trust, proxy, or other agreement or understanding with respect to the voting of any capital stock of the Company. The Purchased Share constitutes all of the issued and outstanding shares of capital stock of the Company.

(c) **Authorization.** All of the issued and outstanding shares of capital stock of the Company have been duly authorized, are validly issued, fully paid, and nonassessable, and are held of record by the Seller. There are no outstanding or authorized options, warrants, purchase rights, subscription rights, conversion rights, exchange rights, or other contracts or commitments that could require the Company to issue, sell, or otherwise cause to become outstanding any of its capital stock. There are no outstanding or authorized stock appreciation, phantom stock, profit participation, or similar rights with respect to the Company. There are no voting trusts, proxies, or other agreements or understandings with respect to the voting of the capital stock of the Company. The Seller has full corporate power and authority to execute the Agreement and perform its obligations hereunder. The execution, delivery and performance of this Agreement by the Seller has been duly authorized by all necessary corporate action on the part of the Seller and this Agreement constitutes a legal, valid, and binding obligation of the Seller enforceable in accordance with its terms. The Seller need not give notice to, or make any filing with, or obtain any authorization, consent or approval of any governmental or governmental agency in the United States in order to consummate the transactions contemplated hereby.

(d) **Noncontradiction.** Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (1) violate any United States constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or court to which the Seller is subject under the laws of the United States or, any provision of its charter or bylaws or (2) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which the Seller is a party or by which it is bound or to which any of its assets is subject.

2.2 **Representations and Warranties of the Company.**

(e) **Organization, Qualification, and Corporate Power.** The Company is a company duly organized, validly existing, and in good standing under the laws of the jurisdiction of the Cayman Islands, B.W.I. The Company is duly authorized to conduct business and is in good standing under the laws of each jurisdiction where such qualification is required. Attachment A hereto lists the directors and officers of the Company. The Seller has delivered to the Purchaser correct and complete copies of the Memorandum and Articles of Association of the Company (as amended to date). The minute books (containing the records of meetings of the stockholders, the
board of directors, and any committees of the board of directors), the stock certificate books, and the stock records books of the Company are correct and complete.

(b) **Title to Assets.** The Company has good and marketable title to, or a valid leasehold in, the properties and assets used by it, located on its premises, free and clear of all security interests arising from any willing or knowing act or omission of the Company.

(c) **Events Subsequent to December 29, 1999.** Since December 29, 1999:

(i) the Company has not sold, leased, transferred, or assigned any of its assets, tangible or intangible;

(ii) the Company has not imposed any security interest upon any of its assets, tangible or intangible;

(iii) there has been no change made or authorized in the formation and organizational documents of the Company, other than in connection with the re-domiciling of the Company from Delaware to the Cayman Islands, B.W.I. on February 17, 2000 and the amendment made to the Articles of Association on the date hereof;

(iv) the Company has not issued, sold, or otherwise disposed of any of its capital stock, or granted any options, warrants, or other rights to purchase or obtain (including upon conversion, exchange, or exercise) any of its capital stock, other than in connection with the re-domiciling of the Company from Delaware to the Cayman Islands, B.W.I. on February 17, 2000 and the amendment made to the Articles of Association on the date hereof;

(v) the Company has not made any loan to, or entered into any other transaction with, any of its directors, officers, and employees;

(vi) there has not been any other material transaction involving the Company;

and

(vii) the Company has not committed to any of the foregoing.

(d) **Undisclosed Liabilities.** The Company has no liabilities (and to its knowledge there is no basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against the Company giving rise to any liability), except for liabilities under the Loan Agreement, dated December 29, 1999, between the Company and Enron Nigeria Power Holding, Ltd. and under the transaction documents related thereto.

(e) **Legal Compliance.** The Company has complied with all applicable United States federal, state and local laws (including rules, regulations, codes, plans, injunctions, judgments, orders, decrees, rulings, and charges thereunder), and no action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand, or notice has been filed or commenced against the Company alleging any failure so to comply.
(f) **Tax Matters.** The Company has filed all United States tax returns that it was required to file. All such tax returns were correct and complete in all respects. All United States taxes owed by the Company (whether or not shown on any tax return) have been paid.

(g) **Certain Business Relationships.** The Seller has not been involved in any business arrangement or relationship with the Company since December 29, 1999 and the Seller does not own any asset, tangible or intangible, which is used in the business of the Company.

2.3 **Representations and Warranties of the Purchaser.** The Purchaser hereby represents and warrants to the Seller that:

(a) **Due Organization.** The Purchaser is a limited liability company duly formed and is in good standing and has a legal existence under the laws of the State of Delaware and has the power and authority to enter into and perform its obligations under this Agreement.

(b) **Authorization.** The execution, delivery and performance of this Agreement by the Purchaser has been duly authorized by all necessary limited liability company action on the part of the Purchaser and this Agreement constitutes a legal, valid, and binding obligation of the Purchaser, enforceable in accordance with its terms.

(c) **Reliance.** The Purchaser does not rely on and has not been induced to enter into this Agreement on the basis of any warranties, representations, covenants, undertakings, indemnities or other statements whatsoever, other than those expressly set out in this Agreement, and acknowledges that neither the Seller, the Company nor any of its agents, officers or employees have given any such warranties, representations, covenants, undertakings, indemnities or other statements, EXCEPT AS OTHERWISE EXPRESSLY PROVIDED FOR IN THIS AGREEMENT, THE SELLER HEREBY EXPRESSLY DISCLAIMS AND NEGATES ANY REPRESENTATION OR WARRANTY, EXPRESSED OR IMPLIED, AT COMMON LAW, BY STATUTE OR OTHERWISE, RELATING TO THE PURCHASED SHARE, INCLUDING ANY REPRESENTATION OR WARRANTY REGARDING ANY INFORMATION, DATA OR OTHER MATERIALS (WRITTEN OR ORAL) FURNISHED TO THE PURCHASER BY OR ON BEHALF OF THE SELLER OR THE COMPANY.

(d) **Noninterference.** Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (1) violate any United States constitution, statute, regulation, rule, injunction, judgment, order decree, ruling, charge, or court to which the Purchaser is subject under the laws of the United States or, any provision of its organizational documents or (2) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which the Purchaser is a party or by which he or it is bound or to which any of its assets is subject.

(e) **Solvency.** As of the Closing (hereinafter defined), the Purchaser shall be solvent and will not be rendered insolvent by the transfer of the amount specified in Article 1 hereof.
(f) Investigation. The Purchaser has made its own independent investigation, analysis and evaluation of the Company and its assets, the value of the Purchased Share and business, financial condition, operation and prospects of the Company.

(g) Securities Act.

(i) The Purchaser is purchasing the Purchased Share for its own account and not with a view to any resale or distribution of such Purchased Share in violation of the United States Securities Act of 1933, as amended (the "Securities Act");

(ii) the Purchaser is an accredited investor within the meaning of Regulation D promulgated under the Securities Act and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of its investment hereunder; and

(iii) the Purchaser acknowledges that (1) the sale of the Purchased Share to be purchased by it hereunder has not been registered or qualified under the Securities Act or any non-United States applicable securities laws, (2) such Purchased Share must be held indefinitely unless subsequently registered under the Securities Act or any non-United States applicable securities laws or an exemption from such registration is available.

2.4 Nature and Survival of Representations and Warranties. Notwithstanding any inspection or knowledge on the part of any party hereto, all representations, warranties, covenants and agreements herein contained on the part of each of the parties shall survive the Closing, the execution and delivery of the certificate representing the Purchased Share, and the payment of the consideration therefore until the later of: (i) three (3) years after the date of the Closing; or (ii) the expiration of the statute of limitations applicable to the cause of action asserted by the Purchaser or the Seller with respect thereto.

ARTICLE III

THE CLOSING

3.1 Time and Place. The Closing (the "Closing") of this transaction shall occur simultaneously with the execution of this Agreement.

3.2 Occurrences at Closing.

(a) The obligation of the Purchaser to consummate the transactions contemplated hereby shall be subject to the Seller delivering to the Purchaser the following:

(i) all of the minute books, stock ledgers, stock transfer records and other records of the Company;

(ii) a duly executed share transfer form representing the transfer of the Purchased Share;

- 5 -

MS 04970E
(iii) the stock certificate representing the Purchased Share duly endorsed in blank;

(iv) a copy of Resolutions adopted by the Company authorizing, among other things, the deletion of Section 14(a) of the Articles of Association of the Company; and

(v) the written resignations of the directors and officers of the Company and a notice to Enron Nigeria Barge Ltd. of the removal of the A Director and the Ordinary Director (as defined in the Shareholders' Agreement, dated as of December 29, 1999 among Enron Nigeria Barge Holding Ltd., Enron Nigeria Barge, Ltd. and the Company), effective upon the Closing.

(b) At the Closing, the Purchaser shall deliver to the Seller a wire transfer to the Seller in immediately available funds, to an account designated by the Seller, in the amount of seven million five hundred twenty-five thousand dollars ($7,525,000).

ARTICLE IV

MISCELLANEOUS

4.1 Further Assurances. It is expressly understood and agreed that each party hereto shall upon such other party's reasonable request, and at the Purchaser's cost and expense, from time to time, execute and deliver to each other all such instruments and documents of further assurance or otherwise, and will do all such acts and things as reasonably may be required to carry out their respective obligations hereunder to consummate and complete this Agreement.

4.2 Notices. Any notices or demands desired or required to be given hereunder shall be in writing and deemed given when personally delivered or deposited in the United States mail, postage prepaid, sent certified or registered mail, or sent by overnight courier, and addressed:

If to the Purchaser: LJM2-Ebarge, LLC
c/o LJM2 Co-Investment, L.P.
333 Clay Street
Suite 1200
Houston, TX 77002
Attention: General Partner

If to the Seller: ML IBK Positions, Inc.
c/o Merrill Lynch & Co., Inc.
World Financial Center
South Tower
225 Liberty Street
New York, NY 10080-6114
Attention: Gerard Haugh

4.3 Best Efforts, Cooperation. The parties hereto shall each exert their reasonable efforts to obtain all consents and approvals necessary for the due and punctual performance of
this Agreement and the satisfaction of the conditions hereof on their part, and shall cooperate with the other party with respect thereto.

4.4 **Entire Agreement.** This Agreement, including the other agreements executed in connection herewith, constitutes and contains the entire agreement of the parties and supersedes any and all prior negotiations, correspondence, understandings and agreements between the parties respecting the subject matter hereof.

4.5 **Parties and Interest.** All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto (including any successor by merger), whether herein so expressed or not, but neither this Agreement nor any of the rights, interests or obligations hereunder or of any party hereunder shall be assigned without the prior written consent of the other party hereto, provided that Purchaser can assign its rights, interests and obligations hereunder to an affiliate.

4.6 **Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument and in making proof hereof it shall not be necessary to produce or account for more than one such counterpart.

4.7 **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

4.8 **Severability.** If any covenant or agreement provided in this Agreement or any agreement executed in connection with this Agreement is deemed to be contrary to law or otherwise unenforceable, that covenant or agreement will be deemed separable from the remaining covenants and agreements contained in this Agreement and will not affect the validity, interpretation, or effect of the other provisions of either this Agreement or any agreement executed pursuant to it or the application of that covenant or agreement to other circumstances not contrary to law or otherwise enforceable.

4.9 **Headings.** The titles and headings preceding the text of the paragraphs of this Agreement have been inserted solely for convenience of reference and neither constitute a part of this Agreement nor affect its meaning, interpretation, or effect.
IN WITNESS WHEREOF, the parties hereto have executed this Agreement this ___ day of June, 2000.

SELLER
ML 1B1K POSITIONS, INC.

By: ______________________
    Name: Joseph A. Valente
    Title: Director, Vice President and Assistant Treasurer

PURCHASER
LJM2-EBARGE, LLC

By: LJM2 Co-Investment, L.P., its managing member

By: LJM2 Capital Management, L.P., its general partner

By: LJM2 Capital Management, LLC, its general partner

By: ______________________
    Name: ______________________
    Title: ______________________
IN WITNESS WHEREOF, the parties hereto have executed this Agreement this 24th day of June, 2000.

SELLER
ML IBK POSITIONS, INC.

By: ___________________________
Name: 
Title: 

PURCHASER
LJM2-EBARGE, LLC

By: LJM2 Co-Investment, L.P.,
its managing member

By: LJM2 Capital Management, L.P.,
its general partner

By: LJM2 Capital Management, LLC,
its general partner

By: ___________________________
Name: Terry Lyon
Title: COINVESTOR, L.P.
Valenti, Joseph S (Private Equity Finance)

From: Toone-Meertens, Kira (OML-PVT [GTY])
Sent: Thursday, January 17, 2002 12:42 PM
To: Valenti, Joseph S (Private Equity Finance)
Subject: Ebarge LLC confirmation of 15% equity return rate

Joe

I could not locate anything on the 15% equity return. Perhaps it would be noted in an LLC agreement. Do you have such an agreement in the folder? If I could take a look maybe I could find something. Let me know if (when) I could look through the folder if you're not currently using it.

Kira
Thanks. He did receive the 250. I have an engagement letter from Enron.

---Original Message---
From: Tineh-Meertens, Kira (Enron) [mailto:Kira.Meertens@enron.com]
Sent: Thursday, January 17, 2002 2:10 PM
To: Valenti, Joseph S (Private Equity Finance)
Subject: RE: Valenti, Joseph S (Private Equity Finance)

Joe,

Gerard seemed to think the 22.5% is correct. What happened is 19% or 250,000 was the equity return and I believe Jim Brown received an upfront fee of $250,000. $250,000 + $250,000 = $750,000 / 33,000,000 * 365 / 180 = 22.14%.

Kira
Valenti, Joseph S (Private Equity Finance)

From: Toone-Mearants, Kirk (GAM-PVT ECTY)
Sent: Thursday, January 24, 2002 12:19 PM
To: Valenti, Joseph S (Private Equity Finance)
Subject: RE: 

just questions about the accounting- like how did the SPE pay the interest on the loan, who the loan was payable to. I explained that the loan to Ebarge came from Enron and that the vehicle was structured so that we would recoup through the income payments the interest due on the loan and the equity return. Since the interest on the loan was to be paid by Enron (as a component of the income payments) to Enron as a lender no actual cash passed hands other than the equity return. She was fine with that.

I'm still getting calls on Ebarge from Liz Applebaum, the saga continues......
Valenti, Joseph S (Private Equity Finance)

From: Toomey-Hebert, Kira (GMI-PVT-EGTY)
Sent: Friday, January 18, 2002 6:04 PM
To: Valenti, Joseph S (Private Equity Finance)
Subject: Eberge LLC

Joe

I just got a call from Liz Apollo in Financial Reporting. She was asking about the accounting on the Eberge LLC. I was able to answer all of her questions except what account the investment was booked to on IFX positions. I tried reaching Mike but he was unavailable. She also said "you and Joe have your signatures all over this thing. Poor poor Kira and Joe!!!" She also advised us not to lose any sleep over this. We'll be fine.

Kira
LJM2 INVESTMENT SUMMARY

Deal Name: Barge
Originating Entity: Ebara Development
Expected Closing Date: 6/30/00
Expected Funding Date: 6/30/00
Expected Completion Date: June 29, 2000
Investment Analyst Joe Roman
Investment Type: Equity

Investment
LJM Capital Commitment: $7,312,000.00

Deal Description
LJM will purchase Merrill Lynch’s interest in EBAROIL, LLC, a Cayman special purpose company set up to own the preferred A and ordinary shares of Ebara Nigeria Barge Limited (“ENBL”). ENBL owns three barges and operates an own six additional barges that will be subject to a Power Purchase Agreement (“PPA”) with the Federal Government of Nigeria, the Lagos State Government and the National Electric Power Authority of Nigeria (“NEPA”). Merrill Lynch purchased the equity in ENBL from Ebara in December of 1999 for $12,000,000 of which $11,000,000 was a, re-invested. LJM, through its ownership interest in EBAROIL, LLC, will become party to that non-convertible loan.

Transaction Summary
LJM will purchase Merrill Lynch’s interest in EBAROIL for $7,312,000.00 and will adjust the $12,000,000 dollar financed, non-recourse loan for project specific changes that have occurred since the original transaction closed. LJM, through its ownership interest in EBAROIL, LLC, will become party to a Loan Agreement with Ebara, a Pledge Agreement with Ebara for all 6 barges and a Shareholders Agreement with ENBL. Ebara and ENBL have the ability to remove and profitably liquidate or restructure the barges.

Investment Return Summary
ENBL’s preferred A shares are entitled to 1% of all cash flows for the life of the project. The Ordinary shares receive 99% of all cash flows until the term cash flow in the preferred A and ordinary shares equals $7,312,000, after which the ordinary shares receive 99% of all cash flows. Interest and principal on the loan are serviced only to the extent that EBAROIL, LLC receives project cash flows. Cash flows to LJM after debt service requirements given a return of capital in 15 months, a 28% IRR in 17 months, and a 49% IRR if held 33 months or longer.

Expected Project Cash Flows - Compositional Analysis IRR +49%

<table>
<thead>
<tr>
<th>Risks</th>
<th>Milestones</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPA contingency (Nigeria Credit) risk</td>
<td>LJM’s investment will be covered by a $20,000,000 standby letter of credit from Citibank for Nigeria default risk. Under a liquidation scenario, LJM is entitled to first cash flow as determined by a liquidation schedule. The current PPA’s are not effective until the letter of credit is exercised. If exercised it would be probable that ENBL liquidates the barges.</td>
</tr>
<tr>
<td>Rectification of barges under Nigerian payment default</td>
<td>Ebara and ENBL have the ability to remove and profitably liquidate or restructure the barges. If Ebara and ENBL are unable to remove the barges due to appropriation or political violence, a Political Risk Insurance (“PRI”) contract will cover the value of the barges, however, claiming under the policy could result in almost a collection under the letter of credit, delaying LJM’s liquidation cash flow.</td>
</tr>
<tr>
<td>Gas supply risk</td>
<td>Under the PPA, NEPA is currently responsible for the projects gas supply. If NEPA undergoes privatization, ENBL will need to obtain a replacement gas supply contract. NEPA is required to give a three month advance notice, which should give ENBL sufficient time to secure a replacement. Also, the cost of the gas supply is passed through to ENBL’s consumption in the PPA. This pass through of costs should serve as an incentive for NEPA’s sanctions in securing a replacement gas contract.</td>
</tr>
</tbody>
</table>

LJM202370

Exhibit Subject to Investigation
Confidential Treatment Requested
Facex Major risk / Current Risk

- Capacity payments continue even when purchaser is not capable of receiving energy due to Force Majeure.
- If Force Majeure lasts longer than 180 days, NEPA must be filed in the EIA/IGC reserves first (each 30 days).
- If hedges are producing electricity, capacity payment obligation applies to FPA counterparties.
- Capacity payment obligation applies if hedges are not producing electricity due to delay caused by a FPA counterparty.
- Arbitration will be in London under ICC rules.
- Change in law adversely affecting ENSL is a Risk Event allowing corresponding adjustments to hedges.

Attached Information
Attached is the three Risk Assessment and Controls for each of the above risks related to the transaction.

<table>
<thead>
<tr>
<th>ACKNOWLEDGED BY</th>
<th>Name</th>
<th>Signature</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extra Loss</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Store Team</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ace Region</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Michael Know</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Andrew Know</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

LJM029371

Confidential Transmittal Requested
Bergeron

LJM2 purchased $7,525,000 of equity in EBARES, LLC, a special purpose entity set up to own 9 power barges with capacity to produce 274 MWh of electricity. The barges are expected to enter into long-term power purchase agreements with government agencies of state and federal governments bonded by surety letters of credit with a U.S. bank. LJM2's equity position is entitled to 50.1% of all project cash flows until it has reached a specified dollar amount. LJM2 will keep 18% of all remaining cash flows. Under an early termination clause, LJM2 is entitled to a pre-determined liquidation amount. LJM2 expects to be bought out by Enron within 7 months at a 19% premium over fair. LJM2 will also receive a fee of $300,000. If Enron does not purchase EBARES, LLC from LJM2 within 7 months, LJM2 expects to earn 40% from project cash flows within 18 months. Contingent credit risk on PPA obligations will be mitigated by letters of credit issued by a U.S. bank backing the obligations of 299 counterparties. In the event of a counterparty payment default, EBARES, LLC will draw on a political risk insurance contract, which will indemnify the company in the event that it is unable to successfully remove the barges from their location.
<table>
<thead>
<tr>
<th>Description</th>
<th>LMG will purchase $7,525,000 of equity in BARGE, LLC, a special purpose entity set up to own 9 power barges with capacity to produce 274 MW of electricity. The barges are expected to enter into long-term power purchase agreements with government agencies of third world countries backed by security letters of credit with a U.S. bank.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economics</td>
<td>LMG’s equity position will be entitled to 90.1% of all project cash flows until it has reached a specified dollar amount. LMG will keep 1% of all remaining cash flows. Under an early liquidation scenario, LMG is entitled to a pre-determined liquidation amount.</td>
</tr>
<tr>
<td>Expected Return</td>
<td>LMG expects to be bought out by Enron within 7 months at a 15% annualized IRR. LMG will also receive an upfront fee of $250,000. If Enron does not purchase BARGE, LLC from LMG within 7 months, LMG expects to earn 6.5% from project cash flows within 15 months.</td>
</tr>
<tr>
<td>Risks and Mitigants</td>
<td>Risk: Counterparty credit risk on PPA obligations. Mitigant: BARGE, LLC will not enter into a PPA until a letter of credit has been issued by a U.S. bank backing the obligations of the PPA counterparty. Risk: BARGE is unable to remove and re-deploy barges in the event of counterparty payment default. Mitigant: BARGE, LLC will retain political risk insurance which will indemnify the company in the event that it is unable to successfully remove the barges from their location.</td>
</tr>
</tbody>
</table>
Bargeco Economics

Bargeco economics are based on a negotiated return with Eimco. Eimco agreed to arrange a buyer for LNM2's equity within 7 months. LNM2 will receive a 15% annualized return on its investment and a $250,000 fee.

<table>
<thead>
<tr>
<th>Expected at Close</th>
<th>Amount</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNM2 Investment</td>
<td>(7,255,000)</td>
<td>8/28/03</td>
</tr>
<tr>
<td>15% IRR at 7 months</td>
<td>955,430</td>
<td>1/01/04</td>
</tr>
<tr>
<td>Fee</td>
<td>350,000</td>
<td>1/01/04</td>
</tr>
<tr>
<td>Repayment of Capital</td>
<td>7,255,000</td>
<td>1/01/01</td>
</tr>
<tr>
<td>IRR</td>
<td>94%</td>
<td></td>
</tr>
</tbody>
</table>

As of September 30, 2000 LNM2 sold its equity interest in Bargeco for $2,255,000.

<table>
<thead>
<tr>
<th>Realized</th>
<th>Amount</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNM2 Investment</td>
<td>(7,255,000)</td>
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<td>15% IRR at 7 months</td>
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</tr>
<tr>
<td>Fee</td>
<td>350,000</td>
<td>1/04/04</td>
</tr>
<tr>
<td>Actual vs. projected expenses (est.)</td>
<td>25,000</td>
<td>1/04/04</td>
</tr>
<tr>
<td>Repayment of Capital</td>
<td>7,255,000</td>
<td>1/04/04</td>
</tr>
<tr>
<td>IRR</td>
<td>94%</td>
<td></td>
</tr>
</tbody>
</table>
ENRON RISK ASSESSMENT AND CONTROL
DEAL APPROVAL SHEET

DEAL NAME: Nigeria Power Holding Ltd.

Date ISDA Complied: November 1, 2000
RAC Analyst/Underwriter: N/A
Investment Type: Direct issue
Business Unit: APACHE
Capital Funding Source:
Business Unit Originator: Sea Long/Keth Spectres
Expected Closing Date: October 4, 2000
Public/Private
Expected Funding Date: October 4, 2000
Direct/Non-direct
Conforming/Non-conforming

APPROVAL AMOUNT REQUESTED:

Director of Projects


EXPOSURE SUMMARY

This transaction, created existing exposure ($142,100,000)
Existing exposure approved
Total

0

TRANSACTION SUMMARY

This DASK presents approval of: 1) a new deal of all of Enron APACHE's interests in Nigeria to AES and 2) a related transaction (a $180 million) to the seller to secure our subsidiary's obligations under the Purchase and Sale Agreement.

The following APACHE assets will be sold-congugint upon satisfaction of condition precedent:


1) 95% Interest in Enron Nigeria Base Ltd. which owns rights to a 170 MW base run power plant in the State of Lagos. This sale would occur in two stages. At closing, AES will own 50% of Nigeria Base Ltd. AES will then have the option to purchase Enron's remaining 45% interest in this entity upon completion of the further due diligence and subject to certain conditions. Enron has the right to put the interest to AES.

2) Enron's 60% share in a 54 MW gas fired, simple cycle, construction to Power Plant development project. Enron's 70% share in an option to build a 355 km pipeline to supply the gas fired power plant, described above.


DEAL DESCRIPTION

Enron APACHE is moving into an amended and restated Power Purchase Agreement ("Barge PPA") between Enron Nigeria Power Holding Ltd. ("Enron Nigeria"), Enron Nigeria Base Ltd. and various Nigerian federal and state governments and the national power company (Nigeria Power Ltd. Ltd.). The capital committed by Enron for this Barge PPA, including a value of $29.7 million for seven power barges and $5 million for two new on-site combustion turbines currently owned by Enron.
RAC Deal Approval Sheet

Date: June 11, 2000

The original PPA, that was executed, was for 49.3% of the capacity of 60 MW with a term of 3 years and was signed on December 6, 1999. The Barge PPA (approved by Enron’s Board of Directors) covers the construction and operation of 270 MW of barge-mounted, gas-fired generation facilities for a term of 15 years, 3 months (“Barge Project”). The Barge Project is supported by a letter of credit of $10 million. Enron Engineering and Construction Company (EEC/ACC) has entered into an Engineering, Procurement and Construction Contract (EPC/Contract) with Enron Nigeria Barge Ltd, which includes the construction of turbine facilities, the installation of gas turbines and their connection to the electrical network. The construction of two power barges using construction techniques purchased from Enron North America and associated performance guarantees (2001).

In addition to the Barge PPA, Enron Nigeria is scheduled to sign an amended IPP Power Purchase Agreement (“IPP PPA”), within the next month, with the same counterparties. The IPP PPA covers the construction and operation of a gas-fired, simple cycle, combined cycle Power Plant, with a nominal capacity of 340MW for a term of 20 years (“IPP Project”). The IPP Project will be supported by an additional letter of credit. In addition to the Barge Project and IPP Project, the PPA, signed December 6, 1999, includes the right for Enron Nigeria to build a 240 km Pipeline to supply gas to the power plant (“Pipeline Project”).

On December 20, 1999, Enron Nigeria Barge Holding Ltd, a wholly owned subsidiary of Enron Nigeria Power Holding Ltd, sold approximately 36% of the cash flow (value in time of transaction) in Enron Nigeria Barge Ltd, to Enbridge, a wholly owned subsidiary of Merrill Lynch, for $28.5 million. This purchase price, which enabled Enbridge to acquire a majority of Preferred Shares and Convertible Shares, was funded 29% equity (Merrill Lynch) and 71% debt (Enbridge Power Holding Ltd). Enbridge APAC Ltd recognized $11.1 million of pre-tax earnings in 1999 with this transaction. In June of 2003, LHGP purchased the shares of Enbridge from Merrill Lynch. To this date, the loan between Enbridge and Enron Nigeria Power Holding Ltd ($21.0 million principal) has accrued $20 million in interest free in Enron Nigeria Power Holding Ltd.

On October 4, 2000, Enbridge APAC Ltd, Enron Nigeria Barge Holding Ltd, Enbridge Power (Yell, Power IPP) and AES Corp (AES), entered into a transaction for the purchase and sale to AES of 100% of the shares owned by Enbridge (now the cash flow), valued at approximately 19% of Enron Nigeria Barge Ltd., and enter into a second Share Purchase Agreement with Enbridge APAC Ltd for 100% of Enron Nigeria Power Holding Ltd. (inclusive of interest in Barge, IPP and Pipeline Project) (“Transaction”). This transaction includes LHGP Enbridge as the shareholder of Enron Nigeria Barge Ltd, 2 significantly reduced Enbridge’s exposure in Nigeria by way of equity dilution, and it contributed cash flow and earnings in the 3rd quarter of 2000 through 2001. Exhibit II outlines the current and “new” ownership structures.

As stipulated in the Share Purchase agreement between Enbridge APAC Ltd, Enron Nigeria Power Holding Ltd., and AES, two transactions will occur:

1. Purchase of 89% interest in Enron Nigeria Barge Ltd.
2. Purchase of 100% interest in Enron Nigeria Power Holding Ltd.

The sale of equity represents a portion of YP Power’s interest in the Project Companies.

1. Purchase of 89% interest in Enron Nigeria Barge Ltd.

2. Purchase of 100% interest in Enron Nigeria Power Holding Ltd.

The purchase of 89% interest in Enron Nigeria Barge Ltd., will be consummated with two payments. The first installment will be due on April 4, 2000. A payment of $41.5 million was charged to AES in exchange for a 30% ownership in Enron Nigeria Barge Ltd. To achieve this, AES will enter into a Share Purchase Agreement with Enbridge (through LHGP) which reflects the sale of purchase of 100% of Enbridge’s shares in Enron Nigeria Barge Ltd. (Preferred A shares and Convertible) at a price of $16.5 million. 10 days of this acquisition price is expected to the amount of $10 million in cash at Enron Nigeria Power Holding Ltd. for the purchase of interest and principal for the seller financed share. Subsequently, as agreed upon in the second Share Purchase Agreement between AES, Enron Nigeria Barge Holding Ltd, and Enbridge APAC Ltd, the preferred A shares newly acquired by AES from Enbridge and the Preferred B Shares of Enron Nigeria Barge Ltd. will be sold. The ordinary shares will be reclassified and new ordinary common shares issued to Enron as agreed in the Enron Nigeria Barge Ltd’s shareholders agreements. AES will own 10% of the ordinary shares after the restructuring and paying Enron Nigeria Barge Ltd. a promissory note of $7.95 million (of which $1 million is paid in 1/4) to purchase the additional 11% interest in Nigeria Barge Ltd.

The second installment which will increase AES’ ownership in Enron Nigeria Barge Ltd. to 99% will occur upon satisfaction of the conditions precedent to closing the company transaction in the Share Purchase Agreement. There must be a reasonable assurance that AES will be well served by all parties related to the Power Purchase Agreement to Nigeria. Where such an event takes place AES will pay to Enron Nigeria Barge Holding Ltd. the promissory balance due and all of Enron’s costs up to the amount of shares. At this point Enron Nigeria Barge Holding Ltd. will have no interest in Enron Nigeria Barge Ltd.
### RAC Deal Approval Sheet

**Deal Name:** Nigeria Power Holdings Ltd.

**Date:** September 20, 2000

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>AES Payment for 50% Ownership</td>
<td>$41,000,000</td>
</tr>
<tr>
<td>Proceeds to Enrom Nigeria Barge Holding Ltd.</td>
<td>$5,400,000</td>
</tr>
<tr>
<td>Plus: Loan and Interest Paid to Enrom Nigeria Power Holding Ltd.</td>
<td>$23,000,000</td>
</tr>
<tr>
<td>Cash to Enrom at Sept. 20, 2000:</td>
<td>$41,400,000</td>
</tr>
<tr>
<td>Construction of Satisfactory Due</td>
<td>$43,794,684</td>
</tr>
<tr>
<td>Diligence by AES</td>
<td></td>
</tr>
<tr>
<td>Proceeds to Enrom Nigeria Barge Holding Ltd. at Milestone</td>
<td>$20,480,427</td>
</tr>
<tr>
<td>60% of Barge Turbine and capital cost</td>
<td>$63,671,775</td>
</tr>
<tr>
<td>Cash to Enrom for 40% share of 100% Interest in Enrom Nigeria Barge Ltd.</td>
<td>$116,682,200</td>
</tr>
</tbody>
</table>

#### 2. Purchase of 100% Interest in Enrom Nigeria Power Holdings Ltd.

On October 4, 2001, in addition to acquiring up to 25% of Enrom Nigeria Barge Ltd. through Barge and Enrom Nigeria Barge Holding Ltd., AES has entered into a put-call option agreement with Enrom APACHE (Share Purchase Agreement). This put-call expired December 12, 2000. This DASH gives approval to extend this put-call until June 30, 2001. Upon the occurrence of certain conditions outlined below, AES has the option to call 100% of Enrom APACHE's shares in Enrom Nigeria Power Holding Ltd. at a premium price plus a pre-arranged share of cost, less payments to VFP. Similarly, Enrom APACHE has the option to put the same shares to AES at the same premium price subject to certain conditions as outlined below. When the conditions precedent are met and payment is made, AES is left with full ownership of Enrom Nigeria Power Holding Ltd. and interest in its subsidiaries. These interests include ownership in the following Nigerian Project Companies: 80% (20% from VFP Equity through Enron) of the IIP Company, and 70% of Pipeline Project. VFP and Enrom Nigeria Power Holding Ltd. have entered into a Project Development Contract (PDC) with which gives VFP the option to call 40% interest in Enrom Nigeria Barge Ltd., a 40% equity stake in Enrom Nigeria IPP Ltd., and a 50% equity stake in Enrom Nigeria Pipelines Ltd.

AES will be required to pay the remaining proceeds (as designated in the strike price) for 100% of Enrom Nigeria Power Holding Ltd. upon reaching certain milestones as specified in the Share Purchase Agreement. For each milestone, a designated monetary amount will be transferred from AES to Enrom APACHE. Share will be exchanged when fee payment from AES is made. A success fee will also be paid to Enron at the earlier of Financial Close and Start of Construction. The following table illustrates the sale of 100% of Enrom Nigeria Power Holding Ltd.

<table>
<thead>
<tr>
<th>Milestone / Condition Precedent</th>
<th>Estimated Timing</th>
<th>Payment to AES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amended IPP PPA Signing</td>
<td>October 1, 2000</td>
<td>$7,000,000</td>
</tr>
<tr>
<td>Earlier of Financial Close and Start of Construction of IPP</td>
<td>2001</td>
<td>$20,872,094</td>
</tr>
<tr>
<td>Cash to Enron (not including capitalized costs)</td>
<td></td>
<td>$24,954,094</td>
</tr>
</tbody>
</table>

Page 3

RCD 199331
RAC Deal Approval Sheet

Deal Name: Nigeria Power Holding Ltd. sale

Strategic Rationale

This transaction allows Enron to achieve many of its immediate goals including cash in-flow, earnings recognition, and asset development. This transaction permits either a partial or full divestiture of the Nigerian power project as a whole, as well as a sale of the Euro's interest in the 548 MW IPP development project and related pipeline at a premium upon satisfaction of conditions precedent.

Enron will not be required to invest any additional capital to achieve the goals of this transaction. Due to the timing of the payment from Enron Nigeria's interest, however, it is lower, and potentially significantly lower than at present. All capital sums incurred before the deal will be recovered in full as the payments under the Share Purchase Agreement represent proceeds free.

TRANSACTION SOURCES AND USES OF FUNDS (000) (Assumes closure of all outstanding transactions)

<table>
<thead>
<tr>
<th>Source</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of shares</td>
<td>$127,250</td>
</tr>
<tr>
<td>Enron Corp advance</td>
<td>$127,250</td>
</tr>
<tr>
<td>Total</td>
<td>$254,500</td>
</tr>
</tbody>
</table>

RETURN SUMMARY (excluding 279 MW barge IPP)

<table>
<thead>
<tr>
<th>Description</th>
<th>Cumulative</th>
<th>PV @ 14.24%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Outflows - Outstanding</td>
<td>16,584</td>
<td>(90,667)</td>
</tr>
<tr>
<td>Fees</td>
<td>-40,000</td>
<td>-40,000</td>
</tr>
<tr>
<td>Operating Cash Flow</td>
<td>84,250</td>
<td>94,217</td>
</tr>
<tr>
<td>Terminal Value</td>
<td>54,250</td>
<td>54,250</td>
</tr>
<tr>
<td>Total</td>
<td>139,834</td>
<td>141,467</td>
</tr>
<tr>
<td>Net Proceeds</td>
<td>0,633</td>
<td></td>
</tr>
</tbody>
</table>

Given the time frame for closing this transaction, RAC has not been given the time to run a probabilistic model on the existing 279 MW. RAC has not been presented models on the new 548 MW IPP, or a model on the pipeline.

The barges have been valued at their capitalized cost to Enron. The discount rate of 29.05% was based on a blending of Nigerian sovereign risk with market yields for the LC covered portion of the investment. The Nigerian sovereign spread over equivalent Treasuries was 52.51%, equivalent to a weak CCC-rated bond.

A CCC bond has an implied 44% likelihood of default over the contract life. Given the CCC- credit profile of the covenant risk, the default risk is greater than 44%. The model assumes that upon default the LC is drawn and the barges are recovered and sold within a five-year time frame at 50% of book value.

Not including the time value of money, and if the two-year sale of the barges IPP project is completed, the 279 MW barges IPP will yield an accounting gain of $25.42 million against the $14.37 million in NPV from the June, 2000 DASH. This assumes the option which AES holds for the second stage 668 total previous is exercised.

This revenue summary does not reflect any gains on sale of the 548 MW powerplant and related pipeline project. Upon satisfaction of all conditions precedent, the gain on these sales is expected to be approximately $150 million.

TRANSACTION IMPROBABILITY

N/A - Executives

EXIT STRATEGY

N/A
RAC Deal Approval Sheet

Deal Name: Nigeria Power Holding Ltd. sale

MILESTONES

December 15, 2000 - Purchase of remaining 65% and execution of new PPA
December 31, 2001 - Financial Close and start of Construction of 546 MW IPP

RISK MATRIX (Maximum 10)

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>MITIGATION/COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Risk of Counterparty - payment of the on-going obligations from the AES Project Company</td>
<td>The AES Corporation will issue a corporate guarantee. They are rated BAA2.</td>
</tr>
<tr>
<td>Non-signing of amended IPP PPA</td>
<td>Negotiations have been completed and there are no outstanding issues. The signing is anticipated when Chairman of Nigeria Technical Board lives in Lagos.</td>
</tr>
<tr>
<td>Neither Financial Close or Start of Construction of IPP Project is met</td>
<td>ENE has sold down 30% of the Barge Project and a portion of the IPP. This covers most of ENE's exposure irrespective of financial close.</td>
</tr>
</tbody>
</table>

KEY SUCCESS FACTORS

<table>
<thead>
<tr>
<th>Factor</th>
<th>NA</th>
<th>Poor</th>
<th>Fair</th>
<th>Good</th>
<th>Very Good</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Benefit</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Fit</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Future Potential</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Mitigation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

OTHER RAC COMMENTS

RAC has not been presented sufficient time to review the model on the 270 MW barge IPP project, nor were models presented on the 546 MW IPP and 540 km pipeline project. Thus, RAC's analysis is limited to an accounting analysis of unaudited cash flows. The net transaction at closing, the sale of 10% of the barge IPP and 50% of the YePP option, yields a cash profit of $1.96 million. Should AES complete the due diligence and gain additional commercial interest, thereby exercising their option to purchase the remaining 65%, AES would realize a $13.94 million profit. While netting in and out the time value of consideration, completion of these two transactions would yield $18.92 million versus the $14.17 million value RAC derived in June. This comparison does not take into account the offsetting value of the option AES will hold for the second-round 65% purchase.

The amended PPA signing is expected in early 2001, which would yield an additional $5.5 million profit. Should the 546 MW IPP reach the earlier of financial close or start of construction, Enron stands to gain another $2.88 million.

Despite the short period to analyze this transaction, RAC is supportive based on the reduction of the significant Nigerian currency risk (which caused RAC to recommend not proceeding with the additional barge investment in June), the positive accounting earnings, and cash generated from this sale.
<table>
<thead>
<tr>
<th>APPROVALS</th>
<th>Name</th>
<th>Signature</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originator</td>
<td>Sean Long</td>
<td></td>
<td>1/16/2000</td>
</tr>
<tr>
<td>Legal</td>
<td>Yen Asaro</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional Management</td>
<td>Rebecca McDonald/Un Nkhis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RAC Management</td>
<td>Rick Boy/Dave Genta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BNP Global Finance</td>
<td>Andy Fawwad/John Khan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office of the Chairman</td>
<td>Jeffrey Billington/Leo Simon</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## EXHIBIT I

**NIGERIA BARGE COMPANY VALUATION**

**COST CALCULATION**

<table>
<thead>
<tr>
<th>Description</th>
<th>2000</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Basis (From Balance Sheet at Transaction)</td>
<td>69,965</td>
<td>15,224</td>
</tr>
<tr>
<td>LJM Basis (From Balance Sheet at Transaction)</td>
<td>15,224</td>
<td>15,224</td>
</tr>
<tr>
<td>Excess Enron Barge Holding</td>
<td>69,965</td>
<td>19,660</td>
</tr>
<tr>
<td>Amount Allocated to Excess Barge Holding Shares</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>Sold to AES</td>
<td>26.00%</td>
<td>26.00%</td>
</tr>
<tr>
<td>Amount in AES</td>
<td>19.62%</td>
<td>19.62%</td>
</tr>
<tr>
<td>Amount Allocated to &quot;New Shares&quot;</td>
<td>11.89%</td>
<td>11.89%</td>
</tr>
<tr>
<td><strong>NEW BNE BARGE HOLDING PERCENT:</strong></td>
<td>73.00%</td>
<td>73.00%</td>
</tr>
<tr>
<td><strong>Percent of Enron Shares:</strong></td>
<td>14.00%</td>
<td>14.00%</td>
</tr>
<tr>
<td>Preference</td>
<td>8,400</td>
<td>8,400</td>
</tr>
<tr>
<td>Bank</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,500</td>
<td>1,500</td>
</tr>
</tbody>
</table>

### ENRON NIGERIA BARGE LIMITED

**BALANCE SHEET AS AT SEPTEMBER 30, 2000**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Assets - Barge</td>
<td>62,505,700.00</td>
<td>58,820,399.95</td>
</tr>
<tr>
<td>Capital Stock in Place</td>
<td>1,154,797.53</td>
<td>1,044,733.92</td>
</tr>
<tr>
<td>Inv in Subsidiary</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Other Intangibles</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Intangible Assets</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Other Current Liabilities</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>63,644,707.53</td>
<td>59,865,133.87</td>
</tr>
</tbody>
</table>

| Liabilities                        | 37,022,720.02 | 37,022,720.02 |

| **Total B/E**                      | 26,622,087.52 | 22,842,413.85 |

**Equity Indicators**

<table>
<thead>
<tr>
<th>Heads</th>
<th>Excess LJM Shares</th>
<th>Head Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred Stock</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Additional Paid-in-Capital</td>
<td>48,550,183.28</td>
<td>48,550,183.28</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>15,224,000.00</td>
<td>15,224,000.00</td>
</tr>
</tbody>
</table>
Nigerian Boys

Telegram to communicate M.S.'s. intent to go through

with January 21st the last.

76,250.

10% of 832,900 Eko.

10% of 832,900.

Confidential Treatment Request

Permanent Subpoena Order

EXHIBIT #228
Valent, Joseph S (IBK-NY)

From: To: Teena, Kira (IBK-NY)
Sent: Thursday, June 15, 2000 8:46 AM
To: Valent, Joseph S (IBK-NY)

Subject: RE: 

What is LiMB2 and how long will it take for them to buy us out with capital calls? I assume interest will continue accruing to ML/IBK positions until they are fully bought out. Also, I believe we would want to change the direction at this time (once ownership transfers) if ML/IBK positions will no longer have an interest in Elansa, LLC. As you mentioned in your e-mail to Gary & Jim Brown and also to Alan Hoffman aware of this arrangement? Please advise.

Regards,
Kira

--- Original Message ---
From: KIRA, KIRA S (IBK-NY)
Sent: Thursday, June 15, 2000 8:28 PM
To: JOSA, JOSA (IBK-NY)
Cc: JOSA, JOSA (IBK-NY); JOSA, JOSA (IBK-NY); JOSA, JOSA (IBK-NY)
Subject: FIN:

Dear:

This is kind of interesting. Look at slide "Barge%20Slide.ppt" below. It appears that the way we are getting out of the Elansa investment in ML/IBK Positions is having LM/ML Co-Investment LP buy us out through LP Capital Calls, in which ML/IBK is also a limited partner. On one hand we get our money back, on the other we will make a priority investment back into LM/ML which will invest. I guess this also means that the employees syndication will also put funds up for its private share as well.

Does Jim Brown know about this?

Let's discuss.

Joe

--- Original Message ---
From: Amy.Flores@innovantasia.com [mailto:Amy.Flores@innovantasia.com]
Sent: Wednesday, June 14, 2000 7:39 PM
To: Amy.Flores@innovantasia.com
Cc: 
Subject: 

Attached is a cover letter and overview views on seven new investments. If you have any questions please feel free to contact me at 713-342-5947.

Thank you,
Amy Flores

Timeline of Pertinent Information
Ebarge, LLC

<table>
<thead>
<tr>
<th>Event Description</th>
<th>Date(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Investment and APR information</td>
<td>Dec 21 &amp; 22 1999</td>
</tr>
<tr>
<td>(2) Minutes of MLJBK to form and capitalize Ebarge, LLC ($7M).</td>
<td>26-Dec-99</td>
</tr>
<tr>
<td>(3) Engagement letter with Enron - to A. Fastow from J. Brown ($253,000)</td>
<td>29-Dec-99</td>
</tr>
<tr>
<td>(4) $7M equity investment by MLJBK to capitalize Ebarge, LLC</td>
<td>30-Dec-99</td>
</tr>
<tr>
<td>(5) Ebarge, LLC financials and workpapers as of</td>
<td>31-Dec-99</td>
</tr>
<tr>
<td>(6) MLJBK consent to re-domicile Ebarge, LLC in the Caymans</td>
<td>February 2000</td>
</tr>
<tr>
<td>(7) Share Purchase Agreement between MLJBK and LJM-2 Ebarge, LLC for $7,525,000.</td>
<td>29-Jun-00</td>
</tr>
<tr>
<td>(8) Receipt of cash into MLJBK Corporations, Inc and RTS summary</td>
<td>29-Jun-00</td>
</tr>
<tr>
<td>(9) Ebarge, LLC financials and workpapers as of: (a)</td>
<td>29-Jun-00</td>
</tr>
<tr>
<td>(10) Ebarge, LLC - Register of Officers and Directors</td>
<td></td>
</tr>
</tbody>
</table>

(a) Records are then forwarded to Whitman Breed to forward on to Enron.

Please note: any unsigned MLJBK consents or minutes in this package should be executed in the OGC files.
<table>
<thead>
<tr>
<th>YEAR</th>
<th>ADVISORY</th>
<th>CAPITAL MARKETS (DEBT)</th>
<th>CAPITAL MARKETS (EQUITY)</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>$0</td>
<td>$1,416,745</td>
<td>$832,000</td>
<td>$2,268,745</td>
</tr>
<tr>
<td>1998</td>
<td>$0</td>
<td>$814,500</td>
<td>$2,441,000</td>
<td>$3,255,500</td>
</tr>
<tr>
<td>1999</td>
<td>$1,000,000</td>
<td>$2,694,000</td>
<td>$27,746,000</td>
<td>$31,440,000</td>
</tr>
<tr>
<td>2000</td>
<td>$0</td>
<td>$4,276,078</td>
<td>$0</td>
<td>$4,276,078</td>
</tr>
<tr>
<td>2001</td>
<td>$0</td>
<td>$1,544,000</td>
<td>$0</td>
<td>$1,544,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$1,000,000</td>
<td>$10,745,323</td>
<td>$11,039,000</td>
<td>$43,784,323</td>
</tr>
</tbody>
</table>
Hogan, Mark (PBS - NJ)

From: Fox, Paul (CIGC NY-GLS)
Sent: Friday, June 09, 2000 6:37 PM
To: Chapin, Samuel; DeVito, Mark; Fox, Paul; Kaplan, Todd; Lyons, Robert; Yang, John
Cc: Brinco, Neil; Browning, Karen; Dardano, Ray; Fenley, Carol; Hogan, Mark; McClae, Norman; Mogilczaddy, Sheila; Rooney, John; Siegel, Harold; Sweda, John; Wood, Paul
Subject: LJM2

Gentlemen,

The Committee is being asked to consider a $150MM share of a $650MM 364-day liquidity facility for the LJM2 Co-Investment UP. LJM2 is a Delaware limited partnership organized by the CFO of Enron to make private equity investments in the energy and telecom sectors. The primary source of cash flow for the partnership will be Enron however Enron nor any of its subsidiaries will issue any guarantees with respect to the financial performance or minimum net worth of the Fund.

Merrill Lynch's private equity group acted as placement agent for LJM2 and generated $4.0MM in fees in 1999. It is expected that there will be a LJM3 for which there is a high likelihood that Merrill will act as placement agent.

I have spoken with MSUSA and the initial read is that due to the lack of a rating and nature of the borrower this would not be a strong candidate for the Bank.

Please respond with your Yes/No vote at your earliest convenience. Additionally, should you have any questions or need further information please do not hesitate to contact me.

Thank You

Paul

[Signature]
Merrill Lynch Debt Markets
Request to Add a Company to ML Bank USA

Company: LJM2
Ratings (ST/LT): N/A               Date Submitted: June 6, 2000
IBK KM: Robert Furst               Amount Requested: $10 MM
CMS Coverage: N/A

Historical Relationship with Company: LJM2 is a $391 MM private equity fund which was raised by Andy Fastow, the CFO of Enron Corp. (ENE). Merrill Lynch’s Private Equity Group acted as the placement agent for LJM2. In addition to raising the fund, ML has had a significant investment banking relationship with Enron Corp. over the past several years.

Timing of: Chase Securities fully underwrote the $65 MM facility on December 22, 1999. They are now syndicating the facility out to other banks. They have asked for a response as soon as practical.

Total Revenue for ML in 1999: $4.8 MM from LJM2, $26.7 MM from Enron
Anticipated Future Revenue: $5 MM from LJM3 (see below)
$10-15 MM per year in fees from Enron Corp.

Will ML Have the Opportunity to Generate Future Incremental Business: Yes
(elaborate on future revenue figures): It is anticipated that Andy Fastow will raise an additional fund (LJM3) for which ML has a high likelihood of acting as placement agent. Also, Merrill Lynch has historically maintained a steady and profitable relationship with Enron Corp. Committing to this LJM2 facility will build ML’s relationship with Andy Fastow, and assist ML in securing future investment banking opportunities with Enron. Enron is very active both in the capital and M&A markets. ML is currently engaged to assist Enron with the purchase of the Sithe generation assets in Asia. Additionally, ML is competing for an Enron mandate to be decided on June 15, 2000.

Committee Response: Date ______ Accept ______ Decline ______

Committee Rationale: _______________________________________

MS 16666
From: Fox, Paul (CICG NY-GLS )
Sent: Friday, June 15, 2000 2:21 PM
To: Chepil, Samuel; DeVito, Mark; Fox, Paul; Kaplan, Todd; Lyons, Robert; Yang, John
Cc: Furlin, Robert (IBK-DAL); Bristow, Neil; Browning, Karen; Dardano, Ray; Fealey, Carol; Hogan, Mark; McClave, Norm; McGlinchey, Sheila; Rooney, John; Siegel, Harold; Swadiba, John; Wood, Paul
Subject: FW: LJM2

Gentlemen,

It is clear that this name will not work in the MLUSA and Norm McGlinchey has explored the possibility of placing it in ML International Private Finance but to no avail. I need to get back to Bob Furlin (the PM) with an answer so that he can get back to Enron.

I look for the guidance of your collective wisdom to resolve this issue.

Thank You

Paul

---Original Message---
From: Fox, Paul (CICG NY-GLS )
Sent: Friday, June 15, 2000 2:03 PM
To: Chepil, Samuel; DeVito, Mark; Fox, Paul; Kaplan, Todd; Lyons, Robert; Yang, John
Cc: Bristow, Neil; Browning, Karen; Dardano, Ray; Fealey, Carol; Hogan, Mark; McClave, Norm; McGlinchey, Sheila; Rooney, John; Siegel, Harold; Swadiba, John; Wood, Paul
Subject: LJM2

Gentlemen,

The Committee is being asked to consider a $10MM share of a $99MM 364-day liquidity facility for the LJM2 Co. - Investment LP. LJM2 is a Delaware limited partnership organized by the CFO of Enron to raise private equity investments in the energy and telecom sectors. The primary source of fee flow for the partnership will be Enron however Enron nor any of its subsidiaries will issue any guarantees with respect to the financial performance or minimum net worth of the Fund.

Merrill Lynch's private equity group acted as placement agent for LJM2 and generated $4.8MM in fees in 1999. It is expected that there will be a LJM3 for which there is a high likelihood that Merrill will act as placement agent.

I have spoken with MLUSA and the initial read is that due to the lack of a rating and nature of the borrower this would not be a strong candidate for the Bank.

Please respond with your Yes/No vote at your earliest convenience. Additionally, should you have any questions or need further information please do not hesitate to contact me.

Thank You

Paul
Hogan, Mark (PBS - NJ)

From: Hogan, Mark (PBS - NJ)
Sent: Friday, May 18, 2001 10:57 AM
To: Wood, Paul (Corp Credit - NY)
Subject: FW: LM2

I agree also...However, this should be evaluated by Jack prasty area given the significance of the overall business relationship and the giving forward private equity opportunities...

Original Message

From: Chaplin, Samuel R (EIKNY)
Sent: Monday, June 19, 2000 3:41 PM
To: McCaw, Norman (Corp Credit - NY) Fax, Paul (DCGS NY-GLS)
Subject: RE: LM2

I agree, Sam.

Original Message

From: McCaw, Norman (Corp Credit - NY)
Sent: Monday, June 19, 2000 11:55 AM
To: Li, Zhang (DCGS NY-GLS) Davis, Mark (DCGS - GAMPACTS) Lyons, Robert (DCGS - GAMPACTS) Yang, John F. (DCGS NY - GLS) Sweda, John (Corporate Risk Management) Wood, Paul (Corp Credit - NY)
Subject: RE: LM2

I have confirmed that this would be well outside our mandate, and therefore will not be a candidate for the Bank to take.

Original Message

From: Fas, Paul (DCGS NY-GLS)
Sent: Friday, June 08, 2001 6:27 PM
To: Chaplin, Samuel DeVito, Marc Fox, Paul Kopans, Todd Lyons, Robert Yang, John
Cc: Bronson, J. (DGS NY-GLS) Davis, Mark, Yang, John F., Kopans, Todd Lyons, Robert Yang, John
Subject: LM2

Gentlemen,

The Committee is being asked to consider a $10MM share of a $55MM 364-day liquidity facility for the LM2 Co - Investment LP. LM2 is a Delaware limited partnership organized by the CFO of Enron to make private equity Investments in the energy and telecom sectors. The primary source of deal flow for the partnership will be Enron however Enron nor any of its subsidiaries will issue any guarantees with respect to the financial performance or minimum net worth of the Fund.

Merrill Lynch’s private equity group acted as placement agent for LM2 and generated $4.8MM in fees in 1999. It is expected that there will be a LM3 for which there is a high likelihood that Merrill will act as placement agent.

MS 16673
I have spoken with MLSUSA and the initial read is that due to the lack of a rating and nature of the borrower this would not be a strong candidate for the Bank.

Please respond with your Yes/No vote at your earliest convenience. Additionally, should you have any questions or need further information please do not hesitate to contact me.

Thank You

Paul

<< File: LM2 selection form.doc >>
Interoffice Memorandum

To: Tom Davis

From: Ben Sullivan
Schuyler Tilley
Robert Furst

Merrill Lynch

Date: July 7, 2000

Subject: Request for an Exception to Policy for a $10MM Loan commitment to LJM II

Background
LJM II is a private equity partnership managed by Enron's CFO, Andrew Fastow. The fund's mandate is to invest in Enron's Merchant banking transactions. We raised $392 million for Mr. Fastow.

Mr. Fastow has asked Merrill Lynch to participate in a $45 million loan facility for the fund lead by Chase.

We respectfully request an Exception to Policy so Merrill Lynch can participate in this loan for the following reasons:

- Enron is an excellent client.
- $40MM in revenue for 1999
- $20MM in revenue for 2000 year to date
- Andy Fastow is in an influential position to direct business to Merrill Lynch.
- LJM II will raise its second fund next year and we have an excellent chance of raising money for this fund.
- Capitalize on successful momentum with Enron (NeuLa Bngen, Electricty Swap, LJM II fund raising).

It would be most helpful to have closure on this issue by July 11th.

cc: Dan Bayly
From: Browning, Karen (Corp Credit - NY)
Sent: Tuesday, November 27, 2001 11:00 AM
To: Yang, John P. (CGG NY - GLS)
Subject: RE: LJM - updated summary

The concern on the part of the banks is that the whole Enron situation, including all the lawsuits, could somehow cause us to end up on the short end of the stick between now and maturity data. They are committed to this plan, as did we, because of the Andy Fastow/Enron relationship and now that Fastow is definitely gone, and Enron must likely gone as well, they have no patience for waiting around to get their money back. They, in fact, want the attorneys to try and come up with an immediately ECO, notwithstanding the fact that we’ve already had a default and will be in an ECO situation on Jan 23. They don't seem likely at this point to agree to the waiver request.

There is a conference call among the banks and our attorneys scheduled for this Thursday at 10 am. I am assuming Carol Feeley and Mike Mingione will participate, along with Dmitriy and me.

Karen

---Original Message---
From: Browning, Karen (Corp Credit - NY)
Sent: Tuesday, November 27, 2001 12:00 AM
To: Browning, Karen (Corp Credit - NY)
Subject: RE: LJM - updated summary

---Original Message---
From: Yang, John P. (CGG NY - GLS)
Sent: Tuesday, November 27, 2001 12:00 AM
To: Browning, Karen (Corp Credit - NY)
Subject: RE: LJM - updated summary

---Original Message---
From: Yang, John P. (CGG NY - GLS)
Sent: Monday, November 26, 2001 1:30 PM
To: Browning, Karen (Corp Credit - NY)
Cc: Bank, Dmitriy (Corp Credit - NY)
Subject: RE: LJM - updated summary

request seems pretty good, is there a better outcome here? other than default/acceleration and forced repayment?

---Original Message---
From: Yang, John P. (CGG NY - GLS)
Sent: Monday, November 26, 2001 1:30 PM
To: Browning, Karen (Corp Credit - NY)
Cc: Bank, Dmitriy (Corp Credit - NY)
Subject: RE: LJM - updated summary

68.23% required [Dmitriy, pls. confirm]. Yes, facility will be reduced & become a term loan.

---Original Message---
From: Yang, John P. (CGG NY - GLS)
Sent: Monday, November 26, 2001 1:32 PM
To: Browning, Karen (Corp Credit - NY)
Subject: RE: LJM - updated summary

Is the waiver a 100% vote and if I understand this right the total facility will be reduced to 68.23% (the 720m funded less the 15 mm cash repayment)?

---Original Message---
From: Yang, John P. (CGG NY - GLS)
Sent: Monday, November 26, 2001 1:32 PM
To: Browning, Karen (Corp Credit - NY)
Cc: Bank, Dmitriy (Corp Credit - NY)
Subject: RE: LJM - updated summary

As there have been many opinions expressed as to how aggressive we should appear during the LJMx2 loan negotiations, I am forwarding Dmitriy’s update of this situation as background. I second Carol Feeley’s request that we have a conference call this afternoon to discuss.

---Original Message---
From: Yang, John P. (CGG NY - GLS)
Sent: Monday, November 26, 2001 1:52 PM
To: Browning, Karen (Corp Credit - NY)
Subject: RE: LJM - updated summary

Permanent Submissions on Investigations

EXHIBIT #234

MS 19401
Interoffice Memorandum

To: Chris Birosk

From: Robert Fust

At: Merrill Lynch IBK Dallas

Tel: 214-849-3350

Date: February 7, 2001

Merrill Lynch

Subject: Enron

In 2000, Enron completed 52 transactions for $19 billion of financings - $16 billion of this was structured paper. ML recently lost the mandate to underwrite $1.28 billion of zero coupon convertible debt because Enron does not believe ML is a financial partner. CSFB, Chase, Citigroup and Bank of America all have in excess of $1.0 billion of exposure to Enron. This is our competition. SSB received the LYON mandate.

An example of an Enron deal:

Enron established a joint venture with CalPERS in 1994 to pursue energy investments. CalPERS contributed $250 million in cash and Enron contributed $250 million in Enron unregistered common stock. In 1998, Enron purchased CalPERS interest for approximately $400 million dollars. Enron approached CSFB to participate with Barclays in a $330 million back facility. The collateral package included various interests in public and private energy companies and Enron stock valued at $500 million. Enron syndicated the facility with a targeted hold for CSFB and Barclays at $40 million, which was completed in three months after funding. The facility was not Enron credit but had a trigger whereby Enron had to purchase subordinated partnership units for cash if asset coverage ratios were not met subject to a monthly test. While CSFB has protected itself with credit default derivatives, other institutions have opted to help Enron with syndication, then sell their participation in the secondary loan market. (CLJ and BT Alex Brown have successfully implemented this strategy.) Recent conversation with CSFB indicates most of their positions could be sold for 98.5% to 99.25% of commitment amount.

Merrill Lynch has decided to help Enron underwrite and syndicate these types of deals. The objective today is to assemble the team to execute these deals.
From: Kulick, Adam (CAPM/KTB)
Sent: Wednesday, July 11, 2001 5:06 PM
To: Lyons, Robert (GCCS - CAPM/KTB)
Subject: Enron - rawhide

FYI: please see the note below as now we either say no or say yes and get it approved using schuyler's credibility. If we say no, I think we should cushion the blow with the offer of the larger facility and wrap it in a bigger picture quick pro quo conversation. What do you think?

Sent from my Blackberry Wireless Handheld (www.Blackberry.net)

---Original Message---
From: Bellardo, Dean (ICC - NY SWAPS) <D_Bellardo@nl.com>
To: Gehl, Brian (BK-DAL) <bgehll@exchange.ml.com>; Kulick, Adam (CAPM/KTB) <AdamK@exchange.ml.com>; Furst, Robert (BK-DAL) <rfurst@exchange.ml.com>
Subject: rawhide

I just heard back from James and he told me that Enron will definitely not tie our losses to new business. He’s looking for us to give a final answer on the deal by the end of the day, as he will have to go back to all the banks in the facility within a week.

Dean
Allen got back to me saying that he was not involved at all in this transaction. I would really appreciate your help in getting some more information about this exposure. Thanks a lot.

Dmitry

--- Original Message ---
From: Diehl, Bowen (BK-DAL)
Sent: Friday, July 13, 2001 6:43 PM
To: Baron, Dmitry (Corp Credit - NY); Custard, Allen (BK-NY)
Cc: Browning, Karen (Corp Credit - NY); Furst, Robert (BK-DAL)
Subject: RE: LJM2 / Enron

Allen, can you provide any insight here?
As far as selling, we took a substantial P/L hit for selling Zephyr, not something we want to repeat if possible.

Bowen S. Diehl
Vice President
Merrill Lynch & Co
IBK - Dallas
200 Crescent Court, Suite 550
Dallas, Texas 75201

ph: 214-848-5380
cx: 214-848-5398
cell: 214-848-5317

--- Original Message ---
From: Baron, Dmitry (Corp Credit - NY)
Sent: Friday, July 13, 2001 4:33 PM
To: Diehl, Bowen (BK-DAL); Custard, Allen (BK-NY)
Cc: Browning, Karen (Corp Credit - NY)
Subject: LJM2 / Enron

Bowen, Allen, it came to our attention that we don't have much information on LJM2's loan. Do you know who would be the best person to talk to about it to see what the situation with their investments is (it's a fund set up by Enron's CFO to invest in telecommunication and energy projects). Also, it would be interesting to find out what the price of this loan on sec. market is and why ML does not consider a strategy to sell our participation down (as we are doing w/Zephyr,DK). Thanks a lot for your help.

Best regards,

Dmitry Baron
Energy/Corporate Credit Risk Management
212 236-5557

Permanent Subcommittees on Inflation
EXHIBIT #237

MS 16908
the 3 Funding loans are Master Lease transaction (Jim Brown) utilize subsidiary bridge loans. These facilities are approved by the Lease Investment Advisory Committee.

17M2 is $5.5MM funded.

---Original Message---
From: Allie, Erika [CSS - NY Mortgagors]
Sent: Tuesday, December 04, 2001 11:03 AM
To: Cox, Kevin (Corporate Risk Management); Browning, Karen [Corp Credit - NY]; Morarly, Edmond N (Corporate Risk Management); Chandler, Jeff (Dtd eCommerce); Fazak, Zoran (Global Debt Markets); Yang, John F. [CSS NY - GLS]
Subject: Structured loan transactions

Leavin,

As a follow up to the Sunday call, a snapshot of the structured loans in the portfolio are as follows:

Zephyrus 22.5mm
IrmO 6.8mm
mighty oak 40mm
Us bancorp synthetic lease 25mm

names which we do not recognize which are listed on the all loans report are:

LMB financing
Cubester financing
subside financing

given the sometimes cryptic names used by the transactions, are there any others which should be included which we missed?

as discussed if you would us to undertake a underwrite/review, identify risks and suggest hedging strategies, pls let me know.

thanks eric
Interoffice Memorandum

To: Herb Allison
At: New York

From: Rick Gordon
    Schuyler Tilney
At: Houston
Tel: 713/759-2510/2513
Date: April 18, 1998

Subject: Enron Common Stock Offering

We are requesting that you call the two senior executives of Enron – Ken Lay, Chairman and Chief Executive Officer, and Jeff Skilling, President and Chief Operating Officer – regarding Merrill Lynch’s participation in Enron’s contemplated $750 million common stock offering. Ken Lay will be in his office in Houston at about 8:30 a.m. CDT while Jeff Skilling will be in his office at approximately 11:00 a.m. CDT. Ken’s telephone number is 713/853-6773, and Jeff’s is 713/853-6894.

Background of Transaction

Enron was notified approximately six weeks ago by Moody’s Investors Service that it is considering downgrading Enron’s debt due to the increase in the Company’s leverage over the past few years. After several meetings with Moody’s to better understand its concerns, Enron determined that it needed to undertake a large common stock offering to avoid a credit rating downgrade. The Company is extremely sensitive with regard to confidentiality concerning this transaction (past equity offerings undertaken by the Company have been leaked in advance of the offerings, with negative consequences to the stock price); therefore, Enron solicited advice from only Merrill Lynch regarding size and terms of and market receptivity to the offering. We were obviously apprised of the transaction in the strictest confidence and were informed that no other investment banks would be contacted in order to lessen the likelihood of a leak.

In connection with our dialogue with Enron on the offering, we obviously stressed not only our strong desire but also our unique qualifications to serve as lead manager. This role was actively supported both by Enron’s senior finance staff (for whom we have successfully executed several large-sized debt offerings in recent months) and its corporate development group (for whom we are presently engaged to execute a $1 billion divestiture of their electric generation assets). However, our research relationship with Enron has been strained for a long period of time. Our equity research analyst on Enron is John Olson. He has a poor relationship with Jeff and, particularly, Ken, for several reasons. First, John has not been a real supporter of the Company, even though it is the largest, most successful company in the industry. Second, Enron views his research as flawed, particularly as it relates to a valuation of at least certain of its businesses (e.g., retail marketing). Finally, John often makes snide,
and potentially embarrassing remarks about the Company in meetings with analysts
while the presence of Ken and Jeff.

Recent Developments

Enron’s Chief Financial Officer, Andy Fastow, called last night to inform us that
Merrill Lynch would not be selected as lead manager of the offering and, further, that
we would not even be included as a co-manager. He stated that the decision was based
solely on the research issue and was intended to send a strong message as to how
“viscerally” Enron’s senior management feels about our research effort. He also stated
that inclusion of Merrill Lynch in the offering would effectively constitute an
endorsement of Olson’s valuation methodology of the Company, and, in particular, of
his negative valuation of Enron’s burgeoning retail electricity and gas business.
Importantly, Enron management believes that the success of its common stock offering
will be tied to the successful sale of the retail electricity and gas story. Andy further
stated that Enron management did not wish to harm its investment banking
relationship with Merrill Lynch and that Enron would make a point of compensating
us on other transactions; however, their decision on this stock offering has been made
solely on the basis of research coverage (D.J. whose top-ranked analyst has Enron’s
stock on his recommended list, will lead the offering and all of the co-managers have
Buy ratings on Enron).

Purpose of Your Call

We would appreciate you calling both Ken and Jeff in an attempt to have Merrill
Lynch inserted as a co-manager. Your call should focus on Merrill Lynch’s
longstanding relationship with the Company (see below for detail) and our support of
the Company through a wide variety of transactions over many years. While you
should probably acknowledge our difficult research relationship, you might also point
out that Olson has at least been more positive on their stock in recent months (Olson
currently rates the stock a 3+).

History of the Relationship

Enron was formed in 1985 from the merger of two large pipelines, InterNorth
and Houston Natural Gas. We advised Houston Natural Gas (of which Lay was the
CEO at the time) on the transaction while we were at First Boston. Since that time, we have
executed numerous transactions for Enron and have been one of the Company’s lead
investment banks, including acting as lead manager for their last common stock
offering in 1992 (again while at First Boston)

For this reason as well as our leadership position in the natural gas industry,
exclusion of Merrill Lynch from this transaction would be quite negative to us as well
as detrimental to the Company in terms of transaction execution.

cc: Tom Davis

MS 06921
From: Tinay. Schuyler (IBK-HOU)
Sent: Monday, January 15, 1999 4:02 PM
To: Allison, Herbet M. (NY-EXE)
Cc: Gayly, Daniel H. (IBK-NY)
Subject: Enron Account Update

Dear:

Thank you for your response re Baker Hughes. On a positive note, I wanted to update you on recent developments in our relationship with Enron since you spoke to their CEO, Ken Lay, last spring regarding our difficult relationship with Merrill Lynch. It is clear that your responsive message was appreciated by Enron, and any attempt to resolve the conflict has made the process much smoother. In fact, Enron has recently announced a significant transaction involving the acquisition of their water company (Acute), which is expected to be completed in early February. The acquisition will result in a $1 billion private equity fund on behalf of the parent, which is expected to kick off in early March. Total costs to Merrill Lynch for these two transactions alone should be $5-60 million.

I wanted you to be aware of these two transactions and to thank you for your support with Ken. If it wouldn't be too much of a burden, I might also ask you to make a follow-up call to Ken later this spring (once we see how these deals progress).

Many thanks

Schuyler
From: Titney, Schuyler (BK-HOU)
Sent: Thursday, February 11, 1999 4:28 PM
To: Jones, Rob (BK-HOU)
Subject: RE: Enron Mandalay/Lay Letter

r: excellent letter s

---Original Message---
From: Jones, Rob (BK-HOU)
Sent: Wednesday, February 10, 1999 6:21 PM
To: Allison, Herbert M. (NY-EXE)
Cc: Titney, Schuyler (BK-HOU)
Subject: Enron Mandalay/Lay Letter

Herb,

As a follow-up to your recent discussion with Schuyler Titney, we thought that it might be appropriate for you to send a note to Ken Lay at Enron thanking him for a recent mandate to serve as a co-manager on a 12 million share common stock offering (8775 AM). The deal is expected to price this week (maybe as soon as Thursday). As Schuyler also indicated, we are working on several other assignments which could turn out to be quite meaningful financially to Merrill Lynch. We will keep you posted. We have taken the liberty of drafting a short note for you to use or edit.

Regards,
Rob

<< File: Herb Allison Letter.doc >>

Rob L. Jones
Merrill Lynch & Co.
713-755-2545 (Tel)
713-755-2551 (Fax)
rob_jones@ml.com
Interoffice Memorandum

From:  John Doe
To: Bob Smith

Subj: Andy Parker's (SVP & CFO of Enron) visit to New York

Date: December 4, 2000

Dear Bob,

Thank you for meeting with Andy Parker at 10:00 a.m. on Friday, December 4th. Andy is in New York to meet with our team regarding the $1 billion equity fund Merrill Lynch is raising for Enron. Enron will contribute $100 million to the fund, of which a portion may be in the form of Enron common stock, and investments and Enron managers will contribute the balance. Ben Sullivan, David Price, Susan Ford and Robert Harris form the balance of the team on this project.

Andy is a very important relationship for the firm and is principally responsible for Merrill Lynch's participation in the project. As you know, Merrill Lynch was nearly excluded from Enron's $750 million common stock offering earlier this year, so this mandate is critical in re-establishing our relationship with Enron.

Merrill Lynch recently lead-managed an Enron debt offering as well as a STEERS offering.

The Comment

Enron is among the largest energy companies and has a market capitalization of approximately $2 billion. Enron has recently announced a number of transactions, including the acquisition of Wexco Water and of Copen Technologies. Merrill Lynch represented the minority shareholders of Copen in the sale to Enron.

As you know, Enron is one of the most critical relationships in the Houston office and the largest company based in Houston. We have had a close relationship with them for many years and it would be helpful if you could acknowledge our appreciation for this longstanding relationship during the course of the conversation.

Sincerely,

John Doe
Merrill Lynch
Facsimile Cover Sheet

To: Andrew Fastow & Mark Koenig

Company: Enron Corp.
Phone: 713/853-7427 / 5981
Fax: 713/646-2300 / 3002
Subject: Enron Corp. Calling List

From: Schuyler Tilney
Phone: 713/759-2530
Fax: 713/759-2539
Date: April 28, 1998

3 Pages including this cover page.

If you have any questions or comments between now and the pricing.

Andrew & Mark,

Attached is a calling list from John Olsen for the Enron Corp. common stock offering as of today. We will send you an updated list as it becomes available. Please feel free to call either myself, Rob or Adam with any questions or comments between now and the pricing.

Attention: Employee Email Material
This facsimile should not contain information not for public distribution or any proprietary information deemed for internal use only.

Attention: Recipient of Freed Material
The information herein has been obtained from sources which we believe to be reliable, but we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes a solicitation by us of the purchase or sale of any securities.

EXHIBIT #243
### John Olson - Enron Call List

<table>
<thead>
<tr>
<th>Name</th>
<th>Company</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ray Chan</td>
<td>Franklin Funds</td>
<td>Bought stock before Q1 report. May buy some more. EES valuation is an issue</td>
</tr>
<tr>
<td>John Gavin</td>
<td>AmEx - IES</td>
<td>Likes story. Thinks it will be the next $30B. Is concerned about the size of the premium on Enron Energy Services (IES). Could be a buyer.</td>
</tr>
<tr>
<td>Dennis Walsh</td>
<td>Fleet Financial Group</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Larry Tedeschi</td>
<td>BearOne</td>
<td>Likes story, undecided on it. Meeting with Lou Pal on Thursday. Will decide on Friday.</td>
</tr>
<tr>
<td>John Lennon</td>
<td>Colonial Management</td>
<td>Likes story. Concept player will visit on Friday A.M. May buy more.</td>
</tr>
<tr>
<td>Dave Powers</td>
<td>Ohio State Teachers</td>
<td>Enron story &amp; its valuations, Likes stock - will meet with Lou Pal Wednesday. Will make up mind on Friday.</td>
</tr>
<tr>
<td>Bruce Williams</td>
<td>Morgan Guaranty</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Joaan Barry</td>
<td>Scudder Kemper</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Zia Miss</td>
<td>Northern Trust</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Tom Bollart</td>
<td>First Star</td>
<td>Owns Stock/Likes story/ undecided if he will buy more. EES valuation premium is an issue.</td>
</tr>
<tr>
<td>Rod Mitchell</td>
<td>Mitchell Group</td>
<td>Wants to buy cheaper. He's a bargain hunter.</td>
</tr>
<tr>
<td>Stacy Saul</td>
<td>George Weiss Associates</td>
<td>Left Voice Mail/Enron Story</td>
</tr>
<tr>
<td>Peter Vig</td>
<td>Tiger Mgmt</td>
<td>Will probably pass</td>
</tr>
<tr>
<td>Monroe Haim</td>
<td>Barrow Hanley</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Gregg Wisnake</td>
<td>USA</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Christine Drisch</td>
<td>American Capital Mgmt</td>
<td>Doesn't own/may be interested. Asked a lot of questions.</td>
</tr>
<tr>
<td>James Elliot</td>
<td>Cowen Asset Mgmt</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Jeff Glauberg</td>
<td>Providence Capital Mgmt</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Jim Boyd</td>
<td>Harbor Capital Mgmt</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Jim McComas</td>
<td>Slicky</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>John Murphy</td>
<td>Mitchell</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td></td>
<td>(212) 598-8104</td>
<td></td>
</tr>
<tr>
<td>Mike Nehe</td>
<td>Neuberger Berman</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Tom Moore</td>
<td>Sutte Street</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Barbara Friedman</td>
<td>John Hancock</td>
<td>Like the idea, will consider it. Doesn't own now.</td>
</tr>
<tr>
<td>Barry Allen</td>
<td>Purnam</td>
<td>Thinks price is too high. Might bite @ $44 - $45</td>
</tr>
<tr>
<td>Phil Kankronen</td>
<td>Lord Abbott</td>
<td>Left Voice Mail / Enron Story</td>
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<tr>
<td>Bruce Bottomley</td>
<td>Sacco Capital</td>
<td>Left Voice Mail / Enron Story</td>
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<tr>
<td>28</td>
<td>Lisa Herwi</td>
<td>Mass Financial</td>
</tr>
<tr>
<td>29</td>
<td>John Wong</td>
<td>Mass Financial</td>
</tr>
<tr>
<td>30</td>
<td>Don Klipride</td>
<td>The Boston Company</td>
</tr>
<tr>
<td>31</td>
<td>George Delacos</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>Bill Bart</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Joel Korth</td>
<td>Columbus Circle</td>
</tr>
<tr>
<td>34</td>
<td>Tony Giannelly</td>
<td>Dawson-Samberg</td>
</tr>
<tr>
<td>35</td>
<td>Martin Roberts</td>
<td>Salomon Asset Mgmt</td>
</tr>
</tbody>
</table>
Facsimile Cover Sheet

To: Andy Fastow & Mark Koenig

Company: Enron Corp.
Phone: 713/853-7427 / 5981
Fax: 713/646-2300 / 3002
Subject: Updated Enron Corp. Calling List

From: Schuyler Tilney
Phone: 713/759-2530
Fax: 713/759-2539

Date: April 30, 1998
5 Pages including this cover page.
Should you have problems receiving this transmission, please contact Teressa Goodgame 713/853-2256

Andy & Mark,

Attached is an updated calling list from John Olsen for the Enron Corp. common stock offering. We will send to you another updated list when it becomes available. Again, please feel free to call either myself, Rob or Adam with any questions or comments between now and the pricing.

Attention: Employee Filing Material
This facsimile should not contain information not for public distribution or any proprietary information deemed for internal use only.

Attention: Recipient of Faxed Material
The information herein has been obtained from sources which we believe to be reliable, but we do not guarantee its accuracy or completeness. Neither the information nor any opinions expressed constitutes a solicitation by us of the purchase or sale of any securities.

MS 06990
## John Olson - Enron Call List
**4/29/98**

<table>
<thead>
<tr>
<th>Name</th>
<th>Company</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pat Kane</td>
<td>Federated Research</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>John Segner</td>
<td>Ivesco</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Brad Evans</td>
<td>Heathland Advisors</td>
<td>Discussed Enron in detail/Not interested. Owns big position in SWN</td>
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<tr>
<td>Jim Marguard</td>
<td>Rainier Inv. Mgmt</td>
<td>Discussed Enron in detail/Doesn't know story well/But will look at it. Smart investor - likes gas commodity</td>
</tr>
<tr>
<td>Brian Wall</td>
<td>Munder Capital Mgmt</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Robert Leslie</td>
<td>Trusco Capital Mgmt</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Leon Turklin</td>
<td>Lehman Arbor Mgmt</td>
<td>Has sold down Enron position/No interest in the stock, Wants to move up Soas instead</td>
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<td>Peter Viehl</td>
<td>Trust Company in West</td>
<td>Discussed Enron in detail/ Set up appt @ 10:00 am /will see Enron on future e-mailed research</td>
</tr>
<tr>
<td>Jim McFadden</td>
<td>StCoup</td>
<td>Discussed Enron/Will look at it/No sense of the depth of interest</td>
</tr>
<tr>
<td>Mike Caster</td>
<td>First Chicago - NBD</td>
<td>Left Voice Mail / Enron Story</td>
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<td>Bankers Trust</td>
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<tr>
<td>Joe Hill</td>
<td>Sun Trust</td>
<td>Discussed Enron in detail/Not interested.</td>
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<tr>
<td>Brian Hanson</td>
<td>Delaware Mgmt</td>
<td>Discussed Enron/See story long term/Can't get others interested/ Doesn't want to pay $49.50/ Thinks stock could be good/Sitting on the fence post</td>
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<td>Left Voice Mail / Enron Story</td>
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<tr>
<td>Michael Hoover</td>
<td>U.S. Trust</td>
<td>Discussed Enron in detail/owns a piece of Enron already/Okay add to position/Likes to buy it cheaper/ Could be a buyer. Passed him research</td>
</tr>
<tr>
<td>Martin Russell Jones</td>
<td>Compass Mgmt (London)</td>
<td>Discussed Enron story/emailed data/ could be a buyer.</td>
</tr>
<tr>
<td>Brent Hester</td>
<td>T.Rowe Price</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Diane Sobin</td>
<td>Chase Investor</td>
<td>Discussed Enron in detail. Already owns @ $41.00. Will visit with Ken Lay tomorrow AM/Bordersline buyer.</td>
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<tr>
<td>Kim Schaefer</td>
<td>CREF</td>
<td>Left Voice Mail / Enron Story</td>
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<td>Will Maga</td>
<td>Westfield Capital</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Dave Zimmerman</td>
<td>Loomis Sayles</td>
<td>Discussed Enron in detail/already owns stock/Not big position/Looks like he will sit out on deal/wait for it to come down</td>
</tr>
</tbody>
</table>

MS 06991
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<tr>
<th>Name</th>
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<tbody>
<tr>
<td>James Elliot</td>
<td>Cowen Asset</td>
<td>Discussed Enron. Didn’t seem too interested.</td>
</tr>
<tr>
<td>Steve Feuss</td>
<td>Bents Goodman</td>
<td>Discussed Enron. Will go to the roadshow next Monday. Luke warm to story</td>
</tr>
<tr>
<td>Peter Vinh</td>
<td>Trust Company of the West</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Bruce Williams</td>
<td>Morgan Guaranty</td>
<td>Discussed Enron. He likes it. But Terry Shu (Eliot’s) is calling the shots on Enron</td>
</tr>
<tr>
<td>Terry Sha</td>
<td>Morgan Guaranty</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Annie Tao</td>
<td>Alliance Capital Mgmt</td>
<td>Discussed Enron in detail. Annie is still up in the air. Cast tell what she is going to do.</td>
</tr>
<tr>
<td>Stacy Saal</td>
<td>George Weiss</td>
<td>Discussed Enron. Wants to know it better. No clear indication.</td>
</tr>
<tr>
<td>Joe Shier</td>
<td>Omega Investors</td>
<td>Discussed Enron. Not interested. Owns a lot of EOG, however. Will not be in deal.</td>
</tr>
<tr>
<td>Eric Scharpf</td>
<td>Miller Anderson</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Dick Koleski</td>
<td>Adams Express</td>
<td>Discussed Enron. Likes at a lower price. Owns EOG</td>
</tr>
<tr>
<td>Dwight Cowden</td>
<td>Mellon Bank</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Pat Kane</td>
<td>Federated</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Rob Boyd</td>
<td>investment Counsel of Maryland</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Bill Adams</td>
<td>NCB/Boarmas</td>
<td>Discussed Enron/ would become interested @ $45-50, probably won't come in on deal</td>
</tr>
<tr>
<td>Gene Gillespie</td>
<td>Mississippi Valley</td>
<td>Discussed Enron. Stock too rich - will pass.</td>
</tr>
<tr>
<td>Danette Miller</td>
<td>Mississippi Valley</td>
<td>Discussed Enron. Stock too rich - also will pass.</td>
</tr>
<tr>
<td>Eric Elvevlog</td>
<td>Duff &amp; Phelps Asset Mgmt</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Jerry Ires</td>
<td>Harris Trust</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Joe Worsen</td>
<td>State of Wisconsin</td>
<td>Left Voice Mail / Enron Story. Joe will be out of the office until May 1</td>
</tr>
<tr>
<td>David Dowler</td>
<td>Luther King Asset Mgmt</td>
<td>Discussed Enron. Would be interested @ a lower price. Will go to meeting on Friday.</td>
</tr>
<tr>
<td></td>
<td>Name</td>
<td>Firm</td>
</tr>
<tr>
<td>---</td>
<td>------------</td>
<td>------------------</td>
</tr>
<tr>
<td>32</td>
<td>Bill Burt</td>
<td>Columbus Circle</td>
</tr>
<tr>
<td>33</td>
<td>Joel Karth</td>
<td>Columbus Circle</td>
</tr>
<tr>
<td>34</td>
<td>Tony Giannalva</td>
<td>Dawson Sanford</td>
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<tr>
<td>35</td>
<td>Martin Roberts</td>
<td>Solomon Asset Mgmt</td>
</tr>
</tbody>
</table>
Facsimile Cover Sheet

To: Andy Fastow & Mark Koenig

Company: Enron Corp.
Phone: 713/853-7427 / 5981
Fax: 713/646-2300 / 3002
Subject: Final Enron Corp. Calling List

From: Schuyler Tilney
Phone: 713/759-2530
Fax: 713/759-2539

Date: May 4, 1998
7 Pages including this cover page.
(Should you have problems receiving this transmission, please contact Teresa Brooks at 713/759-2558)

Andy & Mark,

Attached is the final calling list from John Olson for the Enron Corp. common stock offering. Please feel free to call either myself, Rob or Adam with any questions or comments between now and the pricing.

Attention: Employee Using Material
This facsimile should not contain information not for public distribution or any proprietary information deemed for internal use only.

Attention: Recipient of Restricted Material
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MS 06984
<table>
<thead>
<tr>
<th>Name</th>
<th>Company</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paul Scoville</td>
<td>Carl Domino</td>
<td>Discussed Enron in detail/not interested</td>
</tr>
<tr>
<td>Jim Carroll</td>
<td>Leomin Sayles</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Annie Toso</td>
<td>Alliance Capital</td>
<td>Sending her more information</td>
</tr>
<tr>
<td>Joe Hill</td>
<td>SunTrust Mgmt</td>
<td>Discussed Enron (again)/Still not a buyer</td>
</tr>
<tr>
<td>Annie Toso</td>
<td>Alliance Capital</td>
<td>Left voice mail more enron details</td>
</tr>
<tr>
<td>Shadoss Simon</td>
<td>Putnam</td>
<td>Discussed Enron/Coming into office at 2:00 pm /already owns stock/will decide after listening to story.</td>
</tr>
<tr>
<td>Pat Kane</td>
<td>Federated</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Bill Patter</td>
<td>MLAM</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Walter Rogers</td>
<td>MLAM</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Claudia Cody</td>
<td>AIM</td>
<td>Discussed Enron/will pass/thinks its fairly valued</td>
</tr>
<tr>
<td>Frank Gallagher</td>
<td>Catalyst Fund</td>
<td>Discussed Enron / Not interested</td>
</tr>
<tr>
<td>Yasha Oppman</td>
<td>Dodge &amp; Cox</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Jack LeVande</td>
<td>Ack Asset Mgmt</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Susina Singh</td>
<td>Fiduciary</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Tom Mszek</td>
<td>John Muacy</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Pat Rowlis</td>
<td>Kempner Investment</td>
<td>Discussed Enron/Not interested</td>
</tr>
<tr>
<td>Harry Flevin</td>
<td>Austin Colvert</td>
<td>Discussed Enron/Somewhat interested/was going to meeting</td>
</tr>
<tr>
<td>David Ginder</td>
<td>Waddell &amp; Reed</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>Monroe Hahn</td>
<td>Barrow Hanley</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>David Jordan</td>
<td>Fayez Sarofin</td>
<td>Discussed Enron in detail/Industry outlook/Will meet on Wednesday May 13th.</td>
</tr>
<tr>
<td>Name</td>
<td>Company</td>
<td>Comments</td>
</tr>
<tr>
<td>---------------</td>
<td>------------------------</td>
<td>-------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Ed Amberger</td>
<td>Morgan Stanley Dean</td>
<td>Tried to leave voice mail/mailbox full</td>
</tr>
<tr>
<td></td>
<td>Witter, Klimas</td>
<td>Discussed Euron in detail. Won’t pay up.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Likes low P/E. Felt in his gas positions</td>
</tr>
<tr>
<td>Mazza Shamsi</td>
<td>Matter of Financial</td>
<td>Left Voice Mail / Euron Story</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td></td>
</tr>
<tr>
<td>Sheldon Simon</td>
<td>Putnam</td>
<td>Left Voice Mail / Euron Story</td>
</tr>
<tr>
<td>Steven Drake</td>
<td>Strong Capital</td>
<td>Left Voice Mail / Euron Story</td>
</tr>
<tr>
<td>Glenn Johnson</td>
<td>First Asset Mgmt</td>
<td>Left Voice Mail / Euron Story/New to Group</td>
</tr>
<tr>
<td>Jeff Erickson</td>
<td>Advanta</td>
<td>Left Voice Mail / Euron Story</td>
</tr>
<tr>
<td>Debby Janson</td>
<td>Stein Roe</td>
<td>Left Voice Mail / Euron Story</td>
</tr>
<tr>
<td>John Segner</td>
<td>Invesco</td>
<td>Discussed in detail/Don’t be in Euron deal/</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Owns El Paso, wants to buy Sonat at lower price/</td>
</tr>
<tr>
<td></td>
<td></td>
<td>trying to get him interested in Columbia (CD) and Consolidated Natural (CNG)</td>
</tr>
<tr>
<td>Bob Unger</td>
<td>Columbia Mgmt</td>
<td>Left Voice Mail / Euron Story</td>
</tr>
<tr>
<td>Annie Tao</td>
<td>Alliance</td>
<td>Discussed Euron in more detail/</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Seems to like the story/too have a buyer here.</td>
</tr>
<tr>
<td>Pat Kao</td>
<td>Loennis Syles</td>
<td>Left Voice Mail / Euron Story</td>
</tr>
<tr>
<td>Mike Kerr</td>
<td>Capital</td>
<td>Discussed Euron in detail/Looking hard at stock/</td>
</tr>
<tr>
<td></td>
<td></td>
<td>May come in/Faxed research</td>
</tr>
<tr>
<td>Berne Fleming</td>
<td>IDS</td>
<td>Discussed Euron in detail/Owns Euron/</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Doesn’t want more/Looking @ CNG, CGP &amp; CG</td>
</tr>
<tr>
<td></td>
<td></td>
<td>owns big. Wants more gas exposure</td>
</tr>
<tr>
<td>Dave Zimmerman</td>
<td>Loennis Syles</td>
<td>Discussed in detail/not an Euron buyer/</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ran thru arguments - still not interested/very interested in Williams/owns EPG</td>
</tr>
<tr>
<td>Annie Tao</td>
<td>Alliance</td>
<td>Discussed Euron in detail/Still learning company/</td>
</tr>
<tr>
<td></td>
<td></td>
<td>don’t think she will be in /wants Sonat data &amp; Williams</td>
</tr>
<tr>
<td>James Elliot</td>
<td>Cowen Asset</td>
<td>Discussed in detail/</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Looking again at company/may buy</td>
</tr>
<tr>
<td>Mike Kerr</td>
<td>Capital Research</td>
<td>Discussed in detail/live one here/</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Could be a buyer</td>
</tr>
<tr>
<td>John Johnsen</td>
<td>Berger Funds</td>
<td>Discussed Euron in detail/</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Not interested</td>
</tr>
<tr>
<td>Name</td>
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<td>Discussed Enron/Likes story long term/Can’t get others interested/ Doesn’t want to pay $40.50/ Thinks stock could be good/Setting on the fence post</td>
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<tr>
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<td>Leomin Sayles</td>
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<td>3  Peter Viehle</td>
<td>Trust Company of the West</td>
<td>Left Voice Mail / Enron Story</td>
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<tr>
<td>4  Bruce Williams</td>
<td>Morgan Guaranty</td>
<td>Discussed Enron, He likes it but Terry Sha (Electric’s) is calling the shots on Enron</td>
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<td>5  Terry Sha</td>
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<td>6  Annie Tao</td>
<td>Alliance Capital Mgmt</td>
<td>Discussed Enron in detail, Annie is still up in the air. Cast tell what she is going to do.</td>
</tr>
<tr>
<td>7  Stacy Szell</td>
<td>George Weisz</td>
<td>Discussed Enron, wants to know it better. No clear indication.</td>
</tr>
<tr>
<td>8  Joe Sheer</td>
<td>Omega Investors</td>
<td>Discussed Enron, Not interested/owns a lot of EOG, however, will not be in deal.</td>
</tr>
<tr>
<td>9  Eric Schorp</td>
<td>Miller Anderson</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>10 Dick Kalinski</td>
<td>Adams Express</td>
<td>Discussed Enron, Likes at a lower price. Owns EOG</td>
</tr>
<tr>
<td>11 Dwight Cowden</td>
<td>Mellon Bank</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>12 Pat Kane</td>
<td>Federated</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>13 Rob Boyd</td>
<td>Investment Counsel of Maryland</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>14 Bill Adams</td>
<td>NCNB/Boazman</td>
<td>Discussed Enron, would become interested @ $43-$45, probably won’t come in on deal</td>
</tr>
<tr>
<td>15 Gene Gillenpie</td>
<td>Mississippi Valley</td>
<td>Discussed Enron, Stock too rich - will pass.</td>
</tr>
<tr>
<td>16 Dannette Miller</td>
<td>Mississippi Valley</td>
<td>Discussed Enron, Stock too rich - also will pass.</td>
</tr>
<tr>
<td>17 Eric Ehrlich</td>
<td>Duff &amp; Phelps Asset Mgmt</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>18 Jerry Jones</td>
<td>Harris Trust</td>
<td>Left Voice Mail / Enron Story</td>
</tr>
<tr>
<td>19 Joe Wurster</td>
<td>State of Wisconsin</td>
<td>Left Voice Mail / Enron Story, Joe will be out of the office until May 1</td>
</tr>
<tr>
<td>20 David Dowler</td>
<td>Luther King Asset Mgmt</td>
<td>Discussed Enron, would be interested @ a lower price. Will go the meeting on Friday.</td>
</tr>
<tr>
<td></td>
<td>Name</td>
<td>Company</td>
</tr>
<tr>
<td>---</td>
<td>------------</td>
<td>------------------</td>
</tr>
<tr>
<td>32</td>
<td>Bill Burt</td>
<td>Columbus Circle</td>
</tr>
<tr>
<td>33</td>
<td>Joel Kurth</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Tony Gianzalva</td>
<td>Dawson Samberg</td>
</tr>
<tr>
<td>35</td>
<td>Martin Roberts</td>
<td>Salomon Asset Mgmt</td>
</tr>
</tbody>
</table>
Interoffice Memorandum

**CONFIDENTIAL**

**To:** Debt Markets Commitment Committee

**From:** Energy & Global Power, Schuyler Tillman, Robert Fuhrer, Bowen Diehl, Stephanie Schultz

**Leverage Finance:** Michael Hurst, Chris Stout, Allen Castard, Ernie Cho

**Debt Capital Markets:** Jack Short, Adam Kulick

**At:** Energy & Global Power (713) 794-2590, (212) 849-2550, (212) 849-7560, (212) 849-5750

**Leverage Finance:** (212) 449-4216, (212) 449-0480, (212) 449-4340, (212) 449-2675

**Debt Capital Markets:** (212) 449-4565, (212) 449-3935

**Merrill Lynch**

**Date:** March 31, 2001

**Subject:** 40.0 million participation request from Enron Corp. ("Enron" or the "Company") to fund a five-year Senior Secured Credit Facility for Zephyrus Investments, LLC ("Zephyrus")

<table>
<thead>
<tr>
<th>Transaction Summary</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower / Guarantor</td>
<td>Zephyrus Investments, LLC/Enron Corp.</td>
</tr>
<tr>
<td>Facility</td>
<td>Senior Secured Term Loan Facility</td>
</tr>
<tr>
<td>Amount of Facility</td>
<td>$481,750,000</td>
</tr>
<tr>
<td>Use of Proceeds</td>
<td>Funds a Special Purpose Entity to purchase receivables and other short term investment grade assets</td>
</tr>
<tr>
<td>Merrill Lynch Commitment</td>
<td>$40.0 million</td>
</tr>
<tr>
<td>Timings</td>
<td>As soon as practicable</td>
</tr>
<tr>
<td>Ratings</td>
<td>Not Rated; underlying assets are BB- or better with 1.25x asset coverage and Enron subordinated capital structure</td>
</tr>
<tr>
<td>Maturity</td>
<td>January 2001</td>
</tr>
<tr>
<td>Listing / Ticker</td>
<td>Zephyrus is not listed, Enron is &quot;ENE&quot;</td>
</tr>
<tr>
<td>Administrative Agent</td>
<td>J.P. Morgan Chase</td>
</tr>
<tr>
<td>Other Lenders</td>
<td>Bank of America, BNP Paribas, Fleet National Bank, SunTrust, Royal Bank of Scotland, First Union National Bank, Sumitomo, Industrial Bank of Japan, WestLB, CRBC</td>
</tr>
<tr>
<td>Independent Auditors</td>
<td>KPMG LLP</td>
</tr>
<tr>
<td>Group Head Approval</td>
<td>Jack Yang/Christopher Johnson</td>
</tr>
<tr>
<td>Merrill Lynch Coverage</td>
<td>Leo Kalser (Fixed Income), Donato Easso (Equity)</td>
</tr>
</tbody>
</table>

---

**Permanent Subcommittee on Investigation**

**EXHIBIT #244**

**MS 06880**
Interoffice Memorandum

CONFIDENTIAL

To: Debt Markets Committee
From: Energy & Global Power - Schroder Tille, Robert
Penne, Bowen Dold, Stephen Schulz
Leverage Finance: Michael Serrel, Chris Smule,
Alien Custard, Eric Croi
At: Energy & Global Power (713) 759-2589, (214)
649-5350, (241) 849-5560, (214) 849-5530
Leverage Finance (212) 449-0982, (212) 449-4147
Debt Capital Markets: (212) 449 (212) 449-1175

Merrill Lynch

Date: March 27, 2001

Subject: $400 million participation request from Enron Corp. ("Enron") of the Company in funding a five-year Senior Secured Credit Facility for Zephyrus Investments, LLC ("Zephyrus")

I. Summary

Merrill Lynch has been asked by Enron to participate in a credit facility for Zephyrus, a newly formed Delaware limited liability company created by Enron for the purpose of aiding in securitizing receivables. Merrill Lynch will take assignment of $400 million of a $481.725 million Senior Secured Term Loan Facility ("the Facility"), which will be funded in full at closing. Zephyrus was initially capitalized with $500 million, $481.725 million from the Facility and $18.275 million in equity. The debt at Zephyrus is ultimately secured by a portfolio of high-quality assets (the "Core Permitted Assets") purchased from Enron. The asset quality is further complemented by additional layers of equity in the structure which raise the asset coverage of the credit facility to 1.25 times. The purchase of the Core Permitted Assets from Enron will raise $500 million in proceeds to be used by the Company to refinance debt and for general corporate purposes, while providing Enron with $500 million of "minority interest" equity financing. Chase Securities Inc. ("CSI") arranged the credit facility for Zephyrus, which closed on November 28, 2000, with the participation of The Chase Manhattan Bank, Bank of America, N.A., BNP Paribas and FleetBoston Financial.

II. Merrill Lynch Relationship

Merrill Lynch has maintained a strong long-term relationship with Enron Corp. Recently, however, Enron management informed Merrill Lynch that it is at a serious disadvantage because of Merrill’s reluctance to use its balance sheet to support Enron’s business activities. Enron has informed Merrill Lynch that, regardless of the firm’s strengths in the various capital markets and advisory areas, having Merrill Lynch for high-profile assignments could jeopardize its relationships with its key providers of capital.

Endeavoring to improve its relationship with Enron, the Merrill Lynch Enron relationship team arranged a meeting on February 16, 2001 between the senior management of Enron (Andy Fastow - CFO) and Dan Bylly and Tom Davis, to discuss ways in which the two companies could work together. As a result of this meeting, Merrill Lynch agreed to seek ways to commit its balance sheet to "selected situations" that
were uniquely valuable to the Company. The transaction discussed herein is the first instance of such a situation since the merger in New York. Enron has told Merrill Lynch that, despite its small size, the transaction is high profile and the firm’s participation would be valued.

Merrill Lynch lead-managed a $200.0 million TCP/ES transaction in 1994, a $680.0 million project financing for Sumit Bridge Power in 1995, a $150.0 million TCP/ES transaction in 1997, and a $230.0 million Remarketed Basket Notes transaction in 1997. Merrill Lynch co-managed a 150 million share and 120 million share common stock offering for Enron in 1998 and 1999 respectively, and lead-managed a 9 million share IPO of Enron’s water company (Azuva) in 1999. Recently, Enron engaged Merrill Lynch as its buy-side advisor for the potential purchase of Valero. Merrill Lynch also played a one-year earnouts for $1.0 billion and $2.0 billion and is engaged as an advisor on the purchase of Indian Asian generation assets.

### Summary of Senior Secured Term Loan Facility

<table>
<thead>
<tr>
<th>Facility</th>
<th>Amount</th>
<th>Tenor</th>
<th>LIBOR</th>
<th>Additional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Secured Term Loan</td>
<td>5¥</td>
<td>100 bps</td>
<td>5%</td>
<td>0 bps</td>
</tr>
<tr>
<td>Facility</td>
<td>5¥</td>
<td>30 bps</td>
<td>10 bps</td>
<td>20 bps</td>
</tr>
</tbody>
</table>

The $585,725 million Senior Secured Term Loan Facility is structured as a five-year non-amortizing term loan. The Facility was made available to Zephyrus in a single drawing upon closing to finance a portion of the purchase price of the $500 million Preferred Units to be issued by EFP.

**Structural Protections:** Lenders under the Facility will have a first priority security interest in the Preferred Units and the LLC Agreement of EFP. EFP, in turn, has a perfected security interest in receivables owned by Sequoia. In addition, if EFP fails to comply with certain covenants under the LLC Agreement, an Event of Default will occur under the Facility.

**Payment of Interest:** Quarterly interest on the Facility will be paid from the Preferred Distribution by EFP. The Preferred Applicable Rate was set at LIBOR plus a spread (0.02%), sufficient to cover anticipated interest payments on the Facility, expected yield on Zephyrus equity, and estimated expenses, including local taxes.

**Repayment of Principal:** As their source of repayment, the Lenders will look to liquidation of EFP’s Core Permitted Assets. The Facility may be prepaid by Zephyrus, in whole or in part, on any interest payment date under the Facility. The Facility is required to be prepaid upon the early redemption, disposition or purchase of the Preferred Units. In addition, 95% of any Partial Redemptions (the "Partial Redemptions") are required to be used to prepay the Facility.
IV. Sources and Uses

The table below sets forth sources and uses related to the capitalization of Zephyrus.

<table>
<thead>
<tr>
<th>Sources</th>
<th>Use</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term Loan</td>
<td>Purchase of Preferred Units</td>
<td>$481.735</td>
</tr>
<tr>
<td>Equity Investment</td>
<td></td>
<td>$18.275</td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
<td>$500</td>
</tr>
</tbody>
</table>

V. Transaction Overview

This transaction allows Enron to raise $500 million of "minority interest" equity financing and provides an efficient financing vehicle. The following is a transaction schematic to illustrate the flow of capital at closing:

EFP is an indirect subsidiary of Enron. Enron contributed $125 million in cash to EFP in exchange for 100% of EFP's common equity (the "Common Units"). On November 26, 2000, EFP issued $500 million of Preferred Units to Zephyrus, representing a preferred interest in EFP. Zephyrus purchased the Preferred Units with the proceeds from a $481.725,000 Senior Secured Term Loan Facility and $18.275,000 of equity.

Zephyrus' sole purpose will be to manage and protect its preferred interest in EFP. It will not incur any additional debt or engage in any other business. Zephyrus' Limited Liability Company Agreement (the "LLC Agreement") governs the activities of EFP and contains certain covenants which apply to EFP.

EFP received $512.5 million in cash representing the proceeds from both the Common Unit and Preferred Unit issues. EFP can invest the $512.5 million "Core Permitted Assets" based on specific investment criteria detailed in the LLC Agreement. Included in the definition of Core Permitted Assets will be senior secured notes issued by Sequoia Financial Assets, LLC ("Sequoia") (the "Sequoia Notes") which are backed by and secured with:
(ii) short-term trade receivables (having a maturity of 30 days or less generated in the normal course of business of Enron and certain of its subsidiaries, and

(iii) short-term notes (having a maturity of 20 days or less issued by Enron or certain Enron subsidiaries).

Sequía is capitalized with a $50 million subordinated interest held by Enron. Any losses resulting from defaulted receivables will be allocated first to Enron’s subordinated interest. The subordinated interest must be replenished to $50 million on a monthly basis. Sequía has not experienced a default in its 18 months of operation. Ultimately, it is anticipated that EFP will invest approximately $515 million in Sequía Notes, on a monthly basis.

EFP’s $652 million in Core Permitted Assets provides a 1.25 to 1.0 asset coverage to the Preferred Units. The Sales and Servicing Agreement among Sequía, Enron, and certain Enron affiliates as Sellers further provides that 80% of the receivables backing EFP’s Sequía Notes have counterparties rated at least BBB- or Baa3 by S&P and Moody’s, respectively (to ensure at least a 1.0 to 1.0 coverage of S&P/Moody’s investment grade receivables to the Preferred Units). There is a further requirement that no more than 10% of the receivables pool be rated BBB- rating.

EFP’s business activity will be to manage and to protect its investment in Core Permitted Assets. The EFP board of directors will be responsible for the management and investment decisions of EFP. Zephyrus will have the right to elect, in an event of default, two of the 3 directors to the board.

On an ongoing basis, EFP will receive cash flows generated by Core Permitted Assets in the form of interest. EFP will make quarterly distributions on the Preferred Units, (“Preferred Distributions”), intended to service Zephyrus’ interest, dividends, taxes and expenses. Cash accumulating at EFP in excess of the Preferred Distribution will be reinvested in Core Permitted Assets.

Sequía is an SPV established to purchase third party accounts receivables primarily from Enron North America (“ENA”), a 100% owned subsidiary of Enron as well as commercial paper issued by Enron. Sequía Notes are included in the definition of Core Permitted Assets. Sequía has been in operation for 18 months and has sold Sequía Notes to Cherokee Finance V.O.F., (“Cherokee”). EFP and Cherokee will share pari passu (but pro-rata for their respective Core Permitted Asset Coverage Ratio) the entire pool of Sequía’s short-term grade receivables. Enron’s $50 million Class A Interest in Sequía (which covers monthly defaults) will also be shared pari passu (but pro-rata for their respective Core Permitted Asset Coverage Ratio).

Mechanically, the receivables are transferred to Sequía at a discount. Enron will continue to handle billing, credit policy, collection, cash management, tracking, and reporting. Each month the portfolio turns over and the proceeds payable will be re-advanced under the Sequía Notes, assuming compliance with the applicable purchase conditions. It is estimated that substantially all losses, if any, at Sequía due to uncollectability of accounts would be absorbed by Enron through its subordinated Class A Interest in Sequía.

To qualify as Core Permitted Assets, the Sequía Notes must be backed by investment grade accounts receivables (rated BBB- or better) or Enron commercial paper rated A2/PIK or better. ENA generates a core group of receivables based on contracts for the supply of electricity or natural gas to certain standing customers. In accordance with industry standards, these contracts and accounts are billed on a monthly cycle. Payments of receivables must be due within 30 days.

Some of the key protections for the senior note holders in Sequía are as follows:

1. Credit quality, liquidity and other eligibility requirements of the Sequía portfolio.

2. EFP will have a perfected security interest in receivables owned by Sequía.
3. In addition to the Sequoia Notes, Sequoia is capitalized with a $50 million subordinated interest held by Enron. Any losses resulting from defaulted receivables will be allocated first to Enron's subordinated interest. The subordinated interest must be replenished on a monthly basis. Further, Enron's monthly Class A interest contribution must equal the greater of (i) $50 million or (ii) 2.0% of the aggregate face amount of the Monthly Notes.

4. If credit losses at Sequoia were to exceed Enron's Class A subordinated interest, to the extent such losses impacted the asset coverage ratio, it would result in a default at EFP under its LLC Agreement and Cherokee under its General Partnership Agreement.

5. No consent to the addition of any "seller" under the Sequoia Sales and Servicing Agreement unless adequate documents are delivered.

6. In the event of an Enron bankruptcy, the worst case scenario is EFP becomes a senior lender to Enron, with such loans being secured to the extent of receivables owing by third party obligors.
Enron Corp Overview

Enron, headquartered in Houston, Texas, is one of the largest sellers of natural gas and electricity in deregulated and privatized markets on three continents with approximately $65.5 billion in assets, $203.8 billion in revenues, and funds flow from operations of $4.8 billion (excluding non-recurring items) for the year ended December 31, 2000. Currently, Enron's equity market capitalization is approximately $45.4 billion and its senior unsecured debt is rated BBB+/Ba1 by Standard & Poor's and Moody's, respectively. Enron provides products and services related to natural gas, electricity, and communications to wholesale and retail customers. Enron's operations are conducted through its subsidiaries and affiliates, organized as follows:

Furthermore, Enron is the largest provider of energy risk management services in the world and owns the largest natural gas pipeline system in the U.S. Enron is also constructing a 10,000 mile nationwide fiber-optic telecommunications network. Enron is frequently characterized as the agent of change in the rapidly deregulating and privatizing energy markets and has been named the "Most Innovative Company in the World" for four consecutive years by Fortune. Enron currently ranks among the Fortune 200 companies with annual revenues of over $30 billion. Importantly, Enron has made investments of over $7 billion in each of the last two years in a variety of energy-related businesses and currently owns merchant investments of over $10 billion.
List of Appendices

Zephyrus Investments, LLC Information Memorandum 1
Zephyrus Investments, LLC Presentation 2
Press Release 3
Enron Annual Report - 2000 4

Available Upon Request

Zephyrus LLC Agreement
Amended and Restated Sale and Servicing Agreement
Sequoia Financial Assets, LLC Note Purchase Agreement
Zephyrus Investments, LLC Security Agreement
Enron Finance Partners, LLC Limited Liability Company Agreement
Enron Finance Partners, LLC Indemnification Agreement
Funding Agreement
<table>
<thead>
<tr>
<th>Company:</th>
<th>Zephyrus Investments, LLC/Enron Corp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue:</td>
<td>$481.725 MM Senior Secured Term Loan Facility (5-year facility)</td>
</tr>
<tr>
<td>Currency:</td>
<td>U.S. dollars</td>
</tr>
<tr>
<td>Amount:</td>
<td>$40 MM commitment</td>
</tr>
<tr>
<td>Expected Ratings:</td>
<td>Unrated (Enron: BBB+/Baa1)</td>
</tr>
<tr>
<td>Form of Commitment:</td>
<td>single draw down at closing</td>
</tr>
<tr>
<td>Use of Proceeds:</td>
<td>Allows Enron to raise up to $300 million of &quot;minority interest&quot; equity financing and provides an efficient financing vehicle</td>
</tr>
</tbody>
</table>

**Committee Information**

| Proposed DMCC Date: | March 29, 2001 |
| Prospectus/OM Printing Date: | N/A |

**Deal Team:**
- Schuyler Tiley (212/752-2330), Rob Pott (212/449-5350), Bowen Diddie (212/449-5360), Travis Arney (212/449-6370), Enrique - de Salles (212/448-5330)
- Adam Kolick (212/449-3715), Chris Sennett (212/449-0923), Allen Costard (212/449-4240), Michael Smith (212/449-8236), Jack Somoza

**Capital Markets:**
- Rick Gordon (713/752-2310)
- Les Kaler (212/449-7803)

**ML - Role:**
- 40 bps
- Lender

**ML Economics:**
- THE CHASE MANHATTAN BANK (administrative agent)
- BANK OF AMERICA (documentation agent)
- BNP PARIBAS (syndication agent)
- FLEETBOSTON FINANCIAL (senior management agent)
- Sumitomo
- Royal Bank of Scotland
- First Union National Bank
- Sanwa
- Industrial Bank of Japan
- WestLB
- CIBC
Merrill Lynch & Co.
Capital Commitments

Gross Spread:
$50 MM/50 bps
$35 MM/35 bps
$20 MM/20 bps

Brief Description of Company:
Enron Corp. founded Enron Finance Partners, LLC ("EFP") to serve as a financing vehicle for Enron and its affiliates. As part of the formation of EFP, Enron raised $500 million of new financing through the sale of Preferred Units by EFP. Zephorus Investments, LLC purchased the Preferred Class C Units for a cash price equal to $500 million. Zephorus funded its purchase of the Preferred Units on November 21, 2000 with the proceeds from a $182.73 million equity issuance and a five-year, $481.75 million Senior Secured Term Loan Facility.

Public Equity:
"EFP"
- $59.6 Market Value
- $59.40 Current Price
- $90.75/$51.51 52 week High/Low

Public Debt:
(Dollars in millions)
As of December 31, 1999
Enron Corp.
Senior debentures (6.75% to 8.25% due '03 - '12): $318
Notes payable
7.00% exchangeable notes due 2012: $239
6.45% to 9.88% due '01 - '28: $4209
Floating rate notes due '99 - '04: $229
Northern Natural Gas Company
Notes payable (6.125% - 8.00% due '03 - '11): $500
Tranwestern Pipeline Company
Notes payable (7.55% - 9.20% due '00 - '04): $142
Portland General
Polestar Control Bonds (various rates due '10 - '33): $200

MS 16623
Memorandum

To: Andy Fastow

From: Schuyler Titus; Robert Fastow

Merrill Lynch

Date: October 7, 1999

Subject: Skills Question on LJM2

We would like to have a conversation with Jeff about LJM2. Our questions are as follows:

1. Have you considered the amount of time Andy and his team will devote to LJM2?

2. We are targeting a fund size of $300MM. If we should raise $500MM, are you still comfortable with the amount of time Andy and his team will devote to LJM2?

3. Are you comfortable with the internal mechanics put in place to resolve the conflict of interest issue? Have these internal policies been reviewed with internal and external counsel and the Board?
Interoffice Memorandum

To:   LJM Doc.Director/Fitz

From: Robert Fuss
At:   IRS Dallas
Date: October 13, 1999

On October 11, 1999, Schepler Tilley and Robert Fuss spoke with Jeff Skilling, President and COO, of Enron Corp. We asked Jeff the questions listed on the memo dated 10/07/99 attached. It was apparent that Jeff Skilling has opened a great deal of data with LK & T auditors. Jeff is fully supportive of pursuing different methods of assessing for Enron Corp. Jeff is comfortable with the conflict of interest issue for the following reasons:

1. Andy has no control of asset sale discussion.
2. Rick Canary, EVP and Chief Accounting Officer, will review all transactions.
3. Audit Committee of the Board will receive LK & T financial information.

Jeff stressed how important transparency and disclosure will be to the success of this arrangement.

Schepler Tilley
Brad Symons

MS 06119
The total capital committed was about $384 million.

The total capital called is: $243,333,445

$211 committed to investments; $42 million invested.

17 investments liquidated for a total proceeds of $334 million.

$55.5 million of partnership capital is currently drawn.
PRIVATE PLACEMENT MEMORANDUM

LJM2 CO-INVESTMENT, L.P.

Merrill Lynch & Co.

EXHIBIT #249
PRIVATE PLACEMENT MEMORANDUM

LJM2 CO-INVESTMENT, L.P.

$200,000,000

Limited Partnership Interests

This Private Placement Memorandum ("Memorandum") is being furnished to prospective investors on a confidential basis in order that such prospective investors may consider an investment in limited partnership interests (the "Interests") in LJM2 Co-Investment, L.P., a Delaware limited partnership ("LJM2" or the "Partnership"), and may not be used for any other purpose. Each potential investor, by accepting delivery of this Memorandum, agrees not to make a photocopy or other copy or to divulge the contents thereof to any other person other than a legal, business, investment, or tax advisor in connection with obtaining the advice of such person with respect to this offering.

The Interests are being offered in a private placement to a limited number of accredited investors and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws. Accordingly, unless a disposition is exempt from the registration requirements of such laws, the Interests must be held until the Partnership is liquidated. In addition, the transferability of the Interests will be restricted by the Amended and Restated Limited Partnership Agreement of the Partnership (the "Partnership Agreement").

This Memorandum is intended to present, among other things, a general outline of the objectives and structure of the Partnership. The Partnership Agreement, which specifies the rights and obligations of the partners, should be reviewed thoroughly by each prospective investor. The summary of certain provisions of the Partnership Agreement contained herein is necessarily incomplete and is qualified by reference to such Partnership Agreement. Copies of the Partnership Agreement and other relevant material will be made available to prospective investors upon request.

In making an investment decision, investors must rely on their own examination of the Partnership and the terms of the offering, including the merits and risks involved. Each prospective investor or its representative may request copies of such documents, ask questions, and obtain additional information reasonably necessary to verify the accuracy of the information contained in this Memorandum. Except as provided herein, no person has been authorized in connection with this offering to give any information or to make any representations other than as contained in this Memorandum.

The Interests have not been approved or disapproved by the Securities and Exchange Commission ("SEC") or any state securities commission, and neither the SEC nor any state securities commission has passed upon the accuracy or adequacy of this Memorandum. Any representation to the contrary is a criminal offense.

Merrill Lynch & Co.
Investment in the Interests described herein will involve significant risks, including those described in the section titled "Risk Factors" below. Investors should have the financial ability and willingness to accept the risks and lack of liquidity which are characteristic of the investment described herein.

Prospective investors are not to construe the contents of this Memorandum as legal, investment, business, or tax advice. Each investor should consult its own counsel, accountant, and other advisors as to legal, investment, business, tax, and related aspects of a purchase of the Interests offered hereby. The Partnership is not making any representations to any officer or purchaser of the Interests regarding the legality of an investment therein by such officer or purchaser under appropriate legal investment or similar laws.

The Partnership reserves the right to withdraw this offering of the Interests at any time and the Partnership and LJM2 Capital Partners, LLC, a Delaware limited liability company that is the general partner of the Partnership (the "General Partner"), reserve the right to reject any commitment to subscribe for the Interests in whole or in part and to allot to any prospective investor less than the full amount of the Interests sought by such investor. The General Partner and certain related persons may acquire for their own account a portion of the Interests.

This Memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any Interests in any jurisdiction where, to or from any person to or from whom, such offer or solicitation is unlawful or not authorized.

None of Enron Corp., an Oregon corporation ("Enron"), and its subsidiaries has issued, or guaranteed any payments with respect to, the Interests, and none of Enron and its subsidiaries is responsible for the financial or other performance of the Partnership.

This Memorandum includes or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact included in this Memorandum, including, without limitation, statements regarding the Partnership’s future financial position, business strategy, and plans and objectives, including the ability of the Partnership to participate in investment opportunities generated by Enron and its subsidiaries, are forward-looking statements. Important factors that could cause actual results to differ materially from those anticipated by the Partnership include the willingness of Enron to permit the Partnership to participate in investment opportunities generated by Enron and its subsidiaries, the success of the Partnership in identifying other investment opportunities, the ability of the Partnership to participate in such investments on terms acceptable to the Partnership, and the actual performance of such investments in which the Partnership participates. Although the Partnership believes its expectations are reasonable, it can give no assurance that its investment objectives will be achieved.

No person has been authorized to give any information or to make any representation concerning the Partnership or the offer of the Interests other than the information contained in this Memorandum and, if given or made, such information or representation must not be relied upon as having been authorized by the Partnership, the General Partner, or Merrill Lynch & Co. The information contained in this Memorandum has been compiled as of October 13, 1998 (except as otherwise stated herein). Certain information presented herein about Enron has been compiled from public
available sources. Enron has not prepared this Memorandum and Enron has not approved or endorsed the contents of this Memorandum. Neither the delivery of this Memorandum at any time, nor any act hereunder, shall under any circumstances create an implication that the information contained herein is correct as of any time subsequent to such date, and none of the Partnership, the General Partner, and Merrill Lynch & Co. undertakes an obligation to update or revise the information contained in this Memorandum, whether as a result of new information, future events or otherwise. The information is from sources believed to be reliable, but none of the Partnership, Merrill Lynch & Co., and any other person has independently verified the information contained herein.

Merrill Lynch, Pierce, Fenner & Smith Incorporated has been engaged as placement agent in connection with the formation of the Partnership and may use its affiliates to assist in its placing activities. Reference in this Memorandum to "Merrill Lynch & Co." shall be deemed to include Merrill Lynch, Pierce, Fenner & Smith Incorporated and, where the context so permits, its affiliates that assist in its placing activities.
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I. EXECUTIVE SUMMARY

Introduction

LJMJ2 Co-Investment, L.P., a Delaware limited partnership ("LJMJ2" or the "Partnership"), is being organized by Andrew S. Fastow, Executive Vice President and Chief Financial Officer of Enron Corp., an Oregon corporation ("Enron"), to make privately negotiated equity and equity-related investments in energy- and communications-related businesses and assets. The Partnership expects that Enron will be the Partnership's primary source of investment opportunities and that the Partnership will (i) co-invest with Enron or its subsidiaries in new investments in or acquisitions of, businesses and assets, and (ii) make investments in, or acquire an investment interest in, existing assets or businesses owned by Enron or its subsidiaries relating to, existing assets or businesses owned by Enron or its subsidiaries. It is expected that in connection with the foregoing investments, Enron will retain a significant economic or operating interest in the businesses or assets in which the Partnership invests. The Partnership may also from time to time make investments in businesses or assets where Enron has no involvement. This is the second such fund formed by Mr. Fastow targeted at investing primarily in companies owned or controlled by Enron. The Partnership's objective is to generate an annualized internal rate of return ("IRR") in excess of 30% to investors in the Partnership after payment of all Partnership fees and expenses and payment of the carried interest to the General Partner.

Enron, headquartered in Houston, Texas, is one of the largest sellers of natural gas and electricity in deregulated and privatized markets on three continents. Additionally, Enron is the largest provider of energy risk management services in the world and owns the largest natural gas pipeline system in the U.S. Enron is also constructing a 10,000 mile nationwide fiber-optic telecommunications network. Enron is frequently characterized as the agent of change in the rapidly deregulating and privatizing energy markets and has been named the "Most Innovative Company in the World" for four consecutive years by Fortune. Enron currently ranks among the Fortune 100 companies with annual revenues of over $20 billion. Importantly, Enron has made investments of over $7 billion in each of the last two years in a variety of energy-related businesses and currently owns merchant investments of over $10 billion. See: "Overview of Enron." Under Mr. Fastow's management, the Partnership expects to have the opportunity to co-invest with Enron in many of Enron's new investment activities and the opportunity to acquire existing Enron assets on a highly selective basis. This access to deal flow should provide the Partnership with unusually attractive investment opportunities.

The target size of the Partnership is $200 million. The General Partner reserves the right to accept additional commitments in excess of $200 million. The Partnership is expected to generate significant co-investment opportunities for investors in the Partnership because the Partnership will be limited to investing no more than 10% of its committed capital in any one company, and the General Partner expects many of the opportunities the Partnership pursues to require capital in excess of the amount the Partnership is able to provide under this diversification limitation. Co-investment amounts will not be subject to a carried interest.

The General Partner of the Partnership will be LJMJ2 Capital Partners, LLC, a Delaware limited liability company (the "General Partner"), an entity owned and controlled by one or more of the Partners (as defined below). The Partnership will be managed on a day-to-day basis by a team of
three investment professionals who all currently have senior level finance positions with Enron. Andrew S. Fastow, Michael J. Kopper, and Ben Gildea, Jr. (collectively, the "Principals"). The Principals will continue their current responsibilities with Enron while managing the day-to-day operations of the Partnership. See - "Risk Factors - Dependence on Key Personnel" and "Conflicts of Interest - Dual Role of Principals." 

Investment Opportunity

The Principals believe that LJM2 provides investors with an unusually attractive investment opportunity for the following reasons:

Access to Significant Proprietary Deal Flow. Enron has extensive deal origination capability that is derived from approximately 2,000 fully dedicated Enron-employed origination professionals located around the world. The deal flow emanating from them has resulted in Enron making over $7 billion of energy-related investments in each of the last two years and, as a result, Enron's in-house deal sourcing capability as well as its leading market position in most businesses in which it operates, Enron frequently has access to investments that are not available to other investors. The Partnership expects to benefit from having the opportunity to invest in Enron-generated investment opportunities that would not be available otherwise to outside investors.

Enron's Investment Record. Enron's record as a successful investor is reflected in returns it has generated for its shareholders as measured by the appreciation in its common stock, which, from January 1, 1980, through September 30, 1999, has increased 641% (pre-increase plus assumed re-investment of dividends), as compared to returns of 363% for the S&P 500 and 141% for the S&P Energy Index for the same period. Furthermore, Enron has successfully managed two institutionally funded private equity partnerships, Joint Energy Development Investments I Limited Partnership ("JEDI I") and Joint Energy Development Investments II Limited Partnership ("JEDI II"), which have generated, as of year-end, approximately 23% and 18%, respectively, compared to targeted IRRs for the partnerships' invested capital before fees, expenses, and carried interest (a "Gross IRR") of 15% and 20%, respectively. The General Partner believes that a significant portion of this superior performance can be attributed to the quality of investment opportunities sourced by Enron. See - "Summary of Investment Experience."

Enron's Capabilities to Analyze and Structure Investments and Operate Assets. Over the years, Enron has developed a rigorous process of investment analysis, which employs approximately 130 professionals in varying disciplines such as engineering, research, credit, tax, legal, accounting, insurance, and risk analysis. As LJM2 expects that it primarily will be investing in assets in which Enron has an interest, it should benefit from Enron's expertise in all areas relating to the investment in and management of energy and communications assets, including the physical and financial risk management of energy assets and extend
operating capabilities in all aspects of the energy industry and certain aspects of the communications industry.

The Ability to Evaluate Investments with Full Knowledge of the Assets. Due to their active involvement in the investment activities of Enron, the Principals will be in an advantageous position to analyze potential investments for LJM2. The Principals, as senior financial officers of Enron, will typically be familiar with the investment opportunities LJM2 considers. The Principals believe that their access to Enron’s information pertaining to potential investments will contribute to superior returns.

Speed and Knowledge Advantage of LJM2. LJM2 will be positioned to capitalize on Enron’s need to rapidly access outside capital due to the Principals’ familiarity with Enron’s assets and their understanding of Enron’s objectives, which should facilitate LJM2’s ability to quickly execute transactions. This ability to act quickly is invaluable to Enron and should enhance the flow of opportunities for LJM2.

Investment and Financial Expertise of Principals. The Principals are a group of highly talented financial professionals with extensive experience originating and structuring complex transactions. This experience has given the Principals the ability to create innovative financial structures around investments, which should enhance returns to investors in LJM2. The Principals have been involved in managing JEDI I and JEDI II.

The Principals

The day-to-day activities of the Partnership will be managed by Messrs. Fastow, Kopper, and Glisan. Each of the Principals has spent a significant portion of his professional career in energy and communications investing, structured finance, and risk management (including substantial involvement in the organization, operation, and investment management of each of JEDI I and JEDI II), and, as a team, the Principals possess specific expertise necessary to maximize the Partnership’s performance.

Andrew S. Fastow, Executive Vice President and Chief Financial Officer of Enron, has been the Chief Financial Officer of Enron since 1997; prior to that, he was a Managing Director and principal financial officer for Enron Capital & Trade Resources Corp. ("ECT"), Enron’s principal merchant and investing subsidiary. In these capacities, he has been involved in structuring and managing many of Enron’s investments. Mr. Fastow has been with Enron for nine years. Michael J. Kopper, Managing Director in Enron’s Global Equity Markets Group, is responsible for Enron’s Global Equity and Structured Finance businesses. He has been with Enron for five years. Ben Glisan, Jr., Vice President in Enron’s Global Equity Markets Group, is primarily responsible for Enron’s structured finance activity. Mr. Glisan has been with Enron for three years. Summary biographies of the Principals are included elsewhere in this Memorandum. See — “Management of the Partnership – Biographies of the Principals.”

The Principals will remain employees of Enron and will devote such of their business time and attention as they deem reasonably necessary to manage the affairs of the Partnership, subject to their obligation to devote their business time and attention primarily to the discharge of their
responsibilities as senior financial officers of Enron. The Partnership should also benefit indirectly from time spent by the Principals in evaluating and structuring investments for Enron, as many of these investments may become candidates for investment by the Partnership.
II. INVESTMENT STRATEGY

Investment Strategy

LJM2 believes that it will be uniquely positioned to capitalize on Enron’s need for outside capital due to the Principals’ familiarity with Enron’s assets and their understanding of Enron’s objectives and LJM2’s ability to quickly execute transactions. This ability to act quickly is valuable to Enron and should result in a steady flow of opportunities for the Partnership to make investments at attractive prices. In order to fully capitalize on its advantages, LJM2 will seek to implement the following investment strategy:

Invest with Enron. LJM2 expects that Enron will be LJM2’s primary source of investment opportunities and that LJM2 will (i) co-invest with Enron or its subsidiaries in new investments in, or acquisitions of, businesses and assets, and (ii) make investments in, or acquire an investment interest from Enron or its subsidiaries relating to, existing assets or businesses owned by Enron or its subsidiaries. LJM2 may, however, make investments in businesses or assets where Enron has no involvement.

Invest in Assets and Businesses Where the Seller Retains an Ongoing Economic Interest. LJM2 will typically require that the seller (expected to be Enron in most cases) retain a significant ongoing economic or operating interest in the assets. By requiring Enron to retain a significant economic or operating interest in its deals, LJM2 should ensure that it will have access to the significant resources of Enron in order to manage assets on an ongoing basis.

Capitalize on Financial Expertise. Once a target investment has been identified, the Principals will seek to enhance the risk/return profile of such investment through the use of innovative transaction structures and will implement rigorous risk management techniques in order to seek to protect investments from downside risk.

LJM2 will typically seek to exit transactions either by negotiating co-sale rights or by securitizing and placing investments into the capital markets. LJM2 will typically have no hold restrictions and may also individually re-market an investment to industry and financial investors.

Rationale for Enron Providing Investment Opportunities to LJM2

Enron has been active in making investments over the past seven years. It is notable that, as of June 30, 1995, Enron had $54 billion of assets on its balance sheet, but was owner or manager of assets in excess of $111 billion (the difference between these numbers represents the amount of assets financed off-balance sheet, often through co-investment partnerships or joint ventures). When Enron acquires an investment, it may decide to reduce its operating and financial risk by selling a portion of its investment to co-investors; in many cases, it seeks to maintain an active or controlling role in the underlying investment.

The pace of sales of investments by Enron to co-investors has increased recently for three reasons. First, Enron’s investment opportunities continue to accelerate. The global energy markets in which Enron is a leading participant exceed $1 trillion per year in revenue. The natural gas and electricity
industries are among the most capital-intensive industries in the world. Enron, as one of the leaders in these industries on three continents, must invest significant amounts of capital in order to retain and enhance its leadership position. Enron has also recently entered the communications business, which has significant investment opportunities as well.

Second, Enron's growth capital is derived from the sale or partial sale of investments. To capitalize on its unique growth (as evidenced by its more than $10 billion in merchant investments and its ability to invest $7 billion a year for the past two years), Enron must have significant capital resources. Although investments in the natural gas, electricity, and communications industries may have very attractive rates of return, such investments often do not generate cash flow or earnings in the first several years. Lack of cash flow may restrict a company's ability to finance the investment with debt, and lack of current earnings may restrict a company's ability to issue public equity. By bringing in co-investors or by disposing of portions of investments, Enron can finance substantial growth and make investments while maintaining its investment-grade credit rating, meeting current earnings expectations, and realizing desired financial and operating involvement in its investments.

Third, in addition to the equity return earned on its investments, a significant portion of Enron's earnings is derived from fees garnered from the physical marketing of commodities, price risk management (related to those commodities), and asset development and management. Notwithstanding that the initial investment is still generating significant returns, in order to invest in new, additional fee-generating assets, Enron may sell down investments.

As a result of Enron's substantial investment opportunities and because of its need to optimize its financial flexibility, the Principals expect that Enron will continue to seek co-investors or to dispose of portions of investments. The Partnership's strategy will be to capitalize on Enron's needs by being a value-added investor for Enron through the Partnership's ability to invest quickly and its ability to structure deals that match Enron's objectives.

Profiles of Selected Example Investments

Described below are three transactions that Enron either has completed or is in the process of completing and that are representative of the types of investments in which LJM2 might participate:

East Coast Power LLC - Co-investment with Enron. In February 1999, JEDI II (whose partners are Enron (or a subsidiary thereof) and California Public Employee Retirement System ("CalPERS")) formed East Coast Power LLC ("East Coast Power") in order to acquire assets from Cogen Technologies Group for a total of $3.5 billion. East Coast Power indirectly owns equity interests in three combined-cycle natural gas co-generation power plants in New Jersey. Each plant sells electricity to investor-owned utilities in New York or New Jersey pursuant to long-term power purchase agreements. The facilities have a combined nameplate capacity of 1,037 megawatts of electrical power production. By securing the power purchase agreements, Enron was able to reduce the equity capital required to finance the acquisition from 30% to 9% of total capitalization. This generated base case equity returns in excess of 20% compared to similar projects that typically generate returns in the low teens. In July 1999, JEDI II sold approximately 50% of its ownership interest in East Coast Power to a third party, generating a Gross IRR of 59.48% for the portion of its investment sold. Mosera, Passow and Kopper were involved in the structuring of this transaction.
Project Margaux – Investment in Existing Euron Assets. Euron is currently working on Project Margaux, a new structured finance transaction that monetizes the dividend streams of five European assets developed or acquired by Euron over the past 10 years. In this transaction, Margaux Holdings, a newly formed entity, is expected to acquire indirect equity interests in the five European assets from Euron. Project Margaux would be capitalized with approximately $225 million of high yield debt or bank debt and approximately $50 million of equity. Repayments of the debt and equity will be made by Euron from the proceeds in the transaction. Investors in the Partnership will receive a return to the equity investors will come from the distributions made by the individual projects to their equity owners.

Euron Energy Services – Investment in an Existing Euron Business. In 1997, Euron created a new business unit named Euron Energy Services ("EES"). Unlike Euron’s existing business, which were selling energy products and services at the wholesale level, EES was developing a business model to sell products "around" the utility and directly to various end-users. While this market had been open previously on a limited basis, new legislation at the state levels was pending that would open much of the $300 billion market to competition. Mr. Fastow helped Euron obtain investments in EES by two pension funds totaling $155 million in exchange for 8.7% of the equity of EES. Based on these investments, the implied market value of EES at the time of the investment was $1.9 billion. Equity research analysts currently estimate the value of EES to be between $4 billion and $10 billion, which would generate an estimated Gross IRR of between 77% and 229% if the investors were to liquidate the investment at year-end 1999.

Dual Role Advantages

Mr. Fastow will continue to hold the titles and responsibilities of Executive Vice President and Chief Financial Officer of Euron, and Masana Kupper and Gilman will continue to serve as senior financial officers of Euron, while acting as the owners and managers of the General Partner. As a result, investors in the Partnership should benefit from Mr. Fastow’s and the other Principals’ dual roles which will facilitate the Partnership’s access to Euron deal flow. The Principals’ dual roles in managing the Partnership while remaining employed as senior financial officers of Euron, however, raise certain conflicts of interest that could affect the Partnership. See – “Conflicts of Interest.”
III. INVESTMENT HIGHLIGHTS

The Principals believe that the Partnership represents an attractive investment opportunity for the following reasons:

Access to Significant Proprietary Deal Flow

Enron has extensive deal origination capability that is derived from approximately 2,000 fully dedicated Enron-employed origination and monitoring professionals located around the world. The deal flow emanating from this origination infrastructure has resulted in Enron making over $7 billion of energy-related investments in each of the last two years and holding merchant investments of over $10 billion.

Enron's leadership position in the markets in which it competes also creates proprietary investment opportunities for Enron. The global energy markets in which Enron is a leading participant exceed $1 trillion per year in revenues. The forces of deregulation and privatization are driving the restructuring of this enormous industry. As gas and electricity markets have opened up in the U.S. and internationally, Enron has consistently been or has become a market leader. In most deregulated markets in which it operates, Enron sells more gas and electricity than any of its competitors, including the incumbent utilities. This market leader position has led to unique and proprietary investment opportunities for Enron. Enron has recently entered communications business, which has significant investment opportunities as well.

As a result of Enron's in-house deal sourcing capability as well as its leading market position in most businesses in which it operates, Enron frequently has access to investment opportunities that are not available to other investors. The Partnership expects to benefit from having the opportunity to invest in Enron-generated investment opportunities that would not be available otherwise to outside investors.

Enron's Investment Record

Enron's record as a successful investor is reflected in returns it has generated for its shareholders as measured by the appreciation in its common stock, which, from January 1, 1990, through September 30, 1999, has increased 641% (price increase plus assumed re-investment of dividends), as compared to returns of 363% for the S&P 500 and 141% for the S&P Energy Index for the same period. Furthermore, Enron has successfully managed two institutionally funded private equity partnerships JED II and JEDIII, which have generated (or are estimated to generate, as the case may be) Net IRRs to outside investors of 23% and 19%, respectively, compared to targeted Gross IRRs of 15% and 22%, respectively. See "Summary of Investment Experience."

Enron's Capabilities to Analyze and Structure Investments and Operate Assets

A key element of Enron's ability to create value has been its ability to structure and implement complex transactions. Over the years, Enron has developed a rigorous process of investment analysis, which employs approximately 130 professionals in varying disciplines such as engineering, research, credit, tax, legal, accounting, insurance, and risk analysis. This creative approach...
structuring many of its investments has enabled Enron to mitigate downside risk, provide opportunities for early return of capital, enhance its returns, and provide additional upside opportunity. The Principals have been the key architects of many of these innovative structures and will employ such structures, where appropriate, for the benefit of investments made by LJMJ2. Since LJMJ2 expects that it primarily will be investing in assets in which Enron has an interest, it should benefit from Enron’s expertise in all areas relating to the investment in and management of energy and communications assets, including the physical and financial risk management of energy assets and extensive operating capabilities in all aspects of the energy industry and certain aspects of the communications industry.

The Ability to Evaluate Investments with Full Knowledge of the Assets

Due to their active involvement in the investment activities of Enron, the Principals will be in an advantageous position to analyze potential investments for LJMJ2. The Principals, as senior financial officers of Enron, will typically be familiar with the investment opportunities the Partnership considers. The Principals believe that their access to Enron’s information pertaining to potential investments will contribute to superior returns.

Speed and Knowledge Advantage of LJMJ2

LJM2 will be positioned to capitalize on Enron’s need to rapidly access outside capital due to the Principals’ familiarity with Enron’s assets and their understanding of Enron’s objectives. The Principals’ positions at Enron should enable them to recognize investment opportunities early, to make decisions quickly, and to structure investments to meet LJM2’s and Enron’s objectives. This ability to act quickly is invaluable to Enron and should enhance the flow of opportunities for the Partnership.

Investment and Financial Expertise of Principals

The Principals are a group of highly talented financial professionals with extensive experience in originating and structuring complex transactions. This experience has given the Principals the ability to create innovative asset, investment, and financial structures around investments, which should enhance returns to investors in LJMJ2. The Principals have been involved in managing both JEDI I and JEDI II.
IV. SUMMARY OF INVESTMENT EXPERIENCE

The Principals have extensive experience in originating, structuring, and executing complex transactions, and each has had extensive involvement in the organization, investment activity, and operations of JEDI I and JEDI II. The Principals believe that the performance information regarding JEDI I and JEDI II presented below will be useful to investors considering an investment in LJM2 because of the Principals' involvement in JEDI I's and JEDI II's investment activity and because the investments made by those partnerships are indicative of some of the types of investment opportunities that will be available to LJM2. Prospective investors should note that past performance is not necessarily indicative of future results, and there can be no assurance that LJM2 will achieve comparable results. Prospective investors should also note that there are material differences between LJM2 and each of JEDI I and JEDI II, including overlapping but different investment mandates (JEDI I and JEDI II target co-investment with Enron in new energy investments, but cannot purchase existing investments from Enron) and different profit-sharing arrangements among the partners, which should be considered when evaluating the investment performance information presented below.

JEDI I was formed in 1993 with $50 million of capital commitments. Enron and CalPERS each contributed $25 million to JEDI I. Enron Capital Management, L.P., an affiliate of Enron, is the general partner of JEDI I. The investment guidelines for JEDI I were to achieve a Gross IRR of 22% by investing in new investments (primarily natural gas-related) made by Enron in the debt, equity-linked, and equity securities of energy companies located in the U.S. Using a combination of contributed capital, debt financing, and reinvestment of investment proceeds, JEDI I invested $257.5 million in 63 separate transactions. Upon a sale of its interest in JEDI I in 1997, CalPERS realized $250 million on its $250 million of contributed capital, generating a Net IRR to CalPERS of 22.5%.

JEDI II was formed in 1997 with $1 billion of capital commitments. Enron and CalPERS each committed $500 million to JEDI II. Enron Capital Management II Limited Partnership, an affiliate of Enron, is the general partner of JEDI II. The investment guidelines for JEDI II are to achieve a Gross IRR of 29% by investing in new investments (energy-related) made by Enron in debt, equity-linked, and equity securities of energy companies located in the U.S. and internationally. Using a combination of contributed capital, debt financing, and reinvestment of investment proceeds, JEDI II has invested $100 million in 31 separate transactions to date. As of June 30, 1999, the partnership of JEDI II had made capital contributions to JEDI II of $237.5 million. The Principals estimate that if JEDI II's unrealized investments had been liquidated for their then fair value and JEDI II had been liquidated as of June 30, 1999, the unrealized value of CalPERS' 11.88 million of contributed capital would have been $216.7 million, generating a Net IRR to CalPERS of 19.4%.

The estimated value of JEDI II's investments is determined in accordance with the fair value accounting methodology. Generally, an investment's "fair value" is an estimate, based on a variety of factors, of the amount that may be realized currently upon an orderly disposition of its investments under the fair value accounting methodology. The carrying value of investments increased or decreased to reflect changes in their fair value, even where no realizable event has occurred. For publicly traded securities, fair value is based upon quoted market prices; for securities that are not publicly traded, fair value is determined based on other relevant factors, including dealer price quotations, price activity for comparable instruments, and valuation methods.
models. "Fair value" is only an estimate of current value for an unrealized investment. The actual realized return on all unrealized investments will depend on the values of the investments at the time of disposition, any related transaction costs, and the manner of disposition. Accordingly, the actual realized returns on all unrealized investments may differ materially for the values indicated herein.

<table>
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<tr>
<th>Partnership</th>
<th>Year Established</th>
<th>Contributed Capital</th>
<th>Realized</th>
<th>Estimated Unrealized</th>
<th>Total</th>
<th>Net IRR</th>
</tr>
</thead>
<tbody>
<tr>
<td>JEDI I</td>
<td>1996</td>
<td>$250.00</td>
<td>$383.00</td>
<td>$0.00</td>
<td>$383.00</td>
<td>23%</td>
</tr>
<tr>
<td>JEDI II</td>
<td>1997</td>
<td>118.8</td>
<td>0.00</td>
<td>214.7</td>
<td>214.7</td>
<td>194%</td>
</tr>
</tbody>
</table>

This table presents investment performance information for the outside investor in each of JEDI I and JEDI II. The amounts shown under the headings "Contributed Capital," "Realized," "Estimated Unrealized," "Total," and "Net IRR" represent the performance investment for each outside investor.

Unrealized values are accounted for under the fair value accounting methodology. Generally, an investment's "fair value" is an estimate, based on a variety of factors, of the amount that may be realized currently upon an orderly disposition of such investment; under the fair value accounting methodology, the carrying value of investments is periodically increased or decreased to reflect changes in their fair value, even where no realization event has occurred. For publicly traded securities, fair value is based upon quoted market prices. For securities that are not publicly traded, fair value is determined based on other relevant factors, including dealer price quotations, price activity for comparable instruments, and valuation pricing models.

The fees, expenses, and carried interests of JEDI I and JEDI II are different from the proposed terms of the Partnership.
V. MANAGEMENT OF THE PARTNERSHIP

Overview

The General Partner of the Partnership is LJM2 Capital Partners, LLC, a Delaware limited liability company owned by one or more of the Principals. The manager of the Partnership is LJM2 Capital Management, L.P., a Delaware limited partnership ("Manager"), and as such, will manage the day-to-day affairs of the Partnership. The Manager is owned, directly and indirectly, by the Principals. Each of the Principals is and will remain an employee of Enron. Enron’s Office of the Chairman has waived certain provisions of Enron’s employee code of conduct to permit the Principals to form and operate the Partnership, and Enron’s Board of Directors has ratified that waiver as it applies to Mr. Fastow. The Principals will devote such of their business time and attention as they deem reasonably necessary to manage the affairs of the Partnership, subject to their obligation to devote their business time and attention primarily to the discharge of their responsibilities as senior financial officers of Enron. The Partnership should also benefit indirectly from time spent by the Principals in evaluating and structuring investments for Enron, as many of these investments may become candidates for investment by the Partnership. The Principals also have plans to hire additional personnel to provide support services to the Partnership. Furthermore, the Manager will enter into a support services agreement with Enron pursuant to which the Manager will receive and pay for certain support services from Enron. See - "Risk Factors - Dependence on Key Personnel."

Conflict of Interest

One of the most challenging due diligence issues for the Partnership is the potential for a conflict as a result of the Principals’ dual positions as Enron employees and Principals of the Partnership. See - "Risk Factors - Dependence on Key Personnel" and “Conflicts of Interest – Dual Role of Principals.” Several steps have been taken to assure that the conflict-of-interest issue is fully vetted and appropriate procedures are put in place to allow for operation of the Partnership in situations where conflicts arise. The Partnership will establish an Advisory Committee (as defined below) to provide for an independent review of decisions made by the General Partner in a situation where the General Partner believes a conflict of interest exists. In addition, Richard Causey, Executive Vice President and Chief Accounting Officer of Enron, will, in behalf of Enron, monitor and mediate conflict-of-interest issues between Enron and the Partnership.

Biographies of the Principals

The following are professional biographies of the Principals. Each of the Principals has spent a significant portion of his professional career in energy and communications investing, structured finance, and risk management, and, as a team, the Principals possess the specific expertise necessary to maximize the Partnership's performance.

Andrew S. Fastow

Andrew S. (Andy) Fastow, 37, is Executive Vice President and Chief Financial Officer of Enron and, as such, is responsible for Enron’s finance and treasury activity. Previously, Mr. Fastow was a Managing Director with ECT. He joined ECT in 1990 to develop the company’s funding business.
and to obtain and manage the debt and equity capital required for ECT's third-party finance business as well as for ECT's physical and financial acquisitions and investments. During 1996, Mr. Fastow led the development of ECT's retail energy business. Mr. Fastow was named CFO of ECT in 1997 and Executive Vice President of ECT in 1999.

Mr. Fastow has been responsible for the formation and operation of three private equity partnerships while at ECT. Currently, Mr. Fastow owns the general partner of LJM Cayman, L.P., a Cayman Islands excepted limited partnership ("LJM1"), an investment partnership with total capital commitments of $16 million. LJM1 was formed in 1999 with objectives that are substantially similar to those of LJM2.

Prior to joining ECT, Mr. Fastow served as senior director in Continental Bank's Asset Securitization Group in Chicago, where he structured short- and medium-term asset backed securites for commercial banks, leasing companies, and corporate clients.

Mr. Fastow received a B.A. in Economics and Chinese from Tufts University and an M.B.A. in Finance from Kellogg Graduate School of Management at Northwestern University.

Michael J. Kopper

Michael J. Kopper, 34, is a Managing Director in ECT's Global Equity Markets Group. He also manages the general partner of Cheverco, an investment fund with approximately $400 million in capital commitments that was established in 1997 to purchase from ECT an interest in a defined pool of ECT assets. Prior to his current position, Mr. Kopper was a Managing Director in ECT Capital Management (in its Structured Finance Group) arranging financing for electric power projects, oil and gas producers, other supply-side customers, and end-users such as local distribution companies and co-generation facilities.

Before joining ECT, Mr. Kopper was employed by Toronto Dominion Bank from 1991 to 1994. There he specialized in negotiating and structuring project financings. His client focus was primarily non-regulated subsidiaries of electric utility companies, independent power producers, and natural gas pipelines companies. Mr. Kopper specialized in off-balance sheet projects and structured financings relying on the interrelationship of cash flows as an economic basis for investment. These investments included natural gas pipelines, natural gas storage fields, and electric co-generation facilities.

From 1988 to 1991, Mr. Kopper was at Chemical Bank where he assisted marketing officers and transaction officers in documenting and closing a variety of financings across a broad spectrum of clients. At Chemical Bank, he focused on non-recourse facilities and project financings in the energy and utility sectors.

Mr. Kopper received his B.A. in economics from Duke University and completed his graduate work in accounting and finance at the London School of Economics.
Ben Glisan, Jr., 33, is a Vice President in Euron's Global Equity Markets Group. Prior to his current position, Mr. Glisan worked at Euron Capital Management in its Structured Finance Group. Mr. Glisan has worked at Euron, or an affiliate thereof, for the past three years. Mr. Glisan's responsibilities include leading transaction teams that execute highly complex non-recourse or limited recourse joint venture and asset-based financings.

Before joining Euron, Mr. Glisan worked at Coopers & Lybrand and Arthur Andersen. His responsibilities included providing accounting and finance services principally to financial institutions as well as helping to develop financing transaction structures.

Mr. Glisan received his B.B.A. and his M.B.A. from the University of Texas at Austin.
VI. OVERVIEW OF ENRON

Enron is one of the world’s leading international integrated natural gas and electricity companies. Enron’s activities are conducted through its subsidiaries and affiliates, which are principally engaged in the transportation of natural gas through pipelines to markets throughout the U.S.; the generation and transmission of electricity to markets in the northwestern U.S.; the marketing of natural gas, electricity and other commodities, and related risk management and finance services worldwide; the development, construction, and operation of power plants, pipelines, and other energy-related assets worldwide; and the delivery of high bandwidth communication applications throughout the U.S. Enron has a proven track record of creating value in markets that are deregulating and privatizing in North America, Europe, and other areas worldwide.

Transportation and Distribution

Enron’s transportation and distribution business is comprised of its North American interstate natural gas transportation systems and its electricity transmission and distribution operations in Oregon.

Interstate Transmission of Natural Gas. Included in Enron’s domestic interstate natural gas pipeline operations are Northern Natural Gas Company ("Northern"), Transwestern Pipeline Company ("Transwestern"), and Florida Gas Transmission Company ("Florida Gas") (indirectly 95% owned by Enron). Northern, Transwestern, and Florida Gas are interstate pipelines and are subject to the regulatory jurisdiction of the Federal Energy Regulatory Commission. Each pipeline serves customers in a specific geographical area. Northern serves the upper Midwest; Transwestern serves principally the California market and pipeline interconnections on the east end of the Transwestern system; and Florida Gas serves the State of Florida. In addition, Enron holds an interest in Northern Border Partners, L.P., which owns a 70% interest in the Northern Border Pipeline system. One of Enron’s subsidiaries operates the Northern Border Pipeline system, which transports gas from western Canada to delivery points in the midwestern United States.

Electricity Transmission and Distribution Operations. Enron conducts its electric utility operations through its wholly owned subsidiary, Portland General Electric Company ("Portland General"). Portland General is engaged in the generation, purchase, transmission, distribution, and sale of electricity in the State of Oregon. Portland General also sells energy to wholesale customers throughout the western U.S. Portland General’s Oregon service area is approximately 3,176 square miles. At June 30, 1999, Portland General served approximately 711,000 customers.

Wholesale Energy Operations and Services

Enron’s wholesale energy operations and services businesses operate in North America, Europe, and evolving energy markets in developing countries. These businesses provide integrated energy-related products and services to wholesale customers worldwide. Wholesale energy operations and services can be categorized into two business lines: (a) Commodity Sales and Services, and (b) Energy Assets and Investments.
Commodity Sales and Services. Enron's commodity sales and services operations include the purchase, sale, marketing, and delivery of natural gas, electricity, liquids, and other commodities; the restructuring of existing long-term contracts; and the management of Enron's commodity portfolio.

In addition, Enron provides risk management products and services to energy customers that hedge movements in price and location-based price differentials. Enron's risk management products and services are designed to provide stability to customers in markets impacted by commodity price volatility. Also included in this business is the management of certain operating assets that directly relate to this business, including domestic intrastate pipelines and storage facilities.

Energy Assets and Investments. In the energy assets and investments business, Enron manages and operates assets related to natural gas, electricity, and communications and offers financing alternatives to customers. Activities include developing, constructing, operating, and managing energy assets, including power plants and natural gas pipelines. Enron also provides capital to energy and communication customers seeking debt or equity financing.

Retail Energy Services

EES is a nationwide provider of turnkey solutions to U.S. business customers. These services include sales of natural gas and electricity and energy management services directly to commercial and industrial customers as well as investments in related businesses. EES provides end-users with a broad range of energy products and services at competitive prices. These products and services include energy bills and information management, demand-side services, and financial services.

Communications

Enron is building a long-haul fiber-optic network on strategic routes throughout the United States to create the nation's first pure IPSM (Internet Protocol Service Model) backbone known as the Enron Intelligent Network (the "EIN"). The EIN, which is enabled with intelligent messaging software, enhances Enron's existing national fiber-optic network to bring to market a reliable, bandwidth-on-demand platform for delivering data and applications and streaming rich media to the desktop. Enron's strategy is based on a business model that offers immediate national reach while minimizing capital deployed through strategic alliances with industry technology leaders whose presence, customer access, market share, and content enable Enron to efficiently enter this new, emerging marketplace.

Available Information

Enron is subject to the informational requirements of the Securities and Exchange Act of 1934, as amended, and in accordance therewith files reports, proxy statements, and other information with the Securities and Exchange Commission ("SEC"). Such reports, proxy statements, and other information may be inspected and copied at its public reference facilities maintained by the SEC at 450 Fifth Street, NW, Room 1034, Washington, DC 20549, and at the following regional offices of the SEC: Midwest Region Office, Citicorp Center, Suite 1400, 500 West Madison Street, Chicago, IL 60661-2511; and Northeast Regional Office, 7 World Trade Center, New York, NY 10048. Copies of such materials may also be obtained from the Public Reference Service of the SEC.
at 450 Fifth Street, NW, Room 1024, Washington, DC 20549, at prescribed rates or from the site maintained by the SEC on the World Wide Web at http://www.sec.gov. Enron's common stock is listed on the New York, Chicago, and Pacific Stock Exchanges. Reports, proxy statements, and other information concerning Enron may be inspected and copied at the respective offices of those exchanges at 20 Broad Street, New York, NY 10005; 120 South LaSalle Street, Chicago, IL 60603; and 301 Pine Street, San Francisco, CA 94014.

Certain of the information herein relating to Enron has been taken from reports filed by Enron with the SEC. The information regarding Enron herein is qualified by the other information in such reports, including information regarding forward-looking statements.
VII. SUMMARY OF PRINCIPAL TERMS

This Summary of Principal Terms is qualified by reference to the Partnership Agreement of the Partnership and the Subscription Agreement relating thereto (collectively, the "Agreements"). This Memorandum and forms of the Agreements should be reviewed carefully.

The Partnership: LJM2 Co-Investment, L.P., a Delaware limited partnership (the "Partnership").

Investment Objective and Focus: The objective of the Partnership is to achieve significant long-term capital appreciation through privately negotiated equity and equity-related investments ("Investments") in companies principally engaged in energy- or communications-related businesses. The Partnership expects that Enron will be the Partnership's primary source of investment opportunities and that the Partnership will (i) co-invest with Enron or its subsidiaries in new Investments in, or acquisitions of, businesses and assets, and (ii) make Investments in, or acquire an investment from Enron or its subsidiaries relating to, existing assets or businesses owned by Enron or its subsidiaries. It is expected that in connection with the foregoing Investments, Enron will retain a significant economic or operating interest in the business or assets in which the Partnership invests. The Partnership may also from time to time make Investments in businesses or assets where Enron has no involvement.

The General Partner: LJM2 Capital Partners, L.L.C., a Delaware limited liability company (the "General Partner") owned by one or more of the Principals.

The Manager: LJM2 Capital Management, L.P., a Delaware limited partnership (the "Manager") owned by the Principals.

The Principals: Andrew S. Fastow, Michael J. Kopper, Ben Glisan, Jr.

Committed Capital: The Partnership is targeting an aggregate of $200 million in capital commitments from prospective investors ("Limited Partners"), although the General Partner reserves the right to accept capital commitments in an aggregate amount less than or greater than $200 million. The minimum capital commitment for a Limited Partner in the Partnership will be $5 million; provided that the General Partner reserves the right to reduce the minimum capital commitment for selected investors.
| Sponsor Commitment: | The General Partner will commit to invest, or cause the Manager or other affiliates to invest, a minimum of one percent (1%) of the Partnership’s aggregate capital commitments in or alongside the Partnership (the “Sponsor Commitment”). The Sponsor Commitment may be increased (but not decreased) by up to $1 million annually. |
| Management of the Partnership: | The General Partner will manage the Partnership and will have sole discretionary authority with respect to Investments. The Manager will manage the day-to-day affairs of the Partnership on behalf of the General Partner. |
| Commitment Period: | All partners of the Partnership (“Partners”) will be obligated to fund their capital commitments during the period (the “Commitment Period”) commencing on the initial closing date and ending on the third anniversary of the final closing date, and thereafter, to the extent necessary, to: (i) cover expenses, liabilities, and obligations of the Partnership, including Management Fees; (ii) complete investments by the Partnership in transactions which were in process as of (or contemplated by the terms of securities held by the Partnership prior to) the end of the Commitment Period; and (iii) effect additional investments in companies in which the Partnership had an Investment as of the end of the Commitment Period (in an aggregate amount not to exceed 10% of the Partnership’s capital commitments). |
| Term: | The Partnership will have a term of ten years from the date of the final closing of the Partnership, but may be extended at the discretion of the General Partner for up to a maximum of two additional one-year periods to facilitate an orderly liquidation of the Partnership’s assets. |
| Initial and Subsequent Closings: | An initial closing of the Partnership will be held once the General Partner determines that a sufficient minimum amount of capital commitments has been obtained. The General Partner has the right to accept additional capital commitments and to permit existing Limited Partners to increase their capital commitments to the Partnership in subsequent closings (“Subsequent Closings”). Such newly admitted Limited Partners (or Limited Partners increasing their capital commitments to the Partnership) will make contributions to the Partnership such that each Limited Partner (regardless of when such Limited Partner’s capital commitment is made) will
participate pro rata in all investments and expenses of the Partnership in the manner provided below.

Subsequent Closings may occur up to 270 days after the initial closing of the Partnership. In the event that Limited Partners fund any portion of their capital commitments to the Partnership prior to the expiration of such 270-day period, each Limited Partner that makes capital commitments on closing dates subsequent to any such funding will pay (i) the amount of its capital commitment that would have been funded if such Limited Partner (and all other Limited Partners) had funded its capital commitment at the time of such funding, and (ii) interest on the amount set forth in clause (i) above from the date of such funding at the prime rate plus 2%. Any amounts paid under clauses (i) and (ii) above shall be distributed as follows: (x) to the Manager in an amount equal to all Management Fees (as defined below) payable in respect of such Limited Partner’s commitment retroactive to the initial closing date (together with any interest thereon at the prime rate plus 2% from the initial closing date), and (y) the remaining amount to the Partners that participated in prior closings solely based on the amount and timing of their previous capital contributions to the Partnership.

Each Partner’s capital commitment will be payable when called by the General Partner to make investments and to meet anticipated Partnership expenses and liabilities (including Management Fees). Any amounts returned to the Partners (i) as a distribution of Investment Proceeds (as defined below) prior to the second anniversary of the initial closing date, (ii) in connection with the subsequent admission of additional Limited Partners (less any interest received with respect thereto), or (iii) as a return of capital contributions made in respect of an uncommitted Partnership investment, may, in each case, be recalled and will be available for future investments.

If 25% or more of the Limited Partner commitments are from employee benefit plans or other funds subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), each Limited Partner will pay its pro rata share of each quarterly Management Fee and other Partnership expenses directly to the General Partner or the Manager, as appropriate, until the Partnership has qualified for the “venture capital operating company” exception to the Department of Labor plan asset regulations (i.e., until
the Partnership has made its first qualifying investment, but for purposes of calculating when each Limited Partner has fulfilled its commitment and for purposes of calculating gains, losses, distributions, and sharing ratios, all amounts so paid, as well as any corresponding amounts payable by the General Partner to fulfill its commitment, will be treated as having been paid into the Partnership as a capital contribution by each Partner.

Co-Investment Opportunities: Where possible and appropriate, the General Partner intends, but will be under no obligation, to provide an opportunity to the Limited Partners to co-invest alongside the Partnership.

Diversification: Without the approval of a majority in interest of the Limited Partners, no more than 10% of the total capital commitments of the Partners may be invested in a single portfolio company.

Distributions: Distributions of the net proceeds from disposition of Investments, as well as distributions of securities in kind, together with any dividends, interest, or other investment income (other than certain short-term investment income) received with respect to Investments (collectively, "Investment Proceeds"), generally will be made in the following order of priority:

(a) first, 100% to the Partners in proportion to funded commitments until the cumulative amount distributed equals (i) the aggregate funded capital commitments of the Partners, and (ii) a preferred return on amounts included in clause (i) at a rate of 8% per annum, compounded annually (the "Preferred Return");

(b) second, 100% to the General Partner until such time as the General Partner has received, pursuant to this paragraph (b), 25% of the sum of the distributed Preferred Return and distributions made pursuant to this paragraph (b); and

(c) third, (i) 80% to all Partners in proportion to funded commitments, and (ii) 10% to the General Partner in respect of its carried interest.
Prior to the second anniversary of the final closing date, the General Partner will have the right to elect to distribute, hold, or re-invest Investment Proceeds (and for purposes of clause (c) of the distribution provisions above, the General Partner’s funded commitment will be deemed to include 20% of the realized gains upon Investments, the Investment Proceeds from which were re-invested in accordance with this sentence). After the second anniversary of the final closing date, the General Partner will distribute (i) the net proceeds from the sale or other disposition of Investments within 180 days of receipt by the Partnership, and (ii) dividends, interest, and other short-term investment income at least annually, each subject to the availability of cash after paying Partnership expenses and setting aside appropriate reserves by the General Partner for reasonably anticipated liabilities and obligations of the Partnership.

Prior to the termination of the Partnership, distributions will be in cash or marketable securities. Upon termination of the Partnership, distributions may also include restricted securities or other assets of the Partnership.

Notwithstanding the foregoing, the General Partner may cause the Partnership to make distributions from time to time to the General Partner in amounts sufficient to permit the payment of the tax obligations of the General Partner and its members in respect of allocations of income related to the carried interests. The General Partner will endeavor to make annual aggregate distributions to the Limited Partners in an amount sufficient to permit payment of the Limited Partners’ tax obligations in respect of their interests in the Partnership. Cash held by the Partnership prior to expenditure or distribution will be invested in short-term, high-grade instruments.

The amount of any taxes paid by or withheld from receipts of the Partnership allocable to a Partner from an Investment will be deemed to have been distributed to such Partner.

Income, expenses, gains, and losses of the Partnership will generally be allocated among the Partners in a manner consistent with the distribution of proceeds described in “Distributions” above.
Management Fee:
During the Commitment Period, the Partnership will pay the Manager an annual management fee (the "Management Fee"), payable semi-annually in advance, equal to 2.0% of the aggregate commitments of Limited Partners. After the expiration of the Commitment Period, the Management Fee will equal 2.0% of an amount ("Capital Under Management") equal to the lesser of (i) the aggregate commitments of the Limited Partners and (ii) the aggregate amount invested by the Partnership in Investments. Capital Under Management will be calculated as of the beginning of each semi-annual period to which the Management Fee applies.

Operating Expenses:
The Manager will pay all ordinary operating expenses of the Partnership for salaries, rent, and similar expenses in connection with the investigation of investment and disposition opportunities for the Partnership and monitoring of the Partnership's Investments, to the extent not reimbursed by a portfolio company, except as set forth below under "Partnership Expenses."

Partnership Expenses:
The Partnership will pay or reimburse the General Partner, the Manager, and their respective affiliates for: (i) out-of-pocket expenses of the General Partner and Manager (including third-party fees and expenses) incurred in connection with uncommitted Investments; (ii) out-of-pocket expenses, including, but not limited to, all expenses incurred in connection with the origination, making, holding, monitoring, sale, or proposed sale of Investments (not otherwise paid in connection with the closing of the proposed origination or disposition), litigation or other extraordinary expenses, insurance, and indemnity expenses and expenses of liquidating the Partnership; and (iii) any other direct expenses incurred in connection with the Investments. The Partnership will also be responsible for all routine administrative expenses of the Partnership, including, but not limited to, the cost of the preparation of the annual audit, financial statements, and tax returns, expenses of the Advisory Committee, cash management expenses, and legal expenses.

Offering and Organizational Expenses:
The Partnership will bear all legal, accounting, and other offering and organizational expenses, including out-of-pocket expenses of the General Partner or the Manager incurred in connection with the formation of the Partnership. The Manager will bear the cost of placement.
agent fees charged in connection with the formation of the Partnership.

Transaction, Break-up, and Advisory Fees:

The General Partner and the Manager will not charge any transaction fees, break-up fees, advisory, monitoring, or similar fees in connection with actual or prospective Investments.

Other Investment Activities:

Without the approval of a majority in interest of Limited Partners, none of the General Partner, the Manager, and the Principals will commence investment activities for a Competing Fund (as defined below) in which such entity or person acts as sponsor or general partner until the earlier of (i) the termination of the Commitment Period or (ii) the date on which at least 70% of the total aggregate capital commitments of the Partnership have been taken down or committed. However, there will be no restrictions on the activities of the Principals in their capacities as employees of Enron, and these restrictions will not bind or otherwise obligate Enron. A “Competing Fund” means a pooled equity investment vehicle other than the Existing Funds (as defined below), the Partnership, and any Parallel Investment Vehicle (as defined below) which has investment objectives and strategies that are substantially similar to those of the Partnership and does not include any pooled equity investment vehicle managed, sponsored, or controlled by Enron or its subsidiaries or affiliates or any Parallel Investment Vehicle.

Allocation of Investment Opportunities:

The Principals currently are involved in the management of investment limited partnerships, including LJM1 and Chewco (the “Existing Funds”), that have investment objectives and strategies that are substantially similar to those of the Partnership. The General Partner expects that to the extent that both the Partnership and the Existing Funds would have capital available for investment in an opportunity, the Principals would cause the investment opportunity to be allocated to the Partnership and the Existing Funds in a manner determined to be fair and reasonable to both (taking into account the amount of available capital for each Partnership) consistent with prudent portfolio management and fiduciary concerns. Neither Enron nor any existing Fund in which Enron has an interest has any obligation to offer investment opportunities to the Partnership, and the ability of Enron and any such Existing Fund to offer certain investments may be restricted by contractual obligations to third parties.
Advisory Committee: An Advisory Committee, whose members will be selected representatives of the Limited Partners, will be established. The Advisory Committee will advise the General Partner and resolve issues involving conflicts of interest presented by the General Partner.

Parallel Investment Vehicle: The General Partner may establish one or more additional entities or other similar arrangements (a "Parallel Investment Vehicle") prior to the expiration of the 770-day period following the initial closing to facilitate the ability of certain types of investors to invest in parallel with the Partnership. If formed, any Parallel Investment Vehicle will invest in such investment on a pro rata basis (based on available capital) and on substantially the same terms and conditions as the Partnership.

Alternative Investment Structure: If the General Partner determines in good faith that for legal, tax, regulatory, or other reasons it is in the best interests of the Partners that an Investment be made through an alternative investment structure, the General Partner may structure the making of all or any portion of such Investment outside of the Partnership by requiring the Partners to make such Investment through a limited partnership or other entity (other than the Partnership) that will invest on a parallel basis with or in lieu of the Partnership, as the case may be.

Exculpation and Indemnification: None of the Principals, the General Partner, the Manager, their respective affiliates, and each of their respective officers, directors, members, managers, partners, employees, agents, and representatives (each, an "Indemnified Person") will be liable to the Partnership or to any Limited Partner for any act or omission by such Indemnified Person in connection with the conduct of the business of the Partnership, unless such act or omission constitutes such Indemnified Person's bad faith, gross negligence, or willful misconduct. The Partnership will indemnify each Indemnified Person from and against any losses, claims, liabilities, damages, and expenses (including legal fees and expenses, judgments, and amounts paid in settlement) incurred by such Indemnified Person in connection with the Partnership's activities, unless such losses, claims, liabilities, damages, or expenses result from such Indemnified Person's bad faith, gross negligence, or willful misconduct. The General Partner may require the Partners to return distributions made to each such Partner for the purpose of meeting such
Limited Partner Withdrawal and Transfer:

Limited Partners generally may not withdraw from the Partnership. In addition, no Limited Partner may transfer or assign any of its interests, rights, or obligations with respect to its interest, except with the written consent of the General Partner, which written consent may be given or withheld in the General Partner’s sole and absolute discretion. No such assignee, purchaser, or transferee of an interest may be admitted as a substitute Limited Partner without the written consent of the General Partner, which written consent may be given or withheld in its sole and absolute discretion. The General Partner may require a Limited Partner to withdraw from the Partnership under certain limited circumstances. Subject to certain conditions, the General Partner may (or may be required to) permit a Limited Partner to withdraw from the Partnership under certain limited circumstances.

ERISA Considerations:

The General Partner intends to cause the Partnership to qualify as a “venture capital operating company” under the Department of Labor plan asset regulations.

Tax Considerations:

An investment in the Partnership will have particular consequences for certain kinds of investors under the U.S. Federal income tax laws. The Partnership may engage in transactions that will cause tax-exempt Limited Partners to recognize “unrelated business taxable income” ("UBTI") within the meaning of Section 512 of the Internal Revenue Code of 1986, as amended (the “Code”), as a result of the investment in the Partnership, and the Partnership may engage in transactions that will cause foreign Limited Partners to recognize income treated as effective connected with the conduct of a trade or business with the United States within the meaning of Section 884 of the Code as a result of their investment in the Partnership. Prospective investors should consult with their own tax advisors as to the consequences of making an investment in the Partnership. The General Partner intends to work with prospective investors to address their individual concerns.

Reporting:

The General Partner will send the Limited Partners a 120-day after the end of each fiscal year of the Partnership.
Auditors: PricewaterhouseCoopers.

Legal Counsel: Kirkland & Ellis.

Placement Agent: Merrill Lynch & Co.

(or as soon thereafter as practicable in the event of delays in receiving information from portfolio companies) an audited annual financial report and tax information necessary for completion of each Limited Partner's U.S. Federal income tax return. The Partnership will also send its Limited Partners unaudited financial statements and other information within 60 days after the end of each quarter.
VIII. RISK FACTORS

Potential investors should be aware that an investment in the Partnership involves a high degree of risk. There can be no assurance that the Partnership's investment objectives will be achieved or that a Limited Partner will receive a return of its capital. The following considerations, among others, should be evaluated carefully before making an investment in the Partnership.

Dependence on Access to Enron Investment Opportunities

The Partnership's investment strategy is dependent upon the Partnership's access to investment opportunities from Enron. The Principals expect that Enron will continue for the foreseeable future to generate sufficient attractive investment opportunities to enable the Partnership to execute its investment strategy. Enron has no obligation to present investment opportunities to the Partnership, and no assurances can be given that Enron will continue to generate suitable investment opportunities or make such investment opportunities available to the Partnership. Changes in law, regulation, accounting principles, credit, capital or commodities markets, general or sector-specific economic conditions, or other changes may cause Enron to cease, or slow the rate of, its investment activities or to decrease its reliance on capital provided by co-investors or purchasers of investments from Enron. Enron may determine not to make investment opportunities available to the Partnership for any reason, including that the Principals, or certain of them, have ceased to be employees of Enron. The Principals may not be involved in all investments that Enron makes, and their involvement in some of Enron's investments may be limited. Enron will have no obligation to offer investment opportunities to the Partnership, and the ability of Enron to make investments available to the Partnership may be restricted by contractual obligations to third parties.

Highly Competitive Market for External Investment Opportunities

The activity of identifying, completing, and realizing private equity investments is highly competitive and involves a high degree of uncertainty. Although the Partnership expects to invest principally in companies and assets owned or controlled by Enron, the Partnership also may seek to invest in other external investment opportunities. In these situations, the Partnership will be competing with other private equity investment vehicles, as well as individuals, financial institutions, and other institutional investors.

Dependence on Key Personnel

The Limited Partners will be relying entirely upon the General Partner and the Manager to conduct and manage the affairs of the Partnership. The General Partner and the Manager depend upon the efforts and expertise of the Principals to enable them to render investment management services to the Partnership. The Principals are obligated to dedicate their business time and attention primarily to the discharge of their responsibilities as management employees of Enron. In addition, the Principals also dedicate a portion of their business time and attention to managing existing investment limited partnerships. Subject to the demands of these other responsibilities, the Principals will devote as much of their business time and attention as they deem reasonably necessary to manage the affairs of the Partnership. There can be no assurance that the Principals will continue...
be employed by Enron throughout the life of the Partnership. As noted above, if the Partnership were to lose the services of the Principals, the Partnership could be adversely affected.

Limited Operating History

The Partnership, the General Partner, and the Manager will be newly formed entities, and none of the Partnership, the General Partner, and the Manager has an operating history of making private equity investments upon which prospective investors may base an evaluation of the likely performance of the Partnership.

Limited Sector Focus

The Partnership intends to concentrate on investments in energy- and communications-related businesses, and will be less diversified for industry risk than other, more broadly focused investment vehicles. As a result of the Partnership’s sector focus, the effect on the Partnership of industry or general economic factors that have a greater impact upon the energy or communications sector than other industry sectors may be more pronounced than in more broadly focused investment vehicles.

Non-Control Investments

The Partnership expects to make Investments in portfolio companies over which Enron will acquire or retain ownership or control. The Partnership may not have the power, acting alone, to control a portfolio company’s board of directors, management, or operations. In addition, the Partnership may not have the ability, acting alone, to cause a portfolio company to take, or refrain from taking, certain actions, or to cause a portfolio company to engage, or refrain from engaging, in material transactions, which conceivably could have an adverse effect on the Partnership’s Investment, and the Partnership may not have the ability, acting alone, to control the timing of the liquidation of its Investments. In such Investments, the Partnership may be forced to rely on the fact that Enron will possess some or all of the foregoing control rights and that the interests of the Partnership and Enron will be sufficiently aligned such that Enron will exercise those rights in a manner that will protect the Partnership’s Investment. Enron will have no obligation to align its interests with those of the Partnership.

Illiquid and Long-Term Investments

Although Investments may generate some current income, the return of capital and the realization of gains, if any, from an Investment generally will occur only upon the partial or complete disposition of such Investment. While an Investment may be sold at any time, frequently this will not occur for a number of years after the Investment is made. As noted above, in certain cases, the Partnership may be dependent upon Enron to create liquidity through a sale of, or other “exit” transaction involving, the portfolio company in which the Partnership holds an Investment. It is unlikely that there will be a public market for the securities held by the Partnership at the time of their acquisition. The Partnership generally will not be able to sell its securities publicly unless such sale is registered under applicable securities laws or unless an exemption from such registration requirements is available. In addition, in some cases, the Partnership may be prohibited by contract from selling certain securities for a period of time.
Non-U.S. Investments

The Partnership may invest in portfolio companies organized and operated in foreign countries. Investing in such foreign investments involves certain risks not typically associated with investing in U.S. securities, including risks relating to: (i) currency exchange rates and costs associated with conversion of investment capital and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including potential price volatility and relative illiquidity of non-U.S. foreign securities and the absence of uniform accounting and financial reporting standards and disclosure requirements; (iii) certain economic and political risks, including potential restriction on foreign investment and repatriation of capital and the risks of political, economic, or social instability; and (iv) the possible imposition of foreign taxes on income and gains recognized with respect to such securities.

Passive Investment in Interests

Limited Partners will be relying entirely on the General Partner and the Manager to conduct the business of the Partnership. The Agreement will not permit the Limited Partners to engage in the active management and affairs of the Partnership. Because specific investments of the Partnership have not yet been identified, the Limited Partners must rely on the ability of the General Partner to make appropriate investments for the Partnership and to dispose of such investments as of the Manager to manage such investments.

No Market for Partnership Interests

The Interests have not been registered under the Securities Act, the securities laws of any state, the securities laws of any other jurisdiction and, therefore, cannot be resold unless they are subsequently registered under the Securities Act and other applicable securities laws or exempt from registration are available. It is not contemplated that registration of the Interests under the Securities Act or other securities laws will ever be effected. There is no public market for the Interests, and one is not expected to develop. A Limited Partner will not be permitted to assign Interests, except by operation of law, without the prior written consent of the General Partner, which may be given or withheld in the General Partner’s sole and absolute discretion. Except in extremis, limited circumstances, voluntary withdrawals from the Partnership will not be permitted. Limited Partners must be prepared to bear the risks of owning Interests for an extended period of time.

Tax-Exempt Investors

The Partnership may engage in transactions that would generate UBTI. See “Summary of Principal Terms – Tax Considerations” and “Certain Tax and Regulatory Considerations – Federal Income Tax Matters – General.”

Foreign Investors

The Partnership may engage in transactions that will cause foreign Limited Partners to recognize income effectively connected with the conduct of a trade or business within the U.S. See “Summary of Principal Terms – Tax Considerations” and “Certain Tax and Regulatory Considerations – Federal Income Tax Matters – General.”
Considerations – Federal Income Tax Matters – Certain U.S. Tax Considerations of Investing
IX. CONFLICTS OF INTEREST

Investors should be aware that there will be occasions where the General Partner and its affiliates may encounter potential conflicts of interest in connection with the Partnership's activities. The following discussion enumerates certain potential conflicts of interest which should be carefully evaluated before making an investment in the Partnership.

Dual Role of Principals

The Principals are employees of Enron and owe fiduciary duties to Enron and its subsidiaries; such fiduciary duties may from time to time conflict with fiduciary duties owed to the Partnership and its partners. Accordingly, the Principals, and entities controlled by the Principals, may take (or refrain from taking) such actions in behalf of the Partnership as the Principals in good faith determine to be necessary or appropriate in view of such conflicting duties. The Principals intend to consult regularly with the Advisory Committee regarding potential conflicts of interest regarding transactions with or involving Enron and its affiliates.

Transactions Involving Enron

To execute the Partnership's investment strategy (to capture investment opportunities generated by Enron), the Partnership will regularly evaluate, structure, negotiate, consummate, hold, manage, and liquidate investments in companies in which Enron or its affiliates have an existing investment or which Enron or its affiliates control (including investments acquired directly from Enron or its affiliates). The evaluation (and valuation) of investment opportunities and the negotiation of the price, terms, and conditions of an Investment will be conducted in behalf of the Partnership by the Principals acting in behalf of the General Partner.

Portfolio companies in which the Partnership invests may also engage in transactions with Enron or its affiliates, and profits derived by Enron or its affiliates from such transactions will not be shared with the Partnership.

In many cases, the Partnership will have a non-control Investment in a portfolio company controlled by Enron or its affiliates. The Partnership may invest in securities that are different from those held by Enron or may hold securities with a cost basis different from those held by Enron. Factors that influence Enron's or its affiliates' decision to exercise their rights in respect of their investment in such company (such as a decision to sell the company) may be more or less significant from the Partnership's perspective.

Carried Interest

The existence of the General Partner's carried interest could be viewed as an incentive for the General Partner to make riskier or more speculative investments in behalf of the Partnership that would be the case in the absence of this arrangement.
Diverse Limited Partner Group

The Limited Partners may have conflicting investment, tax, and other interests with respect to their investments in the Partnership. The conflicting interests of individual Limited Partners may relate to or arise from, among other things, the nature of investments made by the Partnership, the structuring or the acquisition of investments, and the timing of disposition of investments. As a consequence, conflicts of interest may arise in connection with decisions made by the General Partner, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for the Partnership, the General Partner will consider the investment and tax objectives of the Partnership and its Partners as a whole, not the investment, tax, or other objectives of any Limited Partner of the Partnership individually.
X. CERTAIN TAX AND REGULATORY CONSIDERATIONS

Federal Income Tax Matters

General

The following discussion summarizes certain U.S. Federal income tax considerations generally applicable to a person considering the acquisition of an interest. The discussion does not deal with all tax considerations that may be relevant to specific investors or classes of investors in light of their particular circumstances. In particular, the discussion does not address any considerations applicable to persons who acquire interests in connection with the performance of services. Furthermore, no state, local, or foreign tax considerations are addressed. ALL PERSONS CONSIDERING AN INVESTMENT IN THE PARTNERSHIP ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE SPECIFIC U.S., FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES TO THEM OF SUCH INVESTMENT.

The Partnership will receive an opinion from Kiddell & Ellis, counsel for the Partnership, that the Partnership will be classified for federal income tax purposes as a partnership rather than as an association taxable as a corporation under currently applicable tax laws. Opinions of counsel, however, are not binding on the Internal Revenue Service ("IRS") or the courts, and no ruling has been or will be requested from the IRS. No assurance can be given that the IRS will concur with such opinion or the tax consequences set forth below.

The Partnership will not pay federal income taxes, but each Partner will be required to report its distributive share (whether or not distributed) of the income, gains, losses, deductions, and credits of the Partnership (which may include the income and other tax items of any partnerships in which the Partnership invests). It is possible that the Partners could incur income tax liabilities without receiving from the Partnership sufficient distributions to defray such tax liabilities. For example, the Partner will be allocated Partnership income and gains for U.S. Federal income tax purposes even if funds from such Partnership income and gains are used by the Partnership to make Investments or to pay Partnership expenses and liabilities and are not distributed to such Partners (or are distributed but are then recalled by the Partnership for future Investments). The Partnership Agreement will provide that the General Partner may elect to re-invest rather than distribute (or distribute and recall for Investment) Investment Proceeds prior to the second anniversary of the Partnership’s final closing date. The Partnership’s taxable year will be the calendar year, or such other year as required by the Code. Tax information will be distributed to each Partner annually.

The following discussion summarizes certain significant U.S. Federal income tax consequences to a prospective investor who (i) owns, directly or indirectly through another partnership, an Interest as a Limited Partner, (ii) is, with respect to the U.S., a citizen or resident individual, a domestic corporation or partnership, an estate the income of which is subject to U.S. Federal income tax regardless of its source, or a trust for which a court in the U.S. is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions, as such terms are defined for U.S. Federal income tax purposes (a "U.S. Investor"), an (iii) is not tax-exempt.
Interest on any amount borrowed by a Limited Partner (other than a corporation) to purchase an interest in the Partnership will generally be "investment interest," subject to a limitation on deductibility. In general, investment interest will be deductible only to the extent of the taxpayer's "net investment income." For this purpose "net investment income" will generally include net income from the Partnership and other income from property held for investment (other than property which generates passive activity income). However, long-term capital gain is excluded from the definition of net investment income unless the taxpayer makes a special election to treat such gain as ordinary income rather than long-term capital gain. Interest that is not deductible in the year incurred because of the investment interest limitation may be carried forward and deducted in a future year in which there is sufficient investment income.

The Agreement will contain provisions intended to comply substantially with IRS regulations describing partnership allocations that will be treated as having "substantial economic effect," and hence, the Partnership's allocation will be respected for tax purposes. However, those regulations are extremely complex, and there can be no assurance that the allocations of income, deduction, loss, and gain for tax purposes made pursuant to the Partnership Agreement will be respected by the IRS, if reviewed. Even if the IRS were to review the Partnership allocations and determine that they do not technically comply with such regulations, such allocations would be determined "in accordance with each partner's interest in the partnership (determined by taking into account all facts and circumstances)." The allocations under the Partnership Agreement should, in most cases, be substantially identical to each partner's interest in the partnership.

Under Section 67 of the Code, a non-corporate taxpayer (including a shareholder of an S corporation) may deduct certain miscellaneous deductions (e.g., investment advisory fees, tax preparation fees, unreimbursed employee expenses, and subscriptions to professional journals) only to the extent such deductions exceed, in the aggregate, 2% of the taxpayer's adjusted gross income. Each Limited Partner's share of the Management Fee and other Partnership expenses probably will be treated as miscellaneous itemized deductions. Accordingly, a Limited Partner who is an individual generally will be permitted to deduct such expenses only to the extent that the sum of such expenses is less than 2% of the individual's adjusted gross income. However, corporate Limited Partners (other than S corporations) and exempt organizations are not affected by the 2% floor (unless, in the case of a tax-exempt organization, it is not a corporation and has unrelated business taxable income from the Partnership).

Section 68 of the Code separately imposes limitations on the deductibility of itemized deductions by an individual whose adjusted gross income exceeds a specified amount (e.g., $125,600 for unmarried individuals, or married individuals filing jointly, for 1999, adjusted annually for inflation), which may affect the ability of any Partner who is an individual to deduct his or her share of the Management Fee and other Partnership expenses. A Limited Partner who is an individual also generally will not be permitted to deduct his or her share of the Management Fee and other Partnership expenses for purposes of calculating such individual's alternative minimum tax liability.

Non-corporate investors (and certain closely held, personal service, and S corporations) are subject to the limitations on using losses from passive business activities to offset business income, salary income, and portfolio income (i.e., interest, dividends, capital gains from portfolio investments, royalties, etc.). The Partnership's distributive share of income or losses from a portfolio company which is a partnership or limited liability company engaged in business generally will be treated as passive activity income or losses. Accordingly, an investor will be subject to the passive activity loss

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limitations on the use of any such portfolio company losses, but any such portfolio company income may be offset by other passive losses (such as losses from limited partnership interests in tax sheltered) or other partnership income generally will be treated as portfolio income. Therefore, an investor generally will not be able to use passive activity losses to offset such portfolio income from the Partnership.

Except as described in the following paragraph, a tax-exempt Limited Partner's distributive share of the Partnership's income should consist principally of income from dividends, interest, and capital gain from corporate stock and corporate securities — types of income which (subject to the discussion of debt-financing below) are expressly excluded UBTI.

However, the Partnership may invest in securities (including equity interests in partnerships and limited liability companies) that will generate UBTI (“UBTI Investments”). Each tax-exempt Limited Partner generally would be subject to U.S. Federal income tax on its share of any UBTI earned by the Partnership (and the receipt of UBTI could give rise to additional tax liability for certain limited categories of tax-exempt investors).

If a tax-exempt Limited Partner borrows any amount to fund its capital commitment, some or all of its distributive share of income from the Partnership could be UBTI, which could be taxable to such tax-exempt Limited Partner (and which could give rise to additional tax liability for certain limited categories of tax-exempt Limited Partners). Moreover, debt incurred either by the Partnership directly or in connection with a UBTI Investment could give rise to UBTI to a tax-exempt Limited Partner.

Certain U.S. Tax Considerations for Foreign Investors

Limited Partners that are not U.S. investors and are not tax-exempt (“Foreign Investor”) generally should not be subject to U.S. Federal income tax on gains from the sale of investments. Notwithstanding the foregoing, a Foreign Investor’s share of the net gain recognized upon disposition by the Partnership of a United States real property interest would be treated for Federal income tax purposes as if it were effectively connected with a U.S. trade or business. In general, the Partnership would be required to withhold tax from allocations to Foreign Investors of such net gain and each Foreign Investor would be required to report its share of such gain on a U.S. Federal income tax return. For this purpose, the term “United States real property interest” generally would include: (i) shares of stock in a U.S. corporation that does not have a publicly traded class of stock outstanding if 50% or more of the value of the corporation’s assets at any point during the preceding five years consisted of interests in U.S. real property, and (ii) shares of stock in a U.S. corporation that does have a publicly traded class of stock outstanding where (A) the corporation satisfies the real property ownership test described in clause (i) above, and (B) the Partnership held (directly or pursuant to certain attribution rules) more than 5% of the outstanding stock of any publicly traded class of shares or held shares of non-publicly traded stock with a fair market value greater than that of 5% of the publicly traded class of the corporation’s stock with the lowest fair market value. In addition, if the Partnership invests in partnerships or other persons that generate income that is treated as effectively connected with a U.S. trade or business (including gains recognized upon disposition of an United States real property interest), Limited Partners will be subject to U.S. Federal income tax, including withholding tax (and possibly the branch profits tax), on their share of such income and on their share of gain realized on the Partnership’s disposition of its interest in.
such other partnership’s (or other person’s) assets attributable to such U.S. trade or business, and they will be required to file appropriate returns. Dividends paid by portfolio companies generally will, and interest paid by portfolio companies and capital gains upon realization of certain investments may, in certain circumstances, be subject to withholding taxes, including U.S. withholding taxes, but such taxes may be reduced or eliminated by treaty.

THIS MEMORANDUM DOES NOT ADDRESS ALL UNITED STATES FEDERAL TAX CONSEQUENCES OF AN INVESTMENT IN THE PARTNERSHIP THAT MAY APPLY TO AN INVESTOR, AND IT DOES NOT ADDRESS ANY STATE, LOCAL, OR FOREIGN TAX CONSEQUENCES OF SUCH AN INVESTMENT. IN ADDITION, THE ABOVE DISCUSSION IS BASED ON CURRENT PROVISIONS OF THE CODE, TREASURY REGULATIONS, ADMINISTRATIVE RULINGS, AND JUDICIAL DECISIONS, AND NO ASSURANCE CAN BE GIVEN THAT FUTURE LEGISLATIVE, JUDICIAL, OR ADMINISTRATIVE ACTION WILL NOT AFFECT THE ACCURACY OF ANY STATEMENT IN THIS DISCUSSION, POSSIBLY WITH RETROACTIVE EFFECT. THE TAX CONSEQUENCES OF AN INVESTMENT IN THE PARTNERSHIP MAY VARY DEPENDING ON AN INVESTOR’S PARTICULAR CIRCUMSTANCES. FOR THE FOREGOING REASONS, EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX COUNSEL AS TO THE FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES OF AN INVESTMENT IN THE PARTNERSHIP.

Certain ERISA Considerations

The U.S. Department of Labor ("DOL") has issued regulations under ERISA, which generally provide that when an employee benefit plan invests in an entity such as the Partnership, the plan’s assets include both the limited partnership interest and an undivided interest in each of the underlying assets of the Partnership, unless (i) the equity participation in the Partnership by benefit plan investors is not "significant" (defined as 25% of any class of the Partnership equity interest), (ii) the Partnership complies with the "venture capital operating company" ("VCOC") exception, or (iii) the Partnership qualifies for another exception under the DOL plan asset regulations. If the underlying assets of the Partnership were to be considered plan assets of the ERISA plan investor, the General Partner of the Partnership would be an ERISA fiduciary and the Partnership would be subject to undesirable ERISA requirements with which the Partnership generally cannot comply.

The Partnership will not limit investment by benefit plan investors, and it is therefore possible that investment by benefit investors will be "significant." However, the Partnership has been designed and is intended to be managed to comply with the VCOC exception. If it qualifies for the VCOC exception, the Partnership will not be subject to the ERISA fiduciary rules and the underlying assets of the Partnership will not be deemed "plan assets" of any ERISA plan investor. The Partnership will qualify if its (i) has direct contractual rights to substantially participate in or substantially influence the management of its investing operating companies comprising at least 30% of its portfolio (measured by cost), and (ii) in the ordinary course of its business, actively exercises such management rights with respect to at least one of the operating companies in which it invests. An "operating company" is an entity engaged in the production or sale of a product or service, as distinguished from a re-inventing entity.
The determination as to whether the fund qualifies as a VCOC is made when the Partnership makes its first long-term investment and thereafter on an ongoing basis. The Partnership must meet the 50% test at the time it makes its first long-term investment and on at least one day during each 90-day annual valuation period (generally beginning on the anniversary of the Partnership’s first long-term investment) thereafter. The Partnership also would cease to qualify if it did not in the ordinary course of its business actually exercise its management rights with respect to at least one portfolio company each year. Special rules will apply to any wind-up of the Partnership when it enters in it “distribution period” as defined in the DOL regulations.

Prospective Limited Partners who are subject to the provisions of ERISA (such as pension funds certain insurance company accounts) should consult with their counsel and advisors as to the provisions of ERISA applicable to an investment in the Partnership.

Certain Regulatory Matters

Investment Company Act of 1940, as amended (the “1940 Act”)

The Partnership has not registered and does not plan to register under the 1940 Act in reliance on the exceptions provided in Sections 3(c)(7) of the 1940 Act. As a condition to its admittance to Partnership, each prospective Limited Partner will be required to represent to the Partnership and General Partner that such prospective Limited Partner is a “qualified purchaser” within the meaning of Sections 2(a)(51) and 3(c)(7) of the 1940 Act and the regulations promulgated thereunder.

Securities Act

The offer and sale of the Interests will not be registered under the Securities Act in reliance upon an exemption from registration provided by Section 4(2) thereof and Regulation D promulgated thereunder. Each purchaser must be an “accredited investor” (as defined in Regulation D under Securities Act) and will be required to represent, among other customary private placement representations, that it is acquiring its Interest in the Partnership for its own account for investment purposes only and not with a view to resale or distribution.
<table>
<thead>
<tr>
<th>Limited Partner Groups</th>
<th>Nature of Investment</th>
<th>Investment Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AGN Pension Plan</strong></td>
<td>Pension Fund</td>
<td>$5.0 million $0.1 million $3.1 million</td>
</tr>
<tr>
<td><strong>Acquisition Fund Four, L.P.</strong></td>
<td>Fund</td>
<td>$3 million</td>
</tr>
<tr>
<td><strong>Robert Basham</strong></td>
<td>Ind.</td>
<td>$3 million</td>
</tr>
<tr>
<td><strong>BY Investment Partners</strong></td>
<td>Fin. Inst. Adv. Comm.</td>
<td>$10 million</td>
</tr>
<tr>
<td><strong>Chemical Investments</strong></td>
<td>Fin. Inst.</td>
<td>$10 million</td>
</tr>
<tr>
<td><strong>CIBC Capital Corporation</strong></td>
<td>Fin. Inst. Adv. Comm.</td>
<td>$15 million</td>
</tr>
<tr>
<td><strong>C&amp;I Partners</strong></td>
<td>Ind.</td>
<td>$2 million</td>
</tr>
<tr>
<td><strong>Ciscorp</strong></td>
<td>Fin. Inst.</td>
<td>$10 million</td>
</tr>
<tr>
<td><strong>Eugene Conese</strong></td>
<td>Ind.</td>
<td>$1.5 million $1.5 million $3.0 million</td>
</tr>
<tr>
<td><strong>Conese Family Investments L.P.</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CRM 1999 Enterprise Fund</strong></td>
<td>Fund</td>
<td>(Cramer Rose Nathaniel Mcglynn) $3 million</td>
</tr>
<tr>
<td><strong>DLJ Fund Investment Partners III, L.P.</strong></td>
<td>Fund</td>
<td>$3 million</td>
</tr>
<tr>
<td><strong>Lakeview Direct Investments, L.P.</strong></td>
<td>Fund</td>
<td>Thomas Elden Investment Trust (GP of Lakeview) $1.5 million $0.5 million $2.0 million</td>
</tr>
<tr>
<td><strong>Etherneve, LLC</strong></td>
<td>Ind.</td>
<td>(Tully Capital Partners) $1 million</td>
</tr>
<tr>
<td><strong>First Union Investors, Inc.</strong></td>
<td>Fin. Inst.</td>
<td>$25 million</td>
</tr>
<tr>
<td><strong>Fort Washington Private Equity Investors II, L.P.</strong></td>
<td>Fund</td>
<td>$10 million</td>
</tr>
<tr>
<td><strong>Frederick Family Partnership, L.P.</strong></td>
<td>Ind.</td>
<td>Frederick Twenty-Fifty, Ltd. $4 million $3 million $6 million</td>
</tr>
<tr>
<td><strong>Institute for Advanced Studies</strong></td>
<td>Fund</td>
<td>$5 million</td>
</tr>
<tr>
<td>Name</td>
<td>Commitment</td>
<td>Category</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>--------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Kleinwort Benson Holdings, Inc.</td>
<td>$5.0 million</td>
<td>Fin. Inst.</td>
</tr>
<tr>
<td>Ironwood Investors, LLC (Dresdner)</td>
<td>$5.0 million</td>
<td>Adv Comm.</td>
</tr>
<tr>
<td></td>
<td>$3.5 million</td>
<td></td>
</tr>
<tr>
<td>Lib Group Inc. (Lehman Brothers)</td>
<td>$10 million</td>
<td>Fin. Inst.</td>
</tr>
<tr>
<td>John D. and Catherine T. MacArthur Foundation</td>
<td>$15 million</td>
<td>Foundation</td>
</tr>
<tr>
<td>Joe Marsh</td>
<td>$3 million</td>
<td>Ind.</td>
</tr>
<tr>
<td>Merchant Capital, Inc. (CSFB)</td>
<td>$10 million</td>
<td>Fin. Inst.</td>
</tr>
<tr>
<td>M.L. Bank Portfolio, Inc.</td>
<td>$5 million</td>
<td>Fin. Inst.</td>
</tr>
<tr>
<td>Louis Chavvacci</td>
<td>$1.0 million</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$22.145 million</td>
<td></td>
</tr>
<tr>
<td>Mountebank Free</td>
<td>$10 million</td>
<td>Ind.</td>
</tr>
<tr>
<td>Rho Mgmt, Viking Trust</td>
<td>$15 million</td>
<td>Ind.</td>
</tr>
<tr>
<td>Gordon and Margaret Hargraves</td>
<td>$6.5 million</td>
<td></td>
</tr>
<tr>
<td>$30.5 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ulivo Mgmt, Nash Family Partnership, L.P.</td>
<td>$2.5 million</td>
<td>Ind.</td>
</tr>
<tr>
<td>Jack Nash</td>
<td>$3 million</td>
<td></td>
</tr>
<tr>
<td>Josh Nash</td>
<td>$2.5 million</td>
<td></td>
</tr>
<tr>
<td>Leon Levy</td>
<td>$4 million</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$12 million</td>
<td></td>
</tr>
<tr>
<td>Pyanosus I Funding Trust (BoA)</td>
<td>$45 million</td>
<td>Pension Fund</td>
</tr>
<tr>
<td>$50 million</td>
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<td></td>
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<tr>
<td>Prudential Life Insurance Company</td>
<td>$7.05 million</td>
<td>Fin. Inst.</td>
</tr>
<tr>
<td>Travelers Indemnity Company</td>
<td>$3.765 million</td>
<td></td>
</tr>
<tr>
<td>Travelers Insurance Company</td>
<td>$1.355 million</td>
<td></td>
</tr>
<tr>
<td>Travelers Life and Annuity Company</td>
<td>$0.1955 million</td>
<td></td>
</tr>
<tr>
<td>$5.0 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>George Rohr</td>
<td>$3 million</td>
<td>Ind.</td>
</tr>
<tr>
<td>SFU Inc. (GECC)</td>
<td>$5 million</td>
<td>Fin. Inst.</td>
</tr>
<tr>
<td>State of Arkansas Teacher Retirement System</td>
<td>$30 million</td>
<td>Pension Fund</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$386.645 million</strong></td>
<td></td>
</tr>
</tbody>
</table>

Advisory Committee - % of Total Commitments: 44.4%

LPgroups.doc

CONFIDENTIAL TREATMENT REQUESTED By Dechart on behalf of its client
<table>
<thead>
<tr>
<th>Investor Category</th>
<th>Amount of Commitment (US$)</th>
<th>No. % of Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Institutions</td>
<td>$143,045</td>
<td>12/37.0%</td>
</tr>
<tr>
<td>Pension Funds</td>
<td>85.1</td>
<td>3/22.0%</td>
</tr>
<tr>
<td>Individuals</td>
<td>75.5</td>
<td>10/19.0%</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>40.0</td>
<td>1/10.3%</td>
</tr>
<tr>
<td>Funds</td>
<td>30.0</td>
<td>6/7.8%</td>
</tr>
<tr>
<td>Foundation</td>
<td>15.0</td>
<td>1/3.9%</td>
</tr>
</tbody>
</table>

$386,645

* LP Groups are based on related entities or individual investments under the same management company.
<table>
<thead>
<tr>
<th>No.</th>
<th>Name of Limited Partner</th>
<th>Agreement of Capital</th>
<th>Funded Capital</th>
<th>Contribution Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Chemical Investments, Inc.</td>
<td>10,000,000.00</td>
<td>1,094,031.99</td>
<td>3,421,978.61</td>
</tr>
<tr>
<td>2</td>
<td>Coco/Saxo Family Investments, LP</td>
<td>1,200,000.00</td>
<td>254,735.18</td>
<td>1,245,273.22</td>
</tr>
<tr>
<td>3</td>
<td>Eugene P. Coven, Sr.</td>
<td>1,200,000.00</td>
<td>254,735.18</td>
<td>1,245,273.22</td>
</tr>
<tr>
<td>4</td>
<td>CRBC Capital Corporation</td>
<td>10,000,000.00</td>
<td>2,547,330.86</td>
<td>12,454,073.94</td>
</tr>
<tr>
<td>5</td>
<td>Clancy Investments</td>
<td>10,000,000.00</td>
<td>1,689,886.09</td>
<td>4,821,973.90</td>
</tr>
<tr>
<td>6</td>
<td>DSP Group Inc. (GDAC)</td>
<td>1,200,000.00</td>
<td>254,735.18</td>
<td>1,245,273.22</td>
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<tr>
<td>7</td>
<td>Habib Capital, Inc.</td>
<td>13,000,000.00</td>
<td>1,689,886.09</td>
<td>4,821,973.90</td>
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<tr>
<td>8</td>
<td>I.B.M. Investment Partners, Inc.</td>
<td>10,000,000.00</td>
<td>1,689,886.09</td>
<td>4,821,973.90</td>
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<tr>
<td>9</td>
<td>I.C. I Fund Investment Partners III, L.P.</td>
<td>1,200,000.00</td>
<td>254,735.18</td>
<td>1,245,273.22</td>
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<td>10</td>
<td>I.J.P. Morgan Partnership Investment Corporation</td>
<td>10,000,000.00</td>
<td>2,547,330.86</td>
<td>12,454,073.94</td>
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<td>11</td>
<td>I.J.P. Morgan Street Fund, L.P.</td>
<td>1,200,000.00</td>
<td>254,735.18</td>
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<td>12</td>
<td>I.J.P. Morgan Street Fund, Inc.</td>
<td>10,000,000.00</td>
<td>1,689,886.09</td>
<td>4,821,973.90</td>
</tr>
<tr>
<td>13</td>
<td>ICBC Securities, Inc.</td>
<td>1,200,000.00</td>
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Unfunded Partners' Capital: 321,445,568.73

Funded Capital means, with respect to each Limited Partner on any date, the Capital Contribution of such Limited Partner less the aggregate amount of cash distributions to such Limited Partner by the Company on or prior to such date which may be required by the Company pursuant to Section 3.4.B.1 (B) of the Partnership Agreement.
LJM INVESTMENTS

Annual Partnership Meeting

October 26, 2000

Exhibit #252
LJM Investments

Introduction: Meeting Agenda

- Introduction
- LJM Rationale
- LJM Strategy
- Activity Summary
- Valuation
- Sample Investments
- Other Issues
- Summary
- Guest Speakers: Jeff Skilling, Enron
  - Gene Lockhart, The New Power Company
  - Bill Jacobs, The New Power Company
  - Will Byers, The New Power Company
## LJM Investments

**Introduction: Meeting Attendees**

<table>
<thead>
<tr>
<th>1.) LJM Investments</th>
<th>3.) LJM2 Limited Partners</th>
<th>4.) Guests</th>
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<tr>
<td>Andrew Fastow</td>
<td>Chase Capital</td>
<td>Enron</td>
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<td>Michael Kopper</td>
<td>World Air Lease</td>
<td>Jeff Skilling</td>
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<td>Kady Lynn</td>
<td>GE Capital</td>
<td>TNPC</td>
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<td>Michael Hinds</td>
<td>J.P. Morgan Capital</td>
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<td>Anne Yaeger</td>
<td>Merrill Lynch</td>
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<tr>
<td>Joyce Tang</td>
<td>C&amp;I Partners</td>
<td>Will Byers</td>
</tr>
<tr>
<td>Chris Loehr</td>
<td>Dresder</td>
<td></td>
</tr>
<tr>
<td>Ace Roman</td>
<td>AON</td>
<td></td>
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</table>

| 2.) LJM Consultants          |                                |                            |
| Kirkland & Ellis             | Rho Management                 |                            |
| Michael Edsall               | CSFB                           |                            |
| Martha Stuart                | Ulysses Partners               |                            |
| Price Waterhouse Coopers     | Fort Wash. Private Equity      |                            |
| Ian Schachter                | Morgan Stanley                 |                            |
|                              | First Union Investors          |                            |
LJM Rationale
LJM Investments

LJM Rationale

- Fund created and managed by the CFO of Enron – Andrew S. Fastow
- Focused on acquiring energy and communications assets primarily owned by Enron
LJM Investments

LJM Rationale: Why does Enron need private equity?

- Energy and communications assets typically do not generate earnings or cash flow within the first 1-3 years
  - Investments are dilutive to Enron's current EPS
  - Investments are dilutive to credit rating ratios
- Solutions
  - Enron must deconsolidate assets
  - Enron must create structures which accelerate projected earnings and cash flows

➤ This leads to opportunities for LJM
LJM Investments

LJM Rationale: Why does Enron need private equity?

- Additional applications of private equity have been developed
  - Risk management
  - Nature of earnings
  - Earnings generation
LJM Investments

LJM Strategy: Overview

- Maximize risk-adjusted spread over nominal return
- Provide services in addition to capital
- Create proper incentives for sponsor
- Ensure multiple exits
LJM Investments

LJM Strategy: Maximize risk-adjusted spread

Return

Risk

High

Low

Public Equity

Private Equity Funds

Debt

LJM
LJM Investments
LJM Strategy: Provide services in addition to capital

- LJM offers a different product than traditional equity providers
  - Speed
  - Certainty of execution
  - Structured equity capability
  - Confidentiality
  - Knowledge of company's objectives and reliability
  - Ability to play GP role
LJM Investments
LJM Strategy: Create proper incentives for sponsor

- Sponsor typically retains an ongoing economic interest in investment
- Sponsor typically benefits by assisting LJM in liquidation of investment
LJM Investments

LJM Strategy: Multiple exit routes

- Self-liquidating
- "Effective" put
- Sale
- Securitization
LJM2 Co-Investment, L.P.
Activity Summary: Closing

- First close on December 22, 1999
- Final close on April 5, 2000
- Total capital commitments of $394 million
  - 42% financial institutions and insurance companies (Rated A- or higher)
  - 36% individual investors and private equity funds
  - 22% pension funds
LJM2 Co-Investment, L.P.
Activity Summary: Overview

- 23 investments have been made
- $511 million committed to investments / $438 million invested
- 6 investments liquidated on schedule at target returns ($108 million)
- 5 investments partially realized ($123 million)
- $245 million of Partners' capital has been funded
- $135 million of debt used for investments
- Projected Net Limited Partner IRR* – 69% Cash multiple – 2.3X

*See Valuation: Key model assumptions slide
# LJM2 Co-Investment, L.P.

## Activity Summary: Investments

### Undisclosed Investments

<table>
<thead>
<tr>
<th>Asset</th>
<th>Investment Date</th>
<th>Amount Invested</th>
<th>Cash Outlay (w/o)</th>
<th>Cash Received</th>
<th>Current Mkt Val</th>
<th>Current Projected Mkt Val</th>
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### Partially Realized Investments

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<th>Amount Invested</th>
<th>Cash Outlay (w/o)</th>
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### Realized Investments

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Confidential

AF100110

"FDIC CONFIDENTIAL TREATMENT REQUESTED BY ANDREW FASANO"
LJM2 Co-Investment, L.P.
Activity Summary: Portfolio

Investment Portfolio (by Type)

- Investments outside of Eiroco: 11%
- Short term / Working Capital Facilities: 25%
- Co-Invest in Eiroco Businesses: 9%
- Investing with Eiroco in Projects: 7%
- Structured Finance Vehicles: 48%
LJM2 Co-Investment, L.P.

Activity Summary: Cash Flows

Transaction Length

- < 6 months: 33%
- 6 - 12 months: 40%
- 13 - 36 months: 17%
- > 36 months: 10%

63% of LJM's investments are projected to pay out in less than one year.
LJM2 Co-Investment, L.P.

Activity Summary: Cash flows

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*Equity (profit-invested capital)/invested capital

Bold cash flows have been realised
LJM2 Co-Investment, L.P.

Activity Summary: Cash flows

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<td>278%</td>
<td>127%</td>
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*Earnings (prior to capital extractions)/Invested capital

Note: The cash flows have been realized.
LJM2 Co-Investment, L.P.

Activity Summary: Cash Flows

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<th>Plate</th>
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Total P&L: 689,000 275,326 3,551,000 460,202 2,641,382 100,000 344,653,767

EBIT 27% 21% INF 1% 41% INF 51%
Cash XX 1.12 1.01 INF 1.21 1.37 INF

*Equals (profit - capital) / invested capital

Bold cash flows have been realized.
**LJM2 Co-Investment, L.P.**

*Activity Summary: LP Capital Calls and Disbursements*

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<td>$92,565,093</td>
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<td>June 29 Capital Call</td>
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<td>Sept. 19 Capital Call</td>
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<td><strong>Oct. 26 Drawn Level</strong></td>
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<td>Oct. 31 Scheduled Distribution</td>
<td><strong>$97,376,617</strong></td>
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Valuation
LJM2 Co-Investment, L.P.

Valuation: Overview

- Current portfolio of investments projected to yield IRR = 51%
- Leverage at LJM2 projected to increase yield to IRR = 69%
- Projected average life of investments = 2.25 years
- Cash multiple projected = 2.3X
LJM2 Co-Investment, L.P.

Valuation: Projected Profits

LJM2 Valuations
(as of 10/22/00)

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<th># Transactions</th>
<th>Realized Invested ($)</th>
<th>Realized Proceeds ($)</th>
<th>Remaining Value** ($)</th>
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*Raptor L,U,III, Rawhide, GE/EE&CC Turbines
**Expected Future Cash Flows
LJM2 Co-Investment, L.P.

Valuation: Key model assumptions

- Key investment assumptions impacting LJM2 projected return:
  - Osprey structure assumes a 15% growth in Enron stock to 1/15/03
  - The model assumes a full recovery of the capital invested in all Raptor structures based on the overcollateralization displayed in Raptor Daily Position Reports
  - TNPC assumes liquidation 6 months after IPO at $21 per share
- Debt level of $120 million
- Available debt invested ($50 million) at expected portfolio return for the length of the commitment period
LJM2 Co-Investment, L.P.

Valuation: Return distribution

LJM Projected Investment Performance

Overall projected asset IRR of 51%
LJM2 Co-Investment, L.P.

Valuation: Leverage facilities

- LJM2 currently has two credit facilities
  - $65 million revolver from Chase
  - $14.1 million from SE Acquisition, L.P. (Enron affiliate)
- The Chase revolver is fully drawn
- All outstanding debt will be repaid by the new $120 million credit facility expected to close November, 2000
- Assuming the $120 million credit facility is fully drawn and invested at the current projected IRR, then the projected 51% asset IRR translates into a 69% net IRR to the LPs
LJM2 Co-Investment, L.P.
Sample Investments: Raptor I

- Raptor is a structured finance vehicle, capitalized with an Enron stock derivative and LJM equity, that will enter into derivative transactions with Enron related to investments in Enron’s merchant investment portfolio.
- Raptor helps Enron manage the impact of the price volatility of its merchant investment portfolio on its income statement.
- Major risk to LJM is that Enron stock price drops below $48.00 per share (43% decline) six months after closing.
- LJM’s return is projected to be 84%.
- LJM used for speed, flexibility, complexity of transaction, and confidentiality.
LJM2 Co-Investment, L.P.

Sample Investments: Osprey

- Osprey is a partner in an investment vehicle that purchases merchant assets from Enron; it is capitalized with 50 million shares of Enron stock, assets, and equity, including $26 million from LJM.
- This structure created a synthetic multibillion dollar balance sheet for Enron to deconsolidate assets and to generate funds flow.
- Major risk to LJM is a decrease in Enron stock price below $47.00 per share coupled with a deterioration of asset values to zero.
- LJM’s return is 12.75% on the certificates with limited upside potential. LJM anticipates securitizing this asset along with similar portfolio assets in order to enhance Partners’ returns.
- LJM used for structured finance expertise and speed.
LJM2 Co-Investment, L.P.
Sample Investments: Osprey Capitalization

$ 4.1 billion Enron stock
+ $ 2.4 billion cash and Enron merchant assets

$ 6.5 billion total assets
- $ 2.4 billion debt

$ 4.1 billion available to cover equity

$ 220 million of equity

= 19 X coverage
LJM2 Co-Investment, L.P.
Sample Investments: TNPC

- LJM2 ($38 million), along with co-investors ($12 million), invested $50 million for a 3.9% stake in TNPC, the residential energy services business started by Enron.
- Enron desired to deconsolidate this business while TNPC gains critical mass.
- The primary risk to LJM2 is successful execution of the TNPC business plan and equity market response.
- Expected IRR of 133%.
### LJM2 Co-Investment, L.P.

**Sample Investments: TNPC**

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<th>Amount</th>
<th>Description</th>
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<tr>
<td>$10.75</td>
<td>2nd Round Private Placement (LJM's cost basis per share)</td>
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<tr>
<td>$21.00</td>
<td>IPO price</td>
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<td>$28.50</td>
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<td>$19.31</td>
<td>Current Price - 10/24/00</td>
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<td>$21.00</td>
<td>Expected case in model</td>
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<tr>
<td>133%</td>
<td>IRR at expected case when lock-up expires</td>
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<tr>
<td>1.9X</td>
<td>Cash multiple for expected case when lock-up expires</td>
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</table>
LJM2 Co-Investment, L.P.

Summary

- As expected
  - Types of transactions
  - Strategic importance to Enron
  - Velocity (quick conversion to cash)
  - Rates of return
  - Use of leverage
- Not as expected
  - Higher level of deal flow
  - Greater ability to manage risk
  - More "permanent" investments
The Energy and the Privacy Equity Group of Investment Banking are expanding their commitment to invest $1 million as a limited partner in LMD Co-Investment LP ("LMD"), the "Fund" or the "Partnership"), a private equity fund with a target capitalization of $200 million, being formed by Andrew S. Futterman, Chief Financial Officer of Exxon Corp. "Exxon". In addition to the financial return from investing in the fund, the Energy Group expects to benefit from LMD's investment in the fund and enhance its relationship with Exxon. In December 1999, Merrill Lynch acted as placement agent and invested $1 million in LMD, resulting in total commitments of $140 million for Merrill Lynch employees invested over $1.7 million in LMD. It is anticipated that a similar agreement will be reached with MC qualified employees in 2001. MC, is acting as the placement agent for this fund which is a Delaware Limited Partnership.

Merrill Lynch has had an extremely lucrative relationship with Exxon over the past few years. In 2000 our relationship with Exxon yielded investment banking fees in excess of $17, including a private placement fee of approximately $4 million from our work as the lead manager. LMD is being organized to make privately placed equity and equity-related investments in energy and environmentally-related businesses and assets.

The primary source of investment opportunities will be companies owned or controlled by Exxon. These investments will generally be co-investments with Exxon whereby Exxon will manage and operate the business.

The amount of investment by the Partnership in any one transaction will be limited to $20 million. The Partnership's investment objective is to generate a net IRR after fees and expenses of 15% or less, LMD provides investors with a unique investment opportunity for several primary reasons: LMD will have preferred access to Proprietary Deal Flow. Exxon's extensive and unique deal origination capability that delivers deals in excess of $2 billion, has delivered origination deals in record time for over 20 years. The deal flow originating from this unparalleled origination infrastructure has resulted in investments by Exxon ranging approximately $3 billion as of the last two years and an existing merchant investment portfolio of over $1 billion.

Investors will have a voice in the investment decisions. Exxon has developed a rigorous process of investment analysis, which allows for input from (i) professionals in disciplines such as engineering and research, (ii) financial, (iii) legal, (iv) accounting, insurance and risk analysis.

In summary, LMD offers an opportunity for Exxon to participate in the high growth and high return potential of the energy sector. Exxon will benefit from the allocation of investment to the Fund and receive a fair return on its investment in the Fund.
# Appropriation Request Approvals

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<tr>
<th>Management Unit</th>
<th>Project Name</th>
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## Other Reviews

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<tr>
<td>Other:</td>
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<tr>
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Thanks for the heads up. I am sure that people will be interested in this.

Given the closing date of December 15 mentioned below, do we need to rush this out or is CICG making a commitment that we will pass along to our employees to the extent they are interested?

Regards,
Don

Donald J. Schneider
FVP, CICG Human Resources
Manulife Lynch & Co.
World Financial Center - 89 Floor
New York, NY 10281
Tel: [212] 448-7009 Fax: [212] 448-7011
don.schneider@manulife.com

---Original Message---
From: Albert, Kevin (IBK-NY)
Sent: Tuesday, November 21, 2000 12:57 PM
To: Schneider, Don (CICG-HR)
Subject: PW: ML Investment in LJM III

Don, I wanted to give you an advance "heads up" a new LJM program is in the works and I think there will probably be substantial interest in re-doing the employee vehicle early next year. KA

---Original Message---
From: Curry, Curt (CICG-PennEast)
Sent: Tuesday, November 21, 2000 1:19 PM
To: Albert, Kevin (IBK-NY)
Cc: Webb, David (IBK-NY)
Subject: PW: ML Investment in LJM III

Al,
I just spoke with Kevin Albert and he indicated that he conferred with David Webb and due to their limited budget they would like to take $5 million of the LJM III offering. Would you like me to speak with Don Schneider about the possibility of an employee offering as in the case of LJM III? Al let me know so that we can keep the ball rolling on this time sensitive investment.

Curt

---Original Message---
From: O'Sullivan, Frank (IBK-NY)
Sent: Monday, November 20, 2000 1:31 PM
To: Curry, Curt (CICG-PennEast)
Subject: PW: ML Investment in LJM III

Permanent Subcommittee on Investigations
EXHIBIT #254

MS 18558
as previously mentioned - we need to know if we should set up a committee meeting,
the timing is going to be very tight.
YOU MUST BE JOKING MAKING A CALL INTO THIS SHTF FUND --- IT WON'T BE 
BEFORE THE SEC CLOSES DOWN THIS SHIT FOR FRAUD

To: "Dolan, Gary (OOG)" <GaryD@exchange.ml.com>
Cc: "Caldwell, Curt (GMT-Frt Eqty)" <Caldwell@exchange.ml.com>
"Kelly, Robert P (CDGS Private Equity Finance)" <KKelly@exchange.ml.com>
"Strike, Katherine (OOG)" <KStrike@exchange.ml.com>, "Hurley, Jr., Alfred P (Private 
"Equity)" <AHurley@exchange.ml.com>, "Bobouch, Larry (OOG)" 
"Douglas, Dan (CDGS-EQ)"
"DMF_EE_Preek@mal.com"
Subject: KL/LNM Co-Investment, L.P. Capital Call ($140M Commit)

*This is a notice by the General Partner of KL/LNM Co-Investment, L.P. 
(the 
"FeeD Fund") of a Capital Call. The purpose of the Capital Call is to 
 fund a capital call made by LNM Co-Investment, 
L.P. ("LNM"), the proceeds of which are to be used to pay down LNM's 
credit facility, which has been called by the banks under the terms of the 
loan agreement.

The amount of your Capital Call is $1,199,999 representing 4.3% of your 
$28,000 Commitment. After this Capital Call, your total investment in the 
FeeD Fund, net of capital and profits previously 
returned to you, will be $25,813 representing 18.5% of your Commitment.

The General Partner of LNM has stated that it does not currently 
anticipate making further capital calls during the remaining 
life of the partnership (though it retains the right to make further calls 
if the need arises).

On December 25, we will deduct the amount of the Capital Call from the 
CMA 
account that you identified for such purpose in your Subscription 
Agreement. Please be sure to have sufficient funds 
available in the account.

Questions have been raised as to whether you are required to pay this 
capital call.

The FeeD Fund, as a limited partner of LNM, does not have any right 
under the LNM partnership agreement to decline to pay LNM's capital call.

Permission_Submitted for Investigation
EXHIBIT #255
Similarly, as a limited partner of the Feeder Fund, you do not have any right under the Feeder Fund partnership agreement to decline to pay this capital call. Your failure to meet this capital call would be a breach of your contractual obligation and will result in adverse consequences to you.

The General Partner of the Feeder Fund will continue to monitor developments concerning LNR. If, prior to the time we receive the Feeder Fund’s capital commitment to LNR, circumstances arise that cause us to determine to withhold our capital commitment, we will advise you promptly.

"<< attach >>"

Join the world’s largest e-mail service with MSN Hotmail.
http://www.hotmail.com
Interoffice Memorandum

To: John Swadiba
At:

From: Schuler Tilney
Rob Jones
Lisa Bills
Raeve C. Newton
Tessa Giddens

Merrill Lynch

Date: December 10, 1998

Subject: Enron Corp. Loan Commitment

Background/Request:

Merrill Lynch has been mandated by Enron Corp. ("Enron") to lead a $70 million transaction utilizing a STEERS-like structure with owner trusts as the funding vehicle. This transaction is similar to the successful Trailblazer STEERS transaction we executed on behalf of Enron in early November, and Enron has mandated Merrill Lynch for two similar transactions for year-end 1998 closings (see Exhibit 1).

On Wednesday, Merrill Lynch received a request from Enron that Merrill Lynch provide a $25 million revolver for 60 days to support Enron's construction commitment with respect to the pipelines imbedded in the financing. Enron has indicated that no construction will be undertaken during the pendency of the Merrill Lynch commitment and, as a result, such revolver would not be drawn. The revolver would be guaranteed by Enron Corp. (the parent company, which is rated BBB+). It is anticipated that the revolver would be refinanced by a non-recourse construction loan to fund Enron's investment obligations in the Powder River pipeline over the next 10-12 months. Merrill Lynch would lend the money to a newly created SPE named "PR-Z LLC" which will be 100% owned by Enron Capital and Trade Resources Corp., a significant subsidiary of Enron ("ECT"). If a non-recourse lender is not found, Enron would be required to repay the Merrill Lynch loan/commitment after 60 days. The loan commitment is required by Enron's accountants to ensure that the structure receives off-balance sheet treatment.

Enron is required to have the loan in place by Monday December 14th in order to execute the pipeline LLC agreement with its partners and to provide sufficient time to negotiate and execute the trust financing in which we are acting as placement agent.

Approval is requested to lend $25 million to PR-Z LLC with an Enron guarantee for 60 days.

Overview of Enron:

Enron is among the Merrill Lynch Energy Group's most significant clients. In the past six months, Merrill Lynch has led two debt transactions, a STEERS transaction, co-managed an equity offering and we are presently advising with respect to a major M&A assignment. Enron has an equity market capitalization of approximately $18 billion and an adjusted market capitalization of approximately $27 billion. The Energy Group is very familiar with Enron's businesses as a result of constant dialogue and transactions.
Transaction Structure

Enron is in near closure on two agreements with its partners for the construction and operation of pipelines in Wyoming, in each of which Enron will own an approximate 1/3rd interest.

Enron will set-up an LLC to own its member interest in the pipeline LLC. The interest will be split into an “A” interest (100% voting and 01% economic) and a “B” interest (0% voting and 99 90% economic). The “A” interest will be held at ECT. ECT will be responsible for capital calls made by the pipeline LLC. ECT will look to the non-recourse construction lender to fund ECT’s portion of the pipeline construction.

The “B” interest will flow through two SPE LLCs wholly-owned by ECT until the owner elects to purchase it. The trust will be funded by 95% debt placed by Merrill Lynch and 5% equity placed by Enron. The debt term is 12 months with two six-month interest payments. The interest due amount will be held in an account chosen by the 95% debt provider and invested by the equity provider.

The principal will be repaid by Enron or a subsidiary in the following manner. Within 30 to 90 days after deal closing, Merrill Lynch, as “notification agent” will provide notice to the parties that the trust must elect its expiry take-out option of either putting the B interest back to the ECT SPE or keeping the B interest without any Enron guarantee. The debt provider will control the decision-making process which is expected/anticipated to be the put option. Assuming the put option is elected, the appraiser which the trust hired to appraise the “as built” pipeline prior to closing will reappraise the pipeline 3 to 4 months prior to deal expiry. The value determined at this time will constitute the put price. If the new value equals the old value, the debt and equity are repaid in full. If the new value exceeds the old value, the debt and equity are repaid in full and Enron receives the excess. If the new value is less than the old value, Enron, through a total return swap with the trust, will repay any shortfall to the debt. The equity would incur a loss of its investment.

In summary, Enron is entering into this PSE-123 transaction in order to take its investment in the pipeline LLC off its balance sheet but is guaranteeing the debt provider full repayment on its loan investment at the end of 12 months.

Description of Enron

Enron, an Oregon corporation, is an integrated natural gas and electricity company with headquarters in Houston, Texas. Enron’s operations are conducted through its subsidiaries and affiliates which are principally engaged in the exploitation for and production of natural gas and crude oil in the United States and internationally; the transportation of natural gas through pipelines to markets throughout the United States and internationally; the generation and transmission of electricity to markets in the northwestern United States; the marketing of natural gas, electricity and other commodities and related risk management and finance services worldwide; and the development, construction and operation of power plants, pipelines and other energy related assets in international markets. As of December 31, 1997, Enron employed approximately 15,500 persons.

Effective July 1, 1997, Enron merged with Portland General Corporation (“PGC”) in a stock-for-stock transaction. PGC, through its wholly-owned subsidiary Portland General Electric Company (“PGE”), serves retail electric customers in northwest Oregon as well as wholesale electricity customers throughout the western United States.

In October 1998, Enron acquired Western Water, a U.K. based water company, for approximately $2 million.
unknown

From: Furst, Robert (BK-DAL)
Sent: Friday, May 19, 2000 3:48 AM
To: Sulivan, David (BK-NY); Dean, Bowen (BK-DAL)
Cc: Moomy, Alexander (BK-NY)
Subject: RE: Enron Net Works

Are you implying that the most we can raise for this venture is $20 billion? I agree with your logic and let's prepare a presentation along the two step process to distribute to the team on Monday.

---Original Message---
From: Sulivan, David (BK-NY)
Sent: May 19, 2000 8:16 AM
To: Dean, Bowen (BK-DAL)
Cc: Furst, Robert (BK-DAL); Moomy, Alexander (BK-NY)
Subject: RE: Enron Net Works

Some clarification on your two structures:

I don't think a $3 billion private placement of stock in NetWorks is feasible (it would roughly be the equivalent of the IPO of Lucent and Merrill). What we discussed was more of a 2 step process:

Step 1: Enron sells an interest in the existing online business to a combination of strategic (Cargill J. Aron, etc.) and financial investors (Morgan, Deutsche, Lehman, etc.) for $1 billion or so. Capping the return would solve some issues as to who the buyers of this security would be as most buyers we sold to are after the upside.

Step 2: Enron contributes $1 billion to a blind pool vehicle where we go out and raise $1+ billion to invest in underlying physical assets (aluminum, copper, natural gas, etc.) as well as develop the trading business. For this product to sell, investors in this fund would need to participate in the revenue generation of the trading businesses. Finally, if these guys are not worried about the debt on the balance sheet, there is no need for them to sell 50% and have LMA2 act as the general partner.

The blind pool investors have a limited ability to analyze a deal if you concern the NetWorks business to the fund whereas Allen's buyer do have this ability.

---Original Message---
From: Furst, Robert (BK-DAL)
Sent: Thursday, May 18, 2000 6:16 PM
To: Sulivan, David (BK-NY); Dean, Bowen (BK-DAL); Moomy, Alexander (BK-NY)
Cc: Furst, Robert (BK-DAL); Quirke, Kip (BK-DAL)
Subject: Enron Net Works

Rob spoke to Jeff McElroy at Enron and learned the following,

- Enron not worried about debt on the balance sheet, as they can structure around it
- definitely do not want public minority shareholders
- do not have projected financials, would like very much for us to help them come up with a revenue model
- Enron will sell all of EOnLine into the new entity Net Works (only as an exchange platform - Enron will pay a fee to Net Works as a participant on the exchange)

The following are some inputs that he gave us:
- 2000 trades/day, $2 billion in notional volume
- 2000 industrial viewers
- will soon be launching auctions of pipeline capacity
- Chemex, a chemical exchange, currently charges $500 trade

Two structures that we have come up with that make sense:

I. Private Placement of stock in Net Works
   - Enron will contribute all EOnLine to Net Works
   - Manfrti will raise $3 billion in subsidiary stock in Net Works - private placement
   - Enron keeps the equity to be callable at anytime after the offering at a 25% (2P)
   - After five years, the investors can sell their equity stake, privately

EXHIBIT #257
- After five years, the investors can force an IPO of Net World

II. Blind Pool Fund
- Enron contributes E*Online stock to partnership for LP interests
- Blind Pool investors contribute cash for LP interests
- LOM contributes cash for the GP interests
- other "wash list" provisions for the above deal will apply here

Let us know your thoughts, we will be sending out some pages, schematics, etc. soon.

Also, Jack we need to discuss your thoughts on creating a revenue model.

Regards

Bowen
We are confirmed to meet with Enron in Houston on May 26th at 11:00 a.m. to review our thoughts about fund raising.

Clarification points:
OL Balance sheet debt - Koch's primary driver because Enron believes they can structure anything to be off balance sheet.
OL - they have no projections but are doing back of the envelope valuations assuming they convert this business to an exchange model. Jack - we need you to give us parameters for valuation and comps to back up value. They have materially backed off of the $7-$10 billion valuation but think a valuation of $3-$5 billion premoney is easy to get to using revenue multiples of 20-40x.

Benefits from trading and Enron risk management: all upside will be in the fund. For example, when they buy a paper company, Enron will transfer its trading activities to the fund for paper and pulp so all the upside will remain in the fund. They will not do this for gas and power but will do this for new vertical markets.

Limit at Grid of the Fund. McMahon said this is the best alternative for keeping all activities of balance sheet.

We need to address execution risk and time. Speed is critical. We also need to discuss our willingness to provide and bridge for Enron wants to move immediately.

Jack - I will try to make the meeting for your schedule for you are best equipped to deal with valuation and competitive landscape for Enron.

Robert E. Funck
Investment Banking Dallas
1-404-520-0500 phone
1-404-520-0509 fax
robert.funct@emc.com
do we have a home for the 3% interest in their structured deals. They said this could be structured as true equity risk or bond risk, preferred size is time to 100m. I will talk to the private guys who are looking for 25% returns.

> -----Original Message-----
> From: Kulick, Adam [mailto:KULICK]
> Sent: Wednesday, April 11, 2001 4:18 PM
> To: Furst, Robert [B&K-DAL]; Chalk, Robert [B&K-DAL]; Tinkley, 
> Schooley [B&K-HOU]
> Cc: Senaza, Jack (CAPMTS)
> Subject: enron meetings

> met with kathy lynn and michael hinds - both nds at ljm, and andy 
> jaeger who i believe you know. i'm invesed in enron deals primarily, but 
> is looking to branch out. they do a bunch of balance sheet 
> deals similar to your large deals - in fact they bought the large from 
> us - and also invest in the debt-like equity tranches of structured 
> deals. for example they own equity in one's pinnacles 
> (inspecre-like) deal, hold the certificates in yosemitie, own swap 
> certificates etc. they are also interested in looking at deals in the 
> telecom sector. they may be useful in certain structured 
> finance deals.

> also, clint freeland and andy are coming in tomorrow to discuss the 
> credit derivatives market. this is a similar conversation to the 
> initiation of yosemitie. enron suffers a lack of liquidity 
> in the default market and that impacts their bond and swap markets 
> pricing (see gilman mentioned this at the credit conference). the 
> purpose of the meeting is to provide general education on the 
> market, analyze enron specific issues and suggest solutions to the 
> lack of liquidity in their name. we have a couple of ideas that they 
> may find appealing. please find attached the executive 
> summary of our book i will send you a copy of the full book when it is 
> ready later today. i would welcome your involvement if you wish to join 
> by phone. pls. let me know.

> cheers, adam

> Strategic Solutions Group
> Merrill Lynch
> Tel: 212 448 315
> Fax: 212 713 3239
> acamini.com

> << File: Enson Cred Deriv.ppt >>
Hi Denise,

I’d like to open a Chase account for a new entity which I account for in my area. Would you be so kind as to forward me the account opening questionnaire? This account will be similar to the other 066 accounts I have opened at Chase under the Mt. Leasing Equipment Corp umbrella. Please contact me with any questions at 236-7203.

Thanks,
Kira
Valentl, Joseph S (IBK-NY)

From: Toone, Kris (IBK-NY)
Sent: Wednesday, March 08, 2000 11:04 AM
To: Valentl, Joseph S (IBK-NY); Haugh, Gerald (IBK-NY)
Subject: FW:

FYI

Original Message
From: hufton, Alan S <hufton@enron.com>
Sent: Wednesday, March 08, 2000 10:34 AM
To: Toone, Kris (IBK-NY)
Subject: RE:

All of the documents are currently being assembled for distribution by Kris, but I can try to locate the Agreement. Also, we have converted the entity to the Cayman Islands; upon receipt of the stamped confirmation of this from the Cayman filing company (which is due any day), we intend to file a certificate of withdrawal in Delaware.

Original Message
From: Toone, Kris (IBK-NY) <toone@exchange.ml.com>
Sent: Wednesday, March 08, 2000 10:07 AM
To: shoffman@enron.com
Subject:

Alan,

I have not yet received copies of the documents for Elverage. LLC. Can I receive a signed copy of the documents or at least the LLC Agreement? Secondly, has this entity been converted to a Cayman Island's LLC yet?

Regards,
Kris

Exhibit #260b.
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December 23, 1999

Dear Mr. McMaken:

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") is pleased to act as exclusive advisor to Exxon Corp. ("Exxon") for the sale of equity in Exxon Nigeria B.V. Ltd. ("ENB"), representing the rights to certain cash flows generated via the sale of electricity to Lagos State Government under a power purchase agreement (together with the Equity Investment, as defined below, the "Transaction").

As Exxon’s advisor, Merrill Lynch will (i) form a U.S. special purpose entity (the "SPE"), and (ii) fund the purchase by the SPE of a non-controlling $53 million equity interest in ENB, $21 million of which the SPE will borrow from Exxon or an affiliate, which will be collateralized with the shares of ENB (the "Equity Investment"). The closing of the Equity Investment will be subject to documentation acceptable to the parties, and the Transaction complying with all applicable laws and regulations.

1. Fees and Expenses

As compensation for Merrill Lynch assisting in the structuring of the Transaction, as advisor, Exxon will pay to Merrill Lynch a non-refundable advisory fee (the "Advisory Fee") equal to $250,000. Payment of the Advisory Fee will occur upon closing of the Equity Investment.

Exxon shall be responsible for all costs and expenses incurred in structuring, placing and closing the Transaction. Exxon shall be entitled to pay all costs and expenses of the Transaction regardless of whether the Transaction is actually consummated. Such costs and

[EXHIBIT #262]
December 23, 1999
Page 2 of 5

expenses shall include, but not be limited to, reasonable legal fees and disbursements of counsel to the SPE and Merrill Lynch, as well as the cost of establishing the SPE, its ongoing fees and expenses, filing and recording fees and reasonable out-of-pocket expenses of Merrill Lynch.

2. Indemnification, Contribution and Limit on Liability

If the indemnification provided for in this Agreement is for any reason held
unenforceable, Exron will contribute to the lesser of claims, damages and losses
sustained, as incurred, for which such indemnification is held unenforceable in such proportions as is appropriate to reflect the relative benefit to Exron, on the one hand, and Merrill Lynch, on the other hand, of the Transaction; whether or not the Transaction is consummated; provided, however, that no person guilty of fraud or misrepresentation (within the meaning of Section 11(1) of the
Securities Act of 1933) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For the purposes of this paragraph, the relative benefit to Exron and Merrill Lynch of the Transaction shall be deemed to be in the same proportion that the total value of equity in EBV, placed or contemplable to be placed, bears to the Advocacy Fee paid or contemplated to be paid; provided, however, that, to the extent permitted by applicable law, in no event shall the Indemnified Party be required to contribute an aggregate amount in excess of the aggregate Advocacy Fee actually paid to Merrill Lynch under this Agreement.

3. Notice, Defense and Settlement
As an Indemnified Party shall notify Exxon in writing promptly after it receives notice of any claim or the commencement of any action or proceeding with respect to which it may seek indemnification hereunder, provided, however, that if Exxon shall not receive notice of any claim or the commencement of any action or proceeding with respect to which it may seek indemnification hereunder, provided, however, that if Exxon shall not receive from any liability that it may have to such Indemnified Party except to the extent Exxon is reasonably prejudiced by such failure. Exxon will assume the defense of such action or proceeding and will employ counsel satisfactory to the Indemnified Parties and will pay the fees and expenses of such counsel. Notwithstanding the preceding sentence, an Indemnified Party will not be entitled to employ counsel separate from counsel for Exxon and from any other party as such action or if such Indemnified Party determines that a conflict of interest exists which makes representation by counsel chosen by Exxon not advisable or if such Indemnified Party reasonably determines that Exxon's assumption of the defense does not adequately represent its interests. In such event, the fees and expenses of such separate counsel will be paid by Exxon.

Exxon will not, without Merrill Lynch's prior written consent, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding in respect of which indemnification could be sought under the indemnification provision of this Agreement, whether or not Merrill Lynch or any other Indemnified Party is a party to such claim, action or proceeding, unless such settlement, compromise or consent includes an unconditional release of each Indemnified Party from all liability arising out of such claim, action or proceeding.

In the event Merrill Lynch or any Indemnified Party is required to or requested to appear as a witness in any action brought by or on behalf of or against Exxon or any affiliate or any participant in a transaction covered hereby in which Merrill Lynch or such Indemnified Party is not named as a defendant, Exxon will reimburse Merrill Lynch for all expenses incurred by it in connection with such Indemnified Party's appearing and preparing to appear as a witness, including, without limitation the fees and disbursements of its legal counsel, and to compensate Merrill Lynch in an amount to be mutually agreed upon.


The representations, warranties, indemnifications, and agreements of Exxon and its officers or representatives shall remain in full force and effect regardless of any investigation made by or on behalf of Exxon or Merrill Lynch or any affiliates, and shall survive the consummation of the Transaction.
5. **Amendments; Survival of Provisions**

No waiver, amendment or other modification of this Agreement shall be effective unless in writing and signed by each party to be bound. The provisions relating to expenses, indemnification, limitations on the liability of Indemnified Parties, confidentiality, non-disparagement, choice of law and waiver of the right to trial by jury will survive any termination of this letter agreement.

6. **Parties**

This Agreement shall inure to the benefit of and be binding on Ercon, Merrill Lynch and their respective successors. Ercon has retained Merrill Lynch to act as an independent contractor, and any duties of Merrill Lynch arising out of its engagement shall be owed solely to Ercon. This Agreement does not confer any rights upon any person other than Ercon, including, but not limited to, any security holder, employee, or creditor of Ercon. This Agreement incorporates the entire understanding of the parties with respect to this engagement of Merrill Lynch by Ercon, and supersedes all previous agreements regarding such engagement, should they exist.

7. **Governing Law**

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUCTED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.
8. Consent to Jurisdiction and Waiver of Jury Trial

Either Party may bring any action or proceeding arising out of this Agreement or the relationship of the Parties hereto, or to enforce any provision of this Agreement, or to any of the transactions contemplated by this Agreement to the Court of the State of New York, County of New York, or any Federal court having jurisdiction thereof, and each of the Parties hereto hereby agrees that such courts shall have exclusive jurisdiction to settle any such disputes, and each of the Parties hereto hereby consents to the personal jurisdiction and venue of such courts. Each Party waives any objection that it may now or hereafter have to the laying of venue of any such action or proceeding in any such court and waives any right of appeal from any such court. The Parties hereto agree that the provisions of this Section 8 shall apply to any and all actions, proceedings or controversies in any way connected with this Agreement.

This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and assigns. The provisions of this Agreement shall be binding upon the Parties hereto and shall inure to the benefit of their respective successors and assigns. No person, firm, corporation, or other entity shall have any right to enforce any provision of this Agreement or to be bound thereby except the Parties hereto and their respective successors and assigns.

By: ________________________
Title: _______________________

Agreed and agreed on the date written above:

ENRON CORP.

By: ________________________
Title: _______________________

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
Bargeco Economics

Bargeco economics are based on a negotiated return with Enron. Enron agreed to arrange a buyer for LJM2's equity within 7 months. LJM2 will receive a 15% annualized return on its investment and a $300,000 fee.

<table>
<thead>
<tr>
<th>Expected at Close</th>
<th>Amount</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>LJM2 investment</td>
<td>(7,525,000)</td>
<td>9/28/2000</td>
</tr>
<tr>
<td>15% IRR at 7 months</td>
<td>558,433</td>
<td>1/31/2001</td>
</tr>
<tr>
<td>Fee</td>
<td>300,000</td>
<td>1/31/2001</td>
</tr>
<tr>
<td>Repayment of Capital</td>
<td>7,525,000</td>
<td>1/31/2001</td>
</tr>
<tr>
<td>IRR</td>
<td>24%</td>
<td></td>
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</tbody>
</table>

As of September 30, 2000 LJM2 sold its equity interest in Bargeco for $8,235,000.

<table>
<thead>
<tr>
<th>Realized</th>
<th>Amount</th>
<th>Date</th>
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</thead>
<tbody>
<tr>
<td>LJM2 investment</td>
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<td>9/28/2000</td>
</tr>
<tr>
<td>15% IRR at 7 months</td>
<td>286,000</td>
<td>10/4/2000</td>
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<tr>
<td>Fee</td>
<td>300,000</td>
<td>10/4/2000</td>
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<tr>
<td>Actual vs. projected expenses (est.)</td>
<td>25,000</td>
<td>10/4/2000</td>
</tr>
<tr>
<td>Repayment of Capital</td>
<td>7,525,000</td>
<td>10/4/2000</td>
</tr>
<tr>
<td>IRR</td>
<td>37%</td>
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</table>
ENRON RISK ASSESSMENT AND CONTROL
DEAL APPROVAL SHEET

DEAL NAME: Nigeria Barges Equity Sell Down
Counterparty: National Electric Power Authority
Business Unit: West Africa / Pacific / Asia
Business Unit Originator: Sean Long / Keith Sparks
Public/Private: Public
Merchant/Strategic: Strategic
Conforming/Nonconforming: Conforming

Date DASH Completed: January 13, 2000
RAC Analyst:
Investment Type: Equity
Capital Funding Source: BV / Balance Sheet
Expected Closing Date: December 31, 1999
Expected Funding Date: December 31, 1999
Board Approval: Pending

RAC Recommendation: Proceed with Transaction
Return Below Capital Price: Do Not Proceed

APPROVAL AMOUNT REQUESTED
This DASH represents the sale of 90% of the exposed three-year cash flows from Enron’s Nigerian Barge Project for $28 million. Enron will receive $7 million up-front and $21 million will be seller-financed by Enron via a three-year loan.

EXPOSURE SUMMARY
This transaction: NA
Total: $57,987 million

Exposure Enron net exposure for Phase 1 after the sale ($44,587 - $7 million). We are going to loan the spare parts and working capital (total of $2,740), so the remaining equity should be reduced by this amount.

DEAL DESCRIPTION
Enron Africa requests approval for two reports of the Nigerian Barge Project: (i) revisions to the original transaction structure, and (ii) the sale of equity of the Nigeria company, which approximates 90% of the project cash flows for the first three years.

Revisions to Original Structure:
The original DASH dated November 29, 1999 represented the sale of emergency power under a three-year PPA to the National Electric Power Authority (“NEPA”) of Nigeria. During the final PPA negotiations, NEPA (and the Nigerian Government) asked Enron to commit (i) to a longer-term PPA and (ii) to convert the barges to natural gas. This resulted in a three-year and three-month PPA that gives Enron the right to terminate the PPA if the barges are not converted to natural gas within fifteen months. Enron has no obligation to convert to natural gas. The gas conversion costs and resulting economies are uncertain at this time. If the barges are not converted to natural gas within fifteen months and NEPA does not grant an extension for the conversion, Enron can terminate the PPA and force NEPA (backed by the Nigerian government guarantee) to pay a termination payment that is equivalent to the present value of the remaining capacity payments and remaining fuel energy payments discounted at LIBOR + 400 basis point. The structure provides Enron with the flexibility to either terminate the PPA and receive the termination payment or renegotiate the terms of the PPA on or before the fifteenth month.

It is important to note that the $25.4 million letter of credit has not been finalized. The region has indicated that the delay is due to administrative problems and that it should be finalized no later than [date].

Sale of Equity in Nigeria Barge Project - Cash Flows:
The Africa region has agreed to sell equity in a proportion of the cash flows from the Nigerian Barge Project indirectly to Merrill Lynch. The primary objectives of the sale are to accelerate earnings recognition into 1999 (approximately $121.5 million) and to reduce Enron’s capital exposure in Nigeria. The equity Enron sold represents approximately 90% of the project’s first three-year cash flows to a Special Purpose Vehicle (“SPV”) for $28 million. The SPV has a 7.5% debt to equity capital structure, with $7 million of equity funded by Merrill Lynch and $21 million of debt in the form of an Enron “seller-financed” note. Enron received $7 million at closing. The note bears an interest rate of 12%, a term of three years, and monthly amortization of $773,010.33 (the first debt service payment is scheduled to be in April 2000) and is secured by the equity interest in the SPV. Merrill Lynch, the equity holder, will receive all cash in excess of debt service.

The transaction is designed such that the equity purchased by the SPV (see below) receives approximately 90% of the available cash flows until it has received an amount of $37.5 million (“Trigger Amount”). Thereafter, the SPV will receive approximately 1% of the project distributions. Merrill Lynch received a $250,000 fee at closing. Assuming the Trigger Amount is reached at the end of three years, Merrill Lynch’s equity return is expected to be 22.5% inclusive of the fee and 20.0% inclusive of the fee.

The Nigeria project has issued three classes of stock, two preferred and one common. The SPV purchased the Preferred A Shares and the Common Shares. Enron owns the Preferred B shares. The summary below highlights the economic interests.
RAC Deal Approval Sheet

Deal Name: Nigeria Barges

Before and after the Trigger Amount, the table indicates the distribution rights of each shareholder class after the previous class of shareholder has received their percentage share of the distributions.

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Pre-Trigger Amount</th>
<th>Post-Trigger Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (SPV)</td>
<td>0.1% of DS*</td>
<td>0.1% of DS</td>
</tr>
<tr>
<td>Preferred B (Frees)</td>
<td>9.9% of DS after Prof. A</td>
<td>99.9% of DS after Prof. A</td>
</tr>
<tr>
<td>Common Stock (SPV)</td>
<td>100.0% of DS after Prof. A &amp; B</td>
<td>100.0% of DS after Prof. A &amp; B</td>
</tr>
</tbody>
</table>

*Distributions, which are limited to net income of the Nigerian company. The excess cash will be loaned to Enron.

Prior to reaching the Trigger Amount, the SPV will receive approximately 90% of the distributions via the Common Stock and 1% from the Preferred A stock. After the Trigger Amount, the Enron Preferred B Shares receive approximately 99.9% of the distributions and, after the allocation to the Preferred A and Preferred B, the Common Stock receives the residual distributions.

Enron will maintain control of the board of directors of the project company and the SPV.

TRANSACTION UPSIDES

None.

EXIT STRATEGY

NA

OTHER RAC COMMENTS:

None.
<table>
<thead>
<tr>
<th>APPROVALS</th>
<th>Name</th>
<th>Signature</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>RAC Management</td>
<td>Rickey Roy or David Gorte</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal</td>
<td>Yao Apeu</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Region Originator</td>
<td>Sani Law or Keith Sparks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EDCO Management</td>
<td>Larry Jones or Fred Raffy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Region Management</td>
<td>Rebecca McDonald or Jim Higham</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Baroe Capital Management</td>
<td>Andy Fuzow or Jeff McMahon</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMM Management</td>
<td>Jeffrey Skilling</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
RAC Deal Approval Sheet  
Deal Name: Nigeria Barges  

**Global Finance Summary (addendum to DASH)**

1. **Transaction Summary**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount ($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Deal/Project Capital Commitment</td>
<td></td>
</tr>
<tr>
<td>Less: Financings</td>
<td></td>
</tr>
<tr>
<td>Less: Syndications</td>
<td></td>
</tr>
<tr>
<td>Net Earned Investment</td>
<td>0</td>
</tr>
</tbody>
</table>

2. **Investment terms and pricing:**
   - Market
   - Above Market
   - Below Market
   Describe (if necessary):  

3. **Financing terms and pricing:**
   - Market
   - Above Market
   - Below Market
   Describe (if necessary):  

4. **Legal or practical liquidity restrictions:**
   - Unrestricted
   - Legally Restricted
   - Practically
   Describe (if necessary):  

5. **Any recourse to Enron (other than investment):**
   - Recourse
   - No Recourse
   Describe (if any):  

6a. **Business unit intent to syndicate:**
   - None
   - Partial
   - All
   Describe (if necessary):  

6b. **Intended Enron hold period:**  

6c. **Likely Syndication Market:**
   - Industry/Strategic Partner
   - Direct Private Equity
   - Capital Markets
   - JEDI 1
   - JEDI 2
   - JEMI 1 or 2
   - Conoco
   - Margaux

6d. **Is this a JEDI 2 “Qualified Investment”?**
   - Yes
   - No
   Describe (if necessary):  

**Global Finance Representative:**

<table>
<thead>
<tr>
<th>Signature</th>
<th>Name (Printed)</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rob Gay</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

C:\\DOCUMENTS\\ADMEND\\LOCALS\\Draft\Draft_Nigeria_meriti млк\(Accounting Comments)\doc  
Page 4  
ECp000054828
Dan O. Boyle
2000 Deals and Accomplishments

Nigerian Barges
Successfully closed $25 mn equity sale to ML on 12/30/00. Equity sold represents 90% of the 3.5 years of cash flow from the project, allowing ENE to retain upside relating to long term PPA. Equity purchased by a ML SPV, which was capitalized with $7.5 mn equity contribution and a $21 mn of seller financing. Negotiated the terms of equity and seller financing to achieve sale treatment, resulting in a before tax gain of $12.5 mn. ML stated intention (with ENE’s commitment) is to sell the equity position by 6/30/01 but business unit not in a position to market ML equity to third party investors by deadline. Negotiated and executed the sale of the ML equity to LJM, fulfilling obligation to ML. LJM equity subsequently sold to AES on 9/8/00. Eric Boyd, Paul Palmer, Ace Roman, Keith Sparka, Ed Rosenthal and Martha Brockley were instrumental in closing the various stages of the transaction.

Project MacArthur
Successfully resound the FAS 125 transaction (originally closed in 3/99) via documented auction process. At the time of the bid, it was the intent of ENE APACHI to sell its investment in the project to its partner (Tonnes) prior to the funding of the unwind. Subsequent to the submission of the bid, APACHI was recognized and the sale to Tonnes fell through. Given the sequence of events, it was no longer possible to keep the asset from touching the ENE balance sheet, however we identified a strategy to sell the asset to Whiting and meet the FAS 125 guidelines. Unfortunately, Whiting was fully utilized at quarter end and the asset was placed on balance sheet. The day before the release of the quarter 10Q, AES raised an issue relating to the asset valuation, as determined by the independent appraisal, and the bid submitted by ENE APACHI. Worked with the independent appraiser to resolve this issue in a matter of hours, avoiding a write off of $1.5 mn and the possible reversal of the original gain. Barry Schoap, Rodney Faldyn, Steve Xenigan and brass Biskon were clearly involved in the transaction.

Blue Dog
Worked successfully with EBACC, LJM and GE to close the purchase of two EA6 turbines over a ten-day period. The transaction gives EE&CC a six month option (11/1/00) to purchase the turbines, maintaining maximum flexibility for the turbines ultimate disposition. Worked closely with accounting, legal and ENE North America to negotiate appropriate assignment provisions in light of conflicting positions of GE and LJM. Successfully originated “Agency and Development” concept to accommodate “market” liquidated damages and data from the project, allowing ENE to maintain option dates for purchase of EA6s. Coordinated with Lisa Bills to accommodate schedule for take out of these turbines along with those in the West LB structure. Big team effort involving Treve Randolf, Ross Engelkof, Lisa Bills, Rodney Faldyn, Ryan Starke, Michael Hinds, Ace Romanas well as EBACC team.

Dragan
Participated in the early stages of the joint venture proposal with Moorehead to purchase power generation assets of Sikka Asia and the contribution of Asian power generation assets of JF partners to establish a pre-Asian IPP with financial strength necessary to aggregate additional Asian power assets. Worked closely with Jeremy Tharp to evaluate capital requirements and develop alternative funding structures as the transaction evolved. Project started as an evaluation of all assets in APACHI (Ghana) but the focus has narrowed to the four operating, cash generating assets in the APACHI portfolio. A very significant time commitment, functioning primarily as the liaison between the region and head office, including presentations to senior management of APACHI, working with ML and coordination of the engagement of potential lenders (ABN and CFSR). Removed from the project in May with move to Corporate Finance. Erics withdraw from project in 10/00.
SK Euron
Project under development to monetize $278 m equity investment in SK Euron joint venture and capture CTA gain. Objective is to extract as much cash as possible while providing the joint venture with a two-year window to develop the business sufficiently to support an IPO. Additionally, seek to layer a portion of the Korean credit risk via the monetization. Initiated meetings with tax and accounting to discuss conceptual alternatives for the structure in light of the significant tax and trapped cash issues. Next step hinges on the development of a financial model, approved by APACHI and ENE senior management, which accurately represents the current value and cash generating capacity of the SK Euron joint venture. Removed from project in May with move to Corporate Finance.

Osprey
Team leader responsible for successful closing of $1.1 billion follow on offering for Osprey. Transaction incorporated the sale of additional $30 mn of equity as well as the marketing and sale of $750 mn, 7.3975% and $135 million, 6.775% senior secured notes due 2003. DLJ (A tranche) and Deutsche Bank (E tranche) were joint book running managers with CSFB, Lehman and UBS serving as co-managers. Responsible for negotiating fees, drafting revisions to offering memo, developing and participating in U.S. and European road show, resolving structural issues primarily related to A tranche, finalizing pricing and execution documents. Primary challenge related to incorporating the E tranche into the structure and delaying DLJ (which was acquired by CSFB during the transaction) and Deutsche Bank. Pricing was very tight to the existing Osprey notes with a new issue premium of approximately 5 bpts and virtually no additional premium for the E tranche.

Worked with Ryan Storch to develop structure alternative that would permanently avoid expensing all the deal related fees. Due to last minute changes in the documents, the alternative could not provide all the intended benefit, however, our position with AA was modified and we were successful achieving half the original intended benefit. Total transaction costs of $163 mn. Of this amount, $93 mn relates to “opportunity costs” of the FX hedge. These costs will not be expensed but will be absorbed by the future appreciation of the ENE stock held by Conder. The balance of the deal fees, $7.5 mn, will be amortized over the life of the transaction.

Transaction provided critical liquidity to the Osprey structure and expanded Euron’s funding base by bringing in new European investors. The offering was the last structured transaction off the DLJ capital markets desk and one of the first BNM rated, structured transactions in the Euro market. The follow on offering was preceded by indepth discussions with Deutsche Bank regarding a structural enhancement that would have taken the follow on offering off ENE’s credit by means of an equity derivative. Very strong team effort including Trevor Randolf, Ryan Storch, Felix Chen, Guo Karravassos, Anne Marie Tiller, Brent Vanacorens.

EE&CC
Served at the BGF liaison with EE&CC and RAC following Don Herrick’s move to Networks. In addition to Blue Dog which is discussed above, reviewed and coordinated the DASH/FAH approvals for Blue Girl, Bethlehem Steel, EPC #65, EPC #64, Wolf Hollow and the Nigerian EPC. Worked with Gordon McGillic to facilitate or evaluate several EE&CC projects with LJM or into Conder.

Tammy
Coordinated one phase of Project Tammy. Initiated discussions with Cline regarding the sale of the minority interest in the spin-off. Coordinated the contributions of the ERIC option to Tammy and reviewed the ENE debt portfolio to identify appropriate debt issues to use in the structure in light of Project Summer. Inherited the project from Charlie and subsequently returned to Charlie for execution.
Campaign 2K

As part of the year-end monetization effort to generate funds flow, coordinated the effort to evaluate the following assets: ERSG, Hainan island cash and receivables, Active Power, Catalysts, Cupel, McQuarrie, and Avici, Limited Partnership interest. Currently in the process of structuring $100 million FAS 125 with Barclays relating to our equity investments in Catalysts and Avici. Closing scheduled for 12/31/00.

Working with Ann Yange to close $100-200 million FAS 122 prior to yearend with CIBC relating to our L.P. interest in Euro Networks Partners. In the event that the Network partnership does not close prior to yearend, we are developing a structure to create a "synthetic" partnership that will allow the FAS 122 transaction to proceed, achieving income statement and balance sheet objectives.

Analyst and Associate Recruiting

Finance Team leader Paula Heiner responsible for analyst recruiting at Texas A&M. Participated in four organizational meetings, recruiting training, campus visits with key faculty and staff as well as on campus recruiting. In addition, participated in on campus interviews at Thunderbird, our Super Saturday dinner and a dinner in College Station to cultivate a relationship with the students that were offered positions.

Confidential Treatment Requested
# LJM Investments

## LJM Cayman - Benefit Summary

<table>
<thead>
<tr>
<th></th>
<th>Funds Flow ($ in millions)</th>
<th>Earnings ($ in millions)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct</td>
<td>Indirect</td>
<td>Total</td>
</tr>
<tr>
<td>LJM Cayman</td>
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<tr>
<td>Colaba</td>
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<td>$12.3</td>
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<td>BlythmanNet Derivatives</td>
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<tr>
<td>Oxygy</td>
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<td>1,495.0</td>
<td>1,510.0</td>
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<td>ENI Promissory Note</td>
<td>66.0</td>
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<tr>
<td>Second LJM Cayman</td>
<td>91.3</td>
<td>1,749.5</td>
<td>1,840.8</td>
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Confidential Treatment Requested

MK009293
# LJM Investments

## LJM2 - Benefit Summary

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<tr>
<th>Investment</th>
<th>Initial</th>
<th>Total</th>
<th>Initial</th>
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</thead>
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<td>S &amp; L Acquisitions**</td>
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</table>

**Total: $5,657.8**

---

### Notes:
1. LJM2's ability to purchase the following assets is based on the 1995 Nova Sancyu, DNA CLO debt and equity, EXX and Floto.
2. The initial share cost for securities in excess of a 15% return on LJM2's capital allowed the business unit to show no less than on the Merlin transaction. Without the sharing ratio, the business unit would have suffered a $19 million loss.
3. A $174.2 million was the total fund for the Merlin transaction (including debt and equity), which was made feasible by LJM2's purchase of the equity and the bridge piece.
4. LJM2's purchase of Hark Capital's equity investment facilitated the extension of the interest structure.
5. Earnings to Floto include $15 million gain on sale, $17.5 million of interest received on self-financing, and $21.7 million of profit-sharing when the fibers were sold and LJM2 received its agreed-upon return.
6. Merrill Lynch purchased Biogenes from Enron with the understanding that they would be taken out within six months. LJM2 purchased Merrill's interest in the relationship and as an alternative to Enron buying it back and revamping $12.0 million of earnings at $28.5 million of fund flow taken on the original transaction with Merrill in 1995. $28.5 million of earnings were instead earned on self-financing.
# LJM Investments

## Overall - Benefit Summary

<table>
<thead>
<tr>
<th></th>
<th>Direct</th>
<th>Indirect</th>
<th>Total</th>
<th>Direct</th>
<th>Indirect</th>
<th>Total</th>
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<td>LJM Cayman</td>
<td>$91.3</td>
<td>$1,740.5</td>
<td>$1,831.8</td>
<td>$1.8</td>
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<td>1,483.1</td>
<td>1,483.4</td>
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<tr>
<td><strong>Total</strong></td>
<td>$95.6</td>
<td>$5,224.6</td>
<td>$5,320.2</td>
<td>$17.4</td>
<td>$1,042.2</td>
<td>$1,059.6</td>
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</table>

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Definitions

Direct Funds Flow- Usually the direct investment made by LJM. For example, LJM invested $30 million of equity in the Backbone fibers or LJM purchased the Catalytica 125 equity for $1.8 million.

Indirect Funds Flow- Any other funds flow that resulted from LJM's direct investment. For example, LJM's Catalytica 125 equity was joined with $88.2 million of debt so Enron received proceeds (total funds flow) of $60 million, but only a portion of that is directly attributable to LJM.

Direct Earnings- Direct earnings to Enron including gain on sale, interest income received on seller financing, etc. For example, Backbone generated a gain on sale of $35 million. The seller financing produced $2.7 million of interest income. For Raptor, direct earnings is from swaps that have settled.

Indirect Earnings- Usually earnings taken in previous periods that Enron would not have to reverse because a transaction with LJM preserved them. Also includes Enron's participation in upside sharing when the asset is sold by LJM. For example, the sale by LJM of the Backbone fibers to a 3rd party generated $21.7 million of upside for Enron (the value above and beyond LJM's agreed upon return). For Raptor, indirect earnings are from unsettled swaps.
**LJM Investments**

Deal Benefit Summary - Alphabetical

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Details</th>
</tr>
</thead>
</table>
| Avici | - Speed of execution (two weeks)  
- No other 3rd party would purchase 125 equity on a public security (capped upside, all downside) |
| Backbone | - Created funds flow  
- Generated earnings to reach EBS's earnings target  
- Provided upside to EBS on ultimate sale to 3rd party |
| BargeCo | - Preserved Merrill Lynch relationship by taking them out  
- Unless Euron could find another 3rd party buyer for Nigerian barges, Euron would have reversed earnings from sale to Merrill |
| Catelyst | - Speed of execution (two weeks)  
- No other 3rd party would purchase 125 equity on a public security (capped upside, all downside) |
| Coyote Springs | - Facilitated Euron's deal to sell a turbine and development project to Avista  
- Brought forward earnings to time of sale rather than over time |
| Cuaba | - Decommission the power plant and generated mark-to-market earnings on the gas supply contract  
- LJM agreed to an extension without a step-up in return, saving ESA money and allowing more time for ESA to sell Cuaba |
| EE&CC Turbines | - Kept a turbine off Euron's balance sheet and allowed Euron the optionality to buy it back  
- LJM extended the option exercise period to give Euron further flexibility even though the turbine's value was decreasing |
**LJM Investments**

**Deal Benefit Summary - Alphabetical**

EEX (Bob West Treasure)
- Allowed ENA to mark-to-market gains on gas prepay
- Provided time to refinance the debt and generate further gains

ENA CLO Debt & Equity (Merlin)
- LJM was "the plug" for the BB notes that couldn't be sold
- LJM shared the upside on the equity tranche with ENA, allowing ENA to avoid an earnings loss on the transaction

LJM Cayman Formation
- Funds flow from the promissory note and unlocking of increased value of Enron shares

Margaux
- Deconsolidated Sarlux, Traka, Nova Sarzyna

NetWorks
- Deconsolidated the pulp & paper business
- Generated $100 million of earnings

Nova Sarzyna
- Deconsolidated the power plant until Margaux closed

Oxprey
- LJM provided cash and certainty of execution while marketing continued with other 3rd parties

Pluto (MEGS)
- Allowed ENA to mark-to-market earnings on the gas gathering contract
- No other 3rd party would take the Mariner exposure in the timeframe that LJM did
# LJM Investments

## Deal Benefit Summary - Alphabetical

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Avoided realized losses of $75 million and unrealized losses of $443 million on Enron's volatile investments</td>
</tr>
<tr>
<td>2</td>
<td>LJM extremely accommodating on derivative approval</td>
</tr>
<tr>
<td>3 (TNPC)</td>
<td>Avoided unrealized losses of $196 million on Enron's total return swap exposure in Hawaii 125-O</td>
</tr>
<tr>
<td>Rawhide</td>
<td>LJM purchased Hurch's equity, facilitating Rawhide's extension (Hurch needed out and would not agree to extension)</td>
</tr>
<tr>
<td>Resco</td>
<td>Deconsolidated EES's residential business while it gained critical mass</td>
</tr>
<tr>
<td>RhythmsNet</td>
<td>Avoided consolidation of negative earnings onto Enron's income statement</td>
</tr>
<tr>
<td>SE Acquisition Loan</td>
<td>LJM was the only counterparty available for guaranteed execution and confidentiality</td>
</tr>
<tr>
<td>TNPC</td>
<td>Provided additional liquidity to LJM to make Enron investments and generated interest income for Enron</td>
</tr>
<tr>
<td>Yosemite</td>
<td>LJM provided capital prior to the IPO</td>
</tr>
<tr>
<td></td>
<td>LJM brought in additional capital by bringing in co-investors</td>
</tr>
<tr>
<td></td>
<td>Speed of execution (deal that had to close by year-end)</td>
</tr>
<tr>
<td></td>
<td>Provided additional time to find permanent 3rd party buyer for the equity</td>
</tr>
</tbody>
</table>
Facsimile Cover Sheet

To:  
Company:  
Phone:  
Fax:  

From: Andrew S. Fastow  
Company: LJM2 Co-Investment, L.P.  
Phone:  
Fax:  

Date: 5/2/01  
Pages including this cover page: 4

Comments:

LJM2 purchased and sold the interest.

LJM 2 purchased 50% of ERASOE LLC (Merrill Lynch SPV).

All risks + warranties in the private resale agreements between LJM + Merrill and between LJM + AES (Merrill/Jefferies) were related to the interest of ERASOE.

All Risks

FROM:

Andrew S. Fastow  
LJM2 Co-Investment, L.P.
SCHEDULE 1

PARTICULARS OF THE COMPANY

Name: Enum Nigeria Barge Ltd.
Registered office: 35 Moloney Street, Lagos, Nigeria
Registered number: RC 366,057
Date and place of incorporation: 7th October 1999, Abuja, Nigeria

Directors: James V. Derrick
           James A. Ilugbe
           Rebecca A. McDonald
           Cassandra R. Schultz
           Obanya Oyebode

Secretary: Obanya Oyebode

Authorised share capital: N10,000,000

Issued share capital:

Preferred A shares: 1,000 of N1,000 each
Preferred B shares: 4,000 of N1,000 each
Ordinary shares: 1,000 of N1,000 each.
SPV Structure

ENE

Enron Nigeria Power Holding Ltd.

Enron Nigeria Barge Holding Ltd.

Enron Nigeria Barge Ltd.

Merrill Lynch

SPV

Debt (Enron Seller Finance)

$21 MM, 75%

Equity (Merrill Lynch)

$7 MM, 25%

Preferred A and Common Shares

$28 MM

Confidential Treatment Requested
Nigerian Barge Structure

(1) Assets (bargers) are sold to Eneor Nigeria Barge Ltd. Cash to finance the purchase is passed down from Corp. and relayed to ENE BargeCo. These funds will either remain there or be transferred back up to the corporate level to cover cash outlay.

(2) PPA in between Eneor Nigeria Power Holding Ltd. and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barges activities) are assigned to Eneor Nigeria Barge Holding Ltd. which in turn assigns the rights to Eneor Nigeria Barge Ltd.

(3) Eneor Nigeria Barge Ltd. A & B Preferred and Common shares are issued to Eneor Nigeria Barge Holding Ltd.

(4) Preferred A Shares and Common are sold from Eneor Nigeria Barge Holding Ltd. to a third party who assumes some equity risk involved with the Eneor Nigeria Barge Ltd.

LJMM028785

Confidential Treatment Requested
April 24, 2002

BY HAND

The Honorable Carl Levin
Chairman
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510-6250

Dear Mr. Chairman:

I write on behalf of Merrill Lynch in response to your April 10, 2002 letter requesting information and documents relating to Merrill Lynch's dealings with Enron Corporation. Merrill Lynch appreciates this opportunity, and is producing the requested materials to the Subcommittee on a voluntary basis.

Merrill Lynch has invested significant resources in reviewing currently available records and information to respond to the Subcommittee’s requests. The enclosed materials (bates stamped MS 00001 through MS 21427) represent the majority, or entirety, of materials likely to be identified as responsive to a number of the requests. Given time constraints and other limitations noted below, however, Merrill Lynch is continuing the process of identifying and collecting additional responsive materials and will produce such materials to the Subcommittee on a rolling basis. In particular, damage caused by the September 11 terrorist attacks, as well as technical limitations, has delayed full retrieval of archived e-mail communications. Access to a large volume of pre-September 11 e-mail communications, for example, is simply not possible at this time.

As requested in your April 10 letter, attached hereto as Exhibit A is a chart detailing Enron-related transactions responsive to your requests. Exhibit A provides information regarding specific advisory, capital markets, credit facility and proprietary transactions, and also includes a general description of the various types of derivatives trades Merrill Lynch engaged in with Enron-related entities.

Finally, we note that we have had several helpful telephone conversations with Bob Roach to clarify the scope of some of the requests in order to provide the Subcommittee with the most pertinent information at the outset.

Merrill Lynch’s initial responses to your specific inquiries are set forth below.

Request #1

Enclosed herewith are materials (bates stamped MS 00001 through MS 04970) responsive to Request #1. Merrill Lynch is continuing its efforts to identify and collect any additional responsive materials, and will produce any such materials on a rolling basis.

Permanent Subcommittee on Investigations

EXHIBIT #268

NYA 231836.2
Requests #2 and #3

Merrill Lynch is in the process of identifying and collecting materials responsive to Requests #2 and #3, and will produce such materials as they become available.

Request #4

Pursuant to our conversations with Bob Roach, enclosed herewith are materials (bates stamped MS 04970 through MS 06646, and MS 07273 through MS 21269) responsive to Request #4 relating to EBARGE, LLC and the LJM partnerships.

Request #5

Documents responsive to Request #5 are enclosed herewith within the materials provided in response to Request #4 (bates range MS 07273 through MS 21269).

Request #6

Any available documents responsive to Request #6 are enclosed herewith within the materials provided in response to Request #6 (bates range MS 07273 through MS 21269).

Request #7

Documents responsive to Request #7 are enclosed herewith within the materials provided in response to Request #4 (bates range MS 07273 through MS 21269). Merrill Lynch is continuing its efforts to identify and collect any additional responsive materials, and will produce any such materials on a rolling basis.

Request #8

Enclosed herewith are materials (bates stamped MS 06647 through MS 07272) responsive to Request #8. Pursuant to our discussions with Bob Roach, these materials have been culled from all available Enron-related files maintained by or on behalf of Robert Furst, Schuyler Tilney, Louis Chiavacci, and Robert Jones (relationship manager for Enron until 1998). We believe, based upon a comparison of these responsive documents with those otherwise available concerning LJM, EBARGE and one additional Enron-related transaction, that an omnibus search of all transaction files would be unlikely to retrieve any significant amount of additional substantive documents responsive to this request.

Requests #9 and #10

Documents responsive to Requests #9 and #10 are enclosed herewith within materials provided in response to Request #4 (bates range MS 04970 through MS 06646).

Request #11

Documents responsive to Request #11 are enclosed herewith within materials provided in response to Request #4 (bates range MS 07273 through MS 21269). Merrill Lynch is continuing its efforts to identify and collect any additional responsive materials, and will produce any such materials on a rolling basis.
The Honorable Carl Levin  
April 24, 2002

Request #12
Merrill Lynch is in the process of identifying and collecting materials responsive to Request #12, and will produce such materials as they become available.

Finally, you have noted that the Subcommittee staff may seek to interview Merrill Lynch personnel after reviewing the enclosed materials. Merrill Lynch will urge both current and former employees to cooperate fully with the Subcommittee. Please do not hesitate to contact me should you wish to conduct such interviews, or should you have any questions or further requests.

Respectfully,

[Signature]

James B. Weidner

enclosures
**MERRILL LYNCH TRANSACTIONS WITH ENRON-RELATED ENTITIES (1997 TO PRESENT)**

### I. ADVISORY

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<tr>
<th>ENRON-RELATED ENTITY</th>
<th>DATE OF CONTRACT FOR SERVICES</th>
<th>DATE OF TRANSACTION</th>
<th>DESCRIPTION</th>
<th>MERRILL LYNCH ROLE</th>
<th>FEES</th>
</tr>
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<tbody>
<tr>
<td>Ancon Corporation</td>
<td>May 6, 1999</td>
<td>September 24, 1999</td>
<td>Acquisition of AMX Aqua Management (a private Brazilian water company) for $53.6 million</td>
<td>Financial advisor</td>
<td>$1,000,000</td>
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### II. CAPITAL MARKETS (DEBT AND EQUITY OFFERINGS)

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<tbody>
<tr>
<td>Enron Corporation</td>
<td>January 13, 1997</td>
<td>January 13, 1997</td>
<td>$150 million offering of 8.125% Perpetual Trust Originated Preferred Securities</td>
<td>Lead manager</td>
<td>$852,000</td>
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<td>Enron Corporation</td>
<td>November 6, 1997</td>
<td>November 6, 1997</td>
<td>$300 million offering of floating rate Remarkedeted Reset Notes due November 15, 2037</td>
<td>Sole manager</td>
<td>$159,745</td>
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<td>Enron Corporation</td>
<td>May 5, 1998</td>
<td>May 5, 1998</td>
<td>$750 million offering of 15 million shares of common stock at $50 per share</td>
<td>Co-manager (Lead manager Credit Suisse First Boston)</td>
<td>$2,441,000</td>
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<td>Enron Corporation</td>
<td>September 28, 1998</td>
<td>September 28, 1998</td>
<td>$250 million offering of floating rate notes due March 30, 2000</td>
<td>Lead manager</td>
<td>$223,000</td>
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<td>Enron Corporation</td>
<td>November 12, 1998</td>
<td>November 12, 1998</td>
<td>$49 million private placement of Medium-Term Structured Enhanced Return Trust Debt Units</td>
<td>Placement agent</td>
<td>$245,000</td>
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<td>Enron Corporation</td>
<td>February 11, 1999</td>
<td>February 11, 1999</td>
<td>$752 million offering of 12 million shares of common stock at $62.6875 per share</td>
<td>Co-manager (Lead managers Credit Suisse First Boston and Donaldson Lufkin &amp; Jenrette)</td>
<td>$1,952,000</td>
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</table>
| Enron Corporation    | November 29, 1999                                    | November 29, 1999 | $10 billion offering of Euro Medium Term Notes 8.58%, due November 30, 2000 | Lead arranger and sole book runner | $80,000
<table>
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<th>Enron-Related Entity</th>
<th>Date of Underwriting, Purchase, or Similar Agreement</th>
<th>Date of Filing</th>
<th>Description</th>
<th>Merrill Lynch Role</th>
<th>Fees</th>
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<td>December 29, 1998</td>
<td>December 29, 1998</td>
<td>$411.4 million private placement of PR-B Interest Owner Trust Interests Notes</td>
<td>Placement agent</td>
<td>$146,500 (an additional $252,078 received in Jan. 2000 in connection with rollover)</td>
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<td>Enron Corporation</td>
<td>December 29, 1998</td>
<td>December 29, 1998</td>
<td>$25.8 million private placement of WR-B Interest Owner Trust Interests Notes</td>
<td>Placement agent</td>
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<td>Enron Corporation</td>
<td>April 28, 2000</td>
<td>April 28, 2000</td>
<td>$20 billion offering of Euro Medium Term Notes 0.51% due May 2, 2001</td>
<td>Lead arranger and sole book runner</td>
<td>$246,000</td>
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<td>Enron Corporation</td>
<td>May 16, 2000</td>
<td>May 16, 2000</td>
<td>$20 billion offering of Euro Medium Term Notes 0.48% due May 15, 2001</td>
<td>Lead arranger and sole book runner</td>
<td>$226,000</td>
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<td>Enron Corporation</td>
<td>May 17, 2001</td>
<td>May 17, 2001</td>
<td>$25 billion offering of Euro Medium Term Notes 0.532% due May 15, 2002</td>
<td>Lead arranger and sole book runner</td>
<td>$257,000</td>
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<td>Enron Corporation</td>
<td>June 14, 2001</td>
<td>June 14, 2001</td>
<td>$40 billion offering of Euro Medium Term Notes (Enron North America) 30-month Yen LIBOR + 62 basis points due June 18, 2003</td>
<td>Lead arranger and sole book runner</td>
<td>$830,000</td>
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<tr>
<td>ENRON-RELATED ENTITY</td>
<td>DATE OF UNDERWRITING, PURCHASE, OR SIMILAR AGREEMENT</td>
<td>DATE OF OFFERING</td>
<td>DESCRIPTION</td>
<td>MERRILL LYNCH ROLE</td>
<td>FEES</td>
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<tr>
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<td>------------------------------------------------------</td>
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</tr>
<tr>
<td>Enron Corporation</td>
<td>June 15, 2001</td>
<td>June 14, 2001</td>
<td>$10 billion offering of Euro Medium Term Notes (Enron North America) 0.770% due June 14, 2002</td>
<td>Lead arranger and sole book runner</td>
<td>$708,000</td>
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<tr>
<td>Enron Corporation</td>
<td>June 14, 2001</td>
<td>June 14, 2001</td>
<td>$10 billion offering of Euro Medium Term Notes (Enron North America) 0.970% due June 18, 2004</td>
<td>Lead arranger and sole book runner</td>
<td>$95,000</td>
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<tr>
<td>Enron Corporation</td>
<td>June 22, 2001</td>
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<td>$20 billion offering of Euro Medium Term Notes (Enron North America) 0.493% due June 13, 2002</td>
<td>Lead arranger and sole book runner</td>
<td>$154,000</td>
</tr>
<tr>
<td>Azarix Corporation</td>
<td>June 9, 1999</td>
<td>June 9, 1999</td>
<td>$695 million initial public offering of 36.6 million shares at $15 per share</td>
<td>Lead manager</td>
<td>$20,537,000</td>
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<tr>
<td>Azarix Corporation</td>
<td>February 11, 2000</td>
<td>February 11, 2000</td>
<td>$200 million offering of high-yield bonds (10.75% senior notes due February 15, 2010; $240 million, 10% million British pounds 10.75% senior notes due February 15, 2007</td>
<td>Lead manager</td>
<td>$3,552,000</td>
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<tr>
<td>Enron Oil &amp; Gas</td>
<td>November 25, 1997</td>
<td>November 25, 1997</td>
<td>$100 million offering of 6.5% notes due 2007</td>
<td>Co-manager (Lead manager Goldman Sachs)</td>
<td>$87,000</td>
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<tr>
<td>ENRON-RELATED ENTITY</td>
<td>DATE OF UNDERWRITING PURCHASE OR SIMILAR AGREEMENT</td>
<td>DATE OF OFFERING</td>
<td>DESCRIPTION</td>
<td>MERRILL LYNCH ROLE</td>
<td>FEES</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------------------------------------------------</td>
<td>-----------------</td>
<td>-------------</td>
<td>---------------------</td>
<td>------</td>
</tr>
<tr>
<td>Enron Oil &amp; Gas</td>
<td>August 10, 1999</td>
<td>August 10, 1999</td>
<td>$689.75 million offering of 31 million shares of common stock at $22.25 per share</td>
<td>Co-manager (Lead manager Goldman Sachs)</td>
<td>$2,272,000</td>
</tr>
<tr>
<td>Enron Teesside Operations Ltd.</td>
<td>May 1999</td>
<td>August 15, 1999</td>
<td>$116 million private placement of debt securities</td>
<td>Placement agent</td>
<td>$2,614,000</td>
</tr>
<tr>
<td>Sutton Bridge Financing Limited</td>
<td>May 30, 1997</td>
<td>May 30, 1997</td>
<td>$150 million offering of 7.97% guaranteed secured bonds due 2022; 195 million British pounds 8.625% guaranteed secured bonds due 2022</td>
<td>Lead manager</td>
<td>$1,170,000</td>
</tr>
<tr>
<td>LBM2 Co-Investment, L.P.</td>
<td>September 16, 1999</td>
<td>December 15, 1999 (initial closing) (three additional closings between February and April 2000)</td>
<td>Merrill Lynch raised approximately $265 million of $390 million private equity fund</td>
<td>Placement agent</td>
<td>$3,045,000</td>
</tr>
</tbody>
</table>
### III. CREDIT FACILITIES

<table>
<thead>
<tr>
<th>ENRON-RELATED ENTITY</th>
<th>DATE OF COMMITMENT</th>
<th>DESCRIPTION</th>
<th>MERRILL/LYNCH ROLE</th>
<th>FEES/INTEREST LOSSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enron Corporation</td>
<td>May 18, 2000</td>
<td>Merrill Lynch Bank U.S.A. commitment of $50 million to (1) $1.25 billion five-year senior unsecured credit facility, and (2) $1.75 billion 364-day senior unsecured revolving credit facility</td>
<td>Syndicate member (Agent banks: Salomon Smith Barney and Chase Securities, Inc.)</td>
<td>$25,000 (fee); LIBOR plus 45 basis points per annum (interest)</td>
</tr>
<tr>
<td>Enron Corporation</td>
<td>May 14, 2001</td>
<td>Merrill Lynch Bank U.S.A. commitment of $50 million to (1) May 2000 $1.25 billion five-year senior unsecured credit facility, (2) renewals of May 2000 $1.75 billion 364-day senior unsecured revolving credit facility, and (3) two-year letter of credit facility.</td>
<td>Syndicate member (Agent banks: Salomon Smith Barney and JPMorgan)</td>
<td>$7,000 (fee); LIBOR plus 45 basis points per annum (interest); &lt;53.6 million (loss exposure)</td>
</tr>
<tr>
<td>Anarita Corporation</td>
<td>September 29, 1999</td>
<td>Merrill Lynch commitment of $25 million to $100 million loan facility (replaced February 2000)</td>
<td>Syndicate member (Agent bank: Chase Bank of Texas, NA)</td>
<td>$537,250 (fee); LIBOR plus 150 basis points per annum (interest)</td>
</tr>
<tr>
<td>Zephyrus Investments, LLC</td>
<td>March 31, 2001</td>
<td>Merrill Lynch commitment of $40 million to $482 million senior secured five-year non-amortizing loan</td>
<td>Syndicate member (Agent bank: JPMorgan Chase)</td>
<td>$160,000 (fee); LIBOR plus 102 basis points per annum (interest); &lt;322.5 million (loss exposure)</td>
</tr>
</tbody>
</table>

For each credit facility, the listed interest rate reflects the generally applicable rate as of the commitment date. The terms of each credit facility called for modifications to the applicable rate upon certain events, including, for example, a change in the debtor's credit rating.
<table>
<thead>
<tr>
<th>ENRON-RELATED ENTITY</th>
<th>DATE OF COMMITMENT</th>
<th>DESCRIPTION</th>
<th>MERRILL LYNCH ROLE</th>
<th>FEES/INTEREST LOSSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>LJM2 Co-Investment, L.P.</td>
<td>July 26, 2000</td>
<td>Merrill Lynch Capital Corporation commitment of $10 million to $85 million 364-day unsecured revolving credit facility (expired November 2000)</td>
<td>Syndicate member (Agent bank – Chase Securities, Inc.)</td>
<td>$35,000 (fee); LIBOR plus 300 basis points per annum (interest)</td>
</tr>
<tr>
<td>LJM2 Co-Investment, L.P.</td>
<td>November 13, 2000</td>
<td>Merrill Lynch Capital Corporation commitment of $16 million to $170 million five-year senior unsecured revolving credit facility (replaced commitment in July 2000 facility)</td>
<td>Syndicate member (Agent bank – Dresdner Bank AG)</td>
<td>$50,000 (fee); LIBOR plus 300 basis points per annum (interest); &lt;5.5 million&gt; (loss exposure)</td>
</tr>
</tbody>
</table>

**IV. PROPRIETARY INVESTMENTS**

<table>
<thead>
<tr>
<th>ENRON-RELATED ENTITY</th>
<th>DATE OF INVESTMENT</th>
<th>DESCRIPTION</th>
<th>MERRILL LYNCH ROLE</th>
<th>FEES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enron Nigeria Urge Holding, Ltd.</td>
<td>December 29, 1999</td>
<td>Merrill Lynch purchase of shares of Enron Nigeria Urgent, Ltd. for $7 million</td>
<td>Principal</td>
<td>$210,000 (advisory fee); $235,000 (gain realized through June 2000 sales of interest)</td>
</tr>
<tr>
<td>LJM2 Co-Investment, L.P.</td>
<td>December 21, 1999</td>
<td>Merrill Lynch proprietary investment of $5 million</td>
<td>Limited partner</td>
<td>N/A</td>
</tr>
<tr>
<td>LJM2 Co-Investment, L.P.</td>
<td>April 5, 2000</td>
<td>Investment of $7.6 million by 97 Merrill Lynch employees</td>
<td>Limited partner</td>
<td>N/A</td>
</tr>
</tbody>
</table>
V. DERIVATIVES TRADING

<table>
<thead>
<tr>
<th>ENRON-RELATED ENTITY</th>
<th>DATES OF TRANSACTIONS</th>
<th>DESCRIPTION</th>
<th>MERILL LYNCH ROLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enron North America Corporation</td>
<td>June 2000 - November 2001</td>
<td>Interest rate swaps</td>
<td>Counterparty</td>
</tr>
<tr>
<td>Enron North America Corporation</td>
<td>Mid-1999 – November 2001</td>
<td>Spot and forward foreign exchange transactions</td>
<td>Counterparty</td>
</tr>
<tr>
<td>Enron Credit Derivatives</td>
<td>March 2000 – October 2001</td>
<td>Credit default swaps and credit default basket transactions</td>
<td>Counterparty</td>
</tr>
<tr>
<td>Enron North America Corporation</td>
<td>June 2000 – October 2001</td>
<td>Equity swaps</td>
<td>Counterparty</td>
</tr>
</tbody>
</table>
August 16, 2002

Mr. G. Kelly Martin  
Senior Vice President  
Merrill Lynch, Pierce, Fenner & Smith, Inc.  
4 World Financial Center  
250 Vesey Street, 32nd Floor  
New York, NY 10080

Dear Mr. Martin:

Thank you for appearing before the Senate Permanent Subcommittee on Investigations at its July 30, 2002, hearing. In the course of questioning, you agreed to provide additional information with respect to several matters. In addition, the Subcommittee has a number of follow-up questions that it requests you answer. Please provide your responses in writing by August 30, 2002. If Merrill Lynch possesses documents or other materials relevant to the issues raised below that it has not already produced, please provide them to the Subcommittee with your responses.

1. Why did Merrill Lynch redomicile Ebarge, LLC in the Cayman Islands?

2. Did Ebarge, LLC ever pay any taxes to the United States? If so, how much did it pay? Did it ever pay taxes to any other jurisdiction? If so, how much did it pay and to whom?

3. Did Merrill Lynch conduct a review of the conference call involving, inter alia, Daniel Bayly of Merrill Lynch and Andrew Paslow of Esso that occurred in mid-to-late December 1999 relating to the Nigerian barge transaction? If so, please provide the results of that review and all documents relating to the conference call and Merrill Lynch’s review of that call. Please include all documents containing communications to or from Mr. Bayly relating to this conference call.

4. In his deposition, Mr. Bayly described a meeting involving, inter alia, Tom Davis, Mr. Bayly, Kathy Zrike, Kevin Cox and Mark Devito that took place in Mr. Davis’ office regarding the Nigerian barge transaction. Please provide a list of the participants in that meeting, Merrill Lynch’s description of the substance of that meeting, and all documents containing any reference to the substance of that meeting, including any communications about this meeting by or between Mr. Davis, Mr. Bayly, Ms. Zrike, Mr. Cox or Mr. Devito.

5. Did Merrill Lynch ever investigate whether there were communications in 1998 between
anyone at Merrill Lynch and John Olson regarding (a) Enron’s complaints about his analysis of Enron stock; (b) actions Enron had taken in whole or in part as a result of his analysis; (c) the subject matter of the April 16, 1998, memorandum from Rick Gordon and Schuyler Tilley to Herb Allison; (d) the fact that Merrill Lynch was denied participation (or almost denied participation) in a lucrative deal with Enron solely or in part because of his research coverage of Enron; or (e) steps that needed to be taken to make his analysis of Enron stock more supportive of Enron? Did any Merrill Lynch employee superior or equal to Mr. Olson in rank speak or communicate with Mr. Olson regarding any of these issues? If so, please identify the parties to and the substance of those communications?

6. What was the substance of the call(s) that took place between Mr. Allison and Kenneth Lay and/or Jeffrey Skilling relating to the April 18, 1998, memorandum from Mr. Gordon and Mr. Tilley to Mr. Allison?

7. Why did Mr. Olson stop working for Merrill Lynch in 1998? Was his departure in any way related to the subject matter of the April 18, 1998, memorandum from Mr. Gordon and Mr. Tilley to Mr. Allison? Please provide all documents related to Mr. Olson’s termination.

8. Did Merrill Lynch seek or obtain a legal opinion from its counsel relating to its role in the LJM2 private placement offering or to the LJM2 private placement offering in general? If so, please provide a copy of that opinion. If not, why not?

9. Did anyone at Merrill Lynch contact anyone on the Enron Board of Directors about LJM2? If so, what was discussed or communicated? If not, why not?

10. How many Merrill Lynch stock options did Robert Furst receive during the course of his employment at Merrill Lynch, how many did he exercise, when did he exercise them, and what was the value of those options at the time of their exercise?

11. Does Merrill Lynch’s settlement with the New York State Attorney General preclude Merrill Lynch from having a research analyst make calls similar to those made by Mr. Olson to prospective Enron investors in late April and early June 1998?

12. Attached please find a copy of an August 8, 2002, New York Times article that describes a December 1999 energy transaction between Enron and Merrill Lynch. This transaction was not included in the list Merrill Lynch gave the Subcommittee describing Enron/Merrill Lynch transactions. With respect to this issue, why did Merrill Lynch not include this transaction on the list it provided to the Subcommittee? Are there additional transactions between Merrill Lynch and Enron that Merrill Lynch did not include? Please confirm or deny the accuracy of the facts presented in the article and please describe the transaction. Who were the primary people involved in the transaction on behalf of Merrill Lynch and on behalf of Enron?
Mr. G. Kelly Martin  
August 16, 2002  
Page 3  

If you have any questions about this request, please contact Tim Henseler at (202) 224-9123 (Senator Levin) or Claire Barnard at (202) 224-5721 (Senator Collins). Thank you for your response.

Sincerely,

Susan Collins  
Ranking Member

Permanent Subcommittee on Investigations

Carl Levin  
Chairman

CL:SC:th  
Enclosure
September 13, 2002

BY HAND

Timothy Hensler, Esq.
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510-6250

Dear Mr. Hensler:

I write on behalf of Merrill Lynch in response to your oral questions on August 16, 2002 arising out of the Subcommittee staff's July 30, 2002 deposition of Dan Bayly. Merrill Lynch is pleased to provide the requested information, which is set forth below.

1. Who was on the DMCC in December 1999?

In December 1999, certain designated representatives from the following areas within Merrill Lynch were eligible to serve as members of the Debt Markets Commitment Committee (the "DMCC") for the Americas Region (the regional committee that reviewed the large transaction): Investment Banking, Corporate Credit, Risk Management, Research, Corporate and Institutional Client Group ("CICG") Counsel, and/or Capital Commitments Management. The individuals eligible in December 1999 to act as representatives from each of the above groups in the Americas Region are listed in Exhibit A attached hereto.

We note, however, that the composition of the DMCC group reviewing any given transaction varied depending upon the type of transaction at issue. For example, in addition to the areas identified above, DMCC review of certain transactions also required the presence of representatives from other areas, including the Global Loan Syndicate Group (required for transactions involving loan facilities), Sales Management (required for transactions designated by Capital Commitments Management), or High Yield Syndicate, Municipal Markets Underwriting or Capital Markets (required for transactions in which the sale of certain securities was contemplated). Additionally, Capital Commitments Management, in consultation with the Regional Chief Operating Officer (with notice to CICG Council), may have designated additional senior bankers to act as representatives of the Investment Banking Group or Debt Capital Markets Group. The manager of each of the other groups listed in Exhibit A also may have designated additional representatives from their respective areas. Finally, the senior investment banker or debt originator sponsoring the transaction at issue also was required to attend the DMCC meeting.
2. **How was membership on the DMCC determined?**

Please see response to Question #1.

3. **How long is a term of membership on the DMCC?**

An individual, once so designated, remains eligible for an indefinite period to serve on the DMCC as a representative for his or her respective group within his or her respective geographic region, subject to any relevant material changes in employment status.

4. **What were the policies and procedures in 1999 that determined when and why a transaction would be submitted to the DMCC for review?**

Generally, the DMCC was responsible for reviewing and approving Merrill Lynch's participation in a number of different types of transactions, including:

- commitments to lead manage or co-manage certain public offerings of preferred stock or debt securities;
- commitments to act as placement agent in connection with certain private placements of preferred stock or debt securities;
- certain restructuring assignments involving the purchase, sale or exchange of certain preferred stock or debt securities;
- the issuance of forward commitments, including "back stops" and "spread locks" for preferred stock or debt securities; and
- involvement as arranger, originator, syndicate of, or participant in, any senior loan facilities, bridge loans or subordinated loan commitments.

Even in circumstances where DMCC approval was not required, any representative listed in Exhibit A could have specifically requested that the DMCC review and approve a particular transaction.

5. **Is there a Committee similar to the DMCC that reviews equity investments?**

Generally speaking, there is no designated committee within Merrill Lynch established to review proprietary equity investments. The Equity Commitment Committee ("ECC"), for example, generally reviews and approves only Merrill Lynch’s participation in equity securities offerings as a
The Honorable Carl Levin, Chairman
September 13, 2002

global coordinator, lead manager, co-lead manager, co-manager, underwriter, placement agent or distributor.

In most instances, Merrill Lynch proprietary investments are reviewed and approved pursuant to an appropriations governance policy that involves (i) the development of an Appropriations Request package, (ii) approval from senior management, and (iii) a technical concurrence review by certain designated representatives from different areas within Merrill Lynch. Because of the potentially lengthy nature of this process, and given time constraints, the barge transaction was instead reviewed by the DMCC, which was occasionally asked to scrutinize proposed non-debt transactions such as equity investments structured with bridge-like features.

6. Brian Hehir is listed as a copy recipient of the April 18, 1998 memorandum from Rick Gordon and Schuyler Tinney to Herb Allison (MS 66921). What was Mr. Hehir's title and to whom did he report in 1998? Is he still with Merrill Lynch? If so, in what capacity?

In 1998, Mr. Hehir served as a Managing Director in the Equity Capital Markets Origination group, and reported to Michael Ryan. Mr. Hehir remains with Merrill Lynch today, and currently serves as a Managing Director and Vice Chairman of Investment Banking.

7. Who was the head of research at Merrill Lynch from April to June 1998? Is this person still an employee of Merrill Lynch? If not, does Merrill Lynch know where this person works?

Andrew Melnick and Rosemary Berkery were co-heads of Merrill Lynch's Equity Research department during the relevant time period. Ms. Berkery presently serves as General Counsel to Merrill Lynch & Co. Mr. Melnick is currently employed by Goldman Sachs.

Sincerely,

John A. Merrigan

NYA 558845.1
September 13, 2002

BY HAND

The Honorable Carl Levin, Chairman
The Honorable Susan Collins, Ranking Member
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510-6250

Dear Sir and Madam:

I write on behalf of Merrill Lynch in response to your letter of August 16, 2002 to G. Kelly Martin posing certain follow-up questions arising out of the Subcommittee’s July 30, 2002 hearing concerning Enron Corporation. Merrill Lynch welcomes this opportunity to further assist the Subcommittee in its investigation.

The specific responses to your questions, drawn from the best information available to Merrill Lynch at this time, are set forth below and reflected in the enclosed documents. (As noted in Merrill Lynch’s response of April 24, 2002 to Chairman Levin, damage caused by the September 11 terrorist attacks, as well as technical limitations, has significantly delayed Merrill Lynch’s ability fully to retrieve archived e-mail communications.) Please do not hesitate to contact me should you require any additional information or materials.

1. Why did Merrill Lynch redomie Ebarge, LLC in the Cayman Islands?

When Enron approached Merrill Lynch about the large transaction in December 1999, the proposed structure of the transaction, as developed by Enron and its advisors, contemplated that the special purpose entity (the “SPE”) established to purchase the equity interest in Enron Nigeria Barge Ltd. (ultimately, Ebarge) would be domiciled outside the United States for tax purposes relating to Enron. In closing the transaction, Merrill Lynch did not establish Ebarge as a foreign SPE because there was not enough time before year-end to complete the required paperwork and to conduct the necessary diligence associated with setting up such an entity. With the benefit of additional time, Merrill Lynch later was able to follow Enron’s initial proposed structure, and the domicile of Ebarge was transferred from Delaware in February 2000.
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2. Did Ebarge, LLC ever pay any taxes to the United States? If so, how much did it pay? Did it ever pay taxes to any other jurisdiction? If so, how much did it pay and to whom?

In determining any tax obligations, Merrill Lynch treated Ebarge, a limited liability company wholly owned by ML IBK Positions, Inc. (a United States corporation), as a "flow-through entity." Thus, while Ebarge itself would not have directly paid any taxes in the United States or elsewhere, any taxes due on income generated by Ebarge during the period of Merrill Lynch’s ownership interest would have been reflected in Merrill Lynch’s consolidated corporate income tax returns filed in the United States.

Merrill Lynch, of course, also paid income taxes in the United States in connection with the gain it recognized on the June 2000 sale of its interest in Ebarge.

3. Did Merrill Lynch conduct a review of the conference call involving, inter alia, Daniel Basly of Merrill Lynch and Andrew Fastow of Enron that occurred in mid-to-late December 1999 relating to the Nigerian barge transaction? If so, please provide the results of that review and all documents relating to the conference call and Merrill Lynch’s review of that call. Please include all documents containing communications to or from Mr. Basly relating to this conference call.

It appears that individuals from Merrill Lynch and Enron held a conference call on December 23, 1999 expressing the barge transaction. The primary speakers on the call were Dan Basly and Andrew Fastow, and it appears that Schuyler Tilney, Robert Farst, and Jeffrey McMahon may have been passive participants. As Mr. Basy, has explained, he wanted to impress upon Mr. Fastow that Merrill Lynch did not typically make this type of investment, and was doing so primarily as an accommodation to Enron. He also wanted to confirm that Enron would make every effort to facilitate Merrill Lynch’s exit from the investment within a reasonable period. Mr. Fastow expressed Enron’s appreciation during the call and said that Enron would attempt to locate a third-party investor to replace Merrill Lynch as soon as possible.

To date, we have located only two documents relating to the conference call. Enclosed is a page from Mr. Basly’s personal calendar (dates stamped MS 24407) indicating the scheduled call. We also refer you to the previously produced draft Appropriation Request (dates stamped MS 06508 through MS 06512), which references the anticipated conference call.

4. In his deposition, Mr. Basly described a meeting involving, inter alia, Tom Davis, Mr. Basly, Kathy Zrike, Kevin Cox and Mark DeVito that took place in Mr. Davis’ office regarding the Nigerian barge transaction. Please provide a list of the participants in that meeting, Merrill Lynch’s description of the substance of that meeting, and all documents containing any reference to the substance of this meeting, including any communications about this meeting by or between Mr. Davis, Mr. Basly, Ms. Zrike, Mr. Cox or Mr. DeVito.

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September 13, 2002

It appears that on December 22, 1999 Tom Davis (then the Executive Vice President in charge of Merrill Lynch’s Corporate and Institutional Client Group) met with Mr. Bayly (then global head of Merrill Lynch’s Investment Banking Group), Kathy Zrike (counsel to the Investment Banking Group), Kevin Cox (chairman of the Debt Markets Commitment Committee, which had reviewed the large transaction), and Mark DeVito (then a senior member in the Debt Capital Markets Group). These individuals provided Mr. Davis with their respective views on the large transaction to assist him in deciding whether to approve Merrill Lynch’s equity investment. (Mr. Davis had the authority to approve proprietary equity investments up to $10 million.) All in attendance at the meeting supported Merrill Lynch’s participation in the transaction, and Mr. Davis granted his approval.

The only document located to date relating to this meeting is the previously identified page from Mr. Bayly’s personal calendar (enclosed herewith and bates stamped MS 24407), which indicates the scheduled meeting and expected participants.

5. Did Merrill Lynch ever investigate whether there were communications in 1998 between anyone at Merrill Lynch and John Olson regarding (a) Enron’s complaints about his analysis of Enron stock; (b) actions Enron had taken in whole or in part as a result of his analysis; (c) the subject matter of the April 18, 1998 memorandum from Rick Gordon and Schuyler Tilney to Herb Allison; (d) the fact that Merrill Lynch was denied participation (or almost denied participation) in a lucrative deal with Enron solely or in part because of his research coverage of Enron; or (e) steps that needed to be taken to make his analysis of Enron stock more supportive of Enron? Did any Merrill Lynch employee superior or equal to Mr. Olson in rank speak or communicate with Mr. Olson regarding any of these issues? If so, please identify the parties to and the substance of those communications?

Mr. Olson has recently stated publicly that no individual at Merrill Lynch ever discussed the April 18, 1998 memorandum with him, and no individual within Merrill Lynch superior or equal to Olson in rank, moreover, specifically recalls any discussions with Olson that related to complaints about his research coverage of Enron. However, a recently retrieved e-mail communication (enclosed herewith and bates stamped MS 24408) seems to indicate that Andrew Melnick, then co-head of Merrill Lynch’s equity research department, had a conversation with Olson on or about May 26, 1998, during which they discussed at least in part Enron-related issues.

6. What was the substance of the call(s) that took place between Mr. Allison and Kenneth Lay and/or Jeffrey Skilling relating to the April 18, 1998 memorandum from Mr. Gordon and Mr. Tilney to Mr. Allison?

Mr. Allison recalls only one conversation with an Enron executive, which he believes occurred sometime in April 1998. While Mr. Allison does not recall the substance or specifics of the conversation, he is certain that he did not suggest to Enron that he or anyone else at Merrill Lynch would attempt to influence the research analyst coverage of Enron’s stock. Mr. Allison further states that he never did anything to compromise the integrity or independence of Merrill Lynch’s research analyst coverage of Enron’s stock or the stock of any other company.
7. Why did Mr. Olson stop working for Merrill Lynch in 1998? Was his departure in any way related to the subject matter of the April 18, 1998, memorandum from Mr. Gordon and Mr. Tilney to Mr. Allison? Please provide all documents related to Mr. Olson’s termination.

As is often the case with personnel decisions, there were a number of considerations underlying Olson’s departure. First, as reflected in the enclosed materials (e.g., MS 24440, MS 24447), Merrill Lynch in 1998 reorganized and consolidated its coverage of gas industry companies under a single analyst as part of an ongoing implementation of cost-cutting and efficiency improvement measures. Another consideration informing the decision to release Olson was his consistent failure to achieve recognition in connection with various independent rankings of research analysts. Finally, the decision to terminate Olson’s employment was also informed by critical reviews from colleagues and others. For example, as reflected in the enclosed Termination Authorization Form (bates stamped MS 24411), Olson maintained “consistently poor relationships with the bankers covering his industry,” which “undermined” his effectiveness and therefore Merrill Lynch’s “competitive position in the marketplace...to effectively sell and market its products and services.”

Enclosed herewith are all additional materials identified to date (bates stamped MS 24410 through MS 24469) relating to Olson’s termination.

8. Did Merrill Lynch seek or obtain a legal opinion from its counsel relating to its role in the LJM2 private placement offering or to the LJM2 private placement offering in general? If so, please provide a copy of that opinion. If not, why not?

As is the normal industry practice with respect to such mandates, Merrill Lynch did not engage legal counsel to provide an opinion in connection with its role as the private placement agent for LJM2 Co-Investment, L.P.

9. Did anyone at Merrill Lynch contact anyone on the Enron Board of Directors about LJM2? If so, what was discussed or communicated? If not, why not?

As placement agent, Merrill Lynch conducted due diligence in connection with LJM2 that addressed a number of issues, including, particularly, the concerns presented by Mr. Fastow’s dual role as Enron Chief Financial Officer and managing member of LJM2’s general partner. In addition to conferring with the law firms of Vinson & Elkins (Enron’s outside counsel) and Kirkland & Ellis (LJM2 counsel), Merrill Lynch consulted with senior members of Enron’s management, including Jeffrey Skilling, who at the time was both Chief Operating Officer and a member of Enron’s Board of Directors.

In the course of this due diligence, Merrill Lynch was informed that Enron’s Board had reviewed and approved Mr. Fastow’s dual role (and, in so doing, waived the applicable code of conduct). Merrill Lynch also participated in separate telephone calls with Enron’s Chief Accounting Officer Richard Causey and Mr. Skilling to confirm that they understood the structure of LJM2 and Fastow’s proposed role. It was apparent to Merrill Lynch that they had spent a great deal of time considering
The Honorable Carl Levin, Chairman  
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LJM2 matters, and were comfortable with Mr. Fastow’s dual role. As memorialized in a previously produced Merrill Lynch memorandum (bates stamped MS 14783 through MS 14784), Mr. Skilling told Merrill Lynch the following reasons for Enron’s comfort level: (1) Fastow had no control over asset sale decisions; (2) Causey would review all proposed transactions with LJM2; and (3) the Audit Committee of Enron’s Board would receive and review LJM2’s financial statements.

10. How many Merrill Lynch stock options did Robert Furst receive during the course of his employment at Merrill Lynch, how many did he exercise, when did he exercise them, and what was the value of those options at the time of their exercise?

Upon joining Merrill Lynch in July 1999, Mr. Furst received the right to 5,124 units payable in Merrill Lynch stock upon vesting (known as “Restricted Units”) as partial compensation for forfeited income from his former employer. Based on the price of Merrill Lynch’s stock at the time, the Restricted Units had a value of approximately $200,000. The Units do not fully vest until January 31, 2004.

For performance year 1999, Mr. Furst received stock-based compensation valued at approximately $390,000, including 5,954 Restricted Units valued at approximately $235,000 and 15,870 stock options (with a strike price of $43.78) valued at approximately $155,000. The Restricted Units do not fully vest until January 31, 2003. Mr. Furst exercised 3,174 of the options in May 2001 when the stock price was $68.00 (for a pre-tax gain of approximately $77,000). Of the remaining options, 3,174 are exercisable but “out of the money,” and 9,522 are not yet exercisable.

For performance year 2000, Mr. Furst’s stock-based compensation was valued at approximately $400,000, including 2,579 Restricted Units valued at approximately $200,000 and 10,315 stock options (with a strike price of $77.56) valued at approximately $200,000. The Restricted Units do not fully vest until January 31, 2004. While the options fully vested on August 1, 2001, Mr. Furst has not exercised any of them, as they are all “out of the money.”

Mr. Furst did not receive any stock-based compensation for 2001.

11. Does Merrill Lynch’s settlement with the New York State Attorney General preclude Merrill Lynch from having a research analyst make calls similar to those made by Mr. Olson to prospective Enron investors in late April and early June 1998?

No. While the May 21, 2002 agreement with the New York State Attorney General established a new industry standard for research independence and objectivity, it does not preclude research analysts from providing information concerning securities offerings to prospective investors, a common industry practice.

12. Attached please find a copy of an August 8, 2002, New York Times article that describes a December 1999 energy transaction between Enron and Merrill Lynch. This transaction was not included in the list Merrill Lynch gave the Subcommittee describing Enron/Merrill Lynch transactions. With respect to this issue, why did
The Honorable Carl Levin, Chairman
September 13, 2002

Merrill Lynch not include this transaction on the list it provided to the Subcommittee? Are there additional transactions between Merrill Lynch and Enron that Merrill Lynch did not include? Please confirm or deny the accuracy of the facts presented in the article and please describe the transaction. Who were the primary people involved in the transaction on behalf of Merrill Lynch and on behalf of Enron?

The fact that Merrill Lynch had engaged in energy derivatives trades with Enron Power Marketing, Inc. ("EPMI") was disclosed to the Subcommittee. The list that Merrill Lynch provided to the Subcommittee in response to Chairman Levin’s April 10, 2002 letter to David Komansky set forth in a document entitled “Exhibit A” specific advisory, capital markets, credit facility, and proprietary transactions. The list also set forth a general description of the various types of derivatives trades engaged in with Enron-related entities, including specifically “energy derivative trades” with EPMI. The list was provided in response to the request in the second paragraph of the April 10 letter and, as noted in Merrill Lynch’s April 24 letter response, in accordance with discussions with the Subcommittee staff that clarified the scope of the overall request.

Merrill Lynch conducted a substantial energy trading business from mid-1998 until the business was sold in January 2001. One of the counterparties in that business – and also a competitor of Merrill Lynch – was Enron. The derivatives trades that are the subject of the New York Times article you referenced were a part of that business.

The facts relating to the transactions are as follows. In early December 1999, Clifford Baster (then the Chief Executive Officer of Enron North America) proposed to Dan Gordon (then head of Merrill Lynch’s Global Power Trading Group) that EPMI and Merrill Lynch enter into two derivatives transactions. Under the first transaction, EPMI would purchase from Merrill Lynch daily call options that gave EPMI the right to obtain from Merrill Lynch the difference in dollars between (i) the market price of energy in the future as reflected in a designated index, and (ii) strike prices set forth in an agreement (financially settled call options). Under the second transaction, Merrill Lynch would buy from EPMI daily call options that gave Merrill Lynch the right to obtain the delivery of power from EPMI at contractually specified prices.

Mr. Gordon reviewed the proposed transactions and, with the assistance of Merrill Lynch’s risk management team, attempted to assess and quantify the risks to which Merrill Lynch would be exposed in connection with them. They concluded that the trading risks were significant.

Mr. Gordon’s conclusion was confirmed by his superior, Jeff Kronthal, then the head of Merrill Lynch’s Global Derivatives Group. Mr. Kronthal believed that in addition to the trading risks identified by Mr. Gordon, Merrill Lynch faced significant operational risks should EPMI decide to satisfy its obligations through delivery of the output of Enron’s power facilities. Messrs. Gordon and Kronthal concluded that Merrill Lynch would need to charge a relatively large premium to compensate for these trading and operational risks. (Eventually, Enron agreed to structure the trades, consistent with normal market practice, such that there was a $17 million net present value difference between the options premiums to be paid by the respective parties over the course of the trades in Merrill Lynch’s favor.)
The Honorable Carl Levin, Chairman

September 13, 2002

Merrill Lynch also was sensitive to the fact that the proposed trades were to take place just prior to year-end and would provide Enron with certain accounting benefits. Specifically, Mr. Baxter explained that Arthur Andersen had determined that Enron could continue to maintain off-balance sheet treatment of certain power facilities by selling the output of those facilities to Merrill Lynch through the call options. Merrill Lynch also understood that Enron would book additional revenue as a result of the trades.

Merrill Lynch engaged in an extensive review and approval process designed to ensure that the transactions (1) were legitimate "at-risk" transactions, (2) were fully considered by senior Merrill Lynch personnel in every key area, and (3) were known to and approved by senior Enron management and Arthur Andersen.

After Messrs. Gordon and Kronthal consulted with the Merrill Lynch investment bankers primarily responsible for the Enron relationship (Rob Furst and Schuyler Tilney), the group agreed that firm policy required that the proposed trades be presented to Merrill Lynch’s Special Transactions Review Committee (the “STRC”), which was responsible for assessing and approving certain types of transactions that may yield a fee to Merrill Lynch of more than $5 million.

In advance of the STRC meeting, Mr. Gordon, in consultation with the Merrill Lynch lawyers covering the Power Trading Group, prepared a memorandum for the STRC summarizing the trades and the various issues presented. Specifically, the memorandum indicated (1) the year-end nature of the transactions, (2) Arthur Andersen’s approval of the accounting treatment, and (3) the risks to Merrill Lynch.

Several days after receiving the memorandum, the STRC met to review the proposed trades. Attendees included Robert McCann (STRC Chairman and Chief Operating Officer of Merrill Lynch’s Corporate and Institutional Group) and John McDermott (STRC Secretary and Merrill Lynch’s Chief Compliance Officer for the Corporate and Institutional Group), as well as representatives from the legal, credit, risk management and business units.

The STRC discussed the nature of the trades and focused on the proposed accounting benefits to Enron. The committee ultimately determined that it would be prudent to proceed with the trades only after receiving assurances (1) that senior Enron managers were aware of the transactions (as well as the attendant risks and costs) and (2) that Arthur Andersen approved of the proposed accounting treatment.

The STRC obtained these assurances by speaking directly with Richard Causey, Enron’s Chief Accounting Officer. Mr. Causey assured the STRC that Enron senior management was fully cognizant of the trades and had consulted extensively with Arthur Andersen regarding the accounting treatment. Impressed with Causey’s familiarity with the transactions and his openness about the benefits to Enron, the STRC approved the trades, subject to receiving a letter from Mr. Causey confirming his oral representations. Shortly after the meeting, Mr. Causey sent Merrill Lynch a letter representing that “Enron has reviewed the Transactions with its outside auditors Arthur Andersen and Arthur Andersen concur with Enron’s proposed accounting for the Transactions.”
The Honorable Carl Levin, Chairman
September 13, 2002

In February or March 2000, Mr. Baxter contacted Mr. Gordon to see if he would be willing to unwind the trades. Mr. Gordon said that he was willing to do so, but only if EPMI then paid a significant portion of the differential to Merrill Lynch that was embedded in the options premiums over the life of the transactions. Mr. Baxter declined the offer. By June 2000, Merrill Lynch's mark-to-market profit on the trades had increased by more than $2 million, and Mr. Baxter once again contacted Mr. Gordon to ask if he would terminate the transactions. This time, Messrs. Gordon and Baxter were able to reach agreement on a termination differential of $8.5 million.

Finally, Merrill Lynch believes there was nothing improper about the transactions, nor was there any pre-arrangement to cancel them. As to the latter issue, the negotiations that occurred in the first quarter of 2000 - when no agreement could be reached concerning termination - confirm that there was no such pre-arrangement. To the extent that anything appearing in the New York Times article is inconsistent with the facts set forth in this letter, Merrill Lynch stands by the statements contained herein.

Respectfully,

James B. Weidner
enclosures
Andy, I was so stunned at your decision of Wednesday that I still feel bewildered at exactly where I have transgressed so hurtful in this Enron situation. I have taken the liberty of asking Ken Lay, Chairman and CEO of Enron Corporation to call you for no other reason but to tell you that I have made no "inside" remarks about Enron and/or its management team—recently or ever. Any reading of my last dozen reports on Enron will show you we have neither been neutral or occasionally positive on the stock. We were right. ENER delivered a 15.5% average annual total return for the past five years. The market delivered 20.5%; and my recommendations delivered 22% to 40% annually (e.g., Williams). This has been an entirely professional relationship. I do not know where you are getting the information to have made this judgement about me, but I can only regret it.

As to my middle-of-the-road marketing rankings, I would urge you to remember that gas companies are not computer companies; and unfortunately they do not have the high profits that we all want. When you find my replacement, it would be good of you to keep this in perspective.

One final problem. On the prior Friday, I had gone out and closed on my wife's dream house, never expecting the turn of events that came on last Wednesday. Had I known this was coming, I never would have closed on this house. We will be forced to put it back on the market immediately and we will be lucky to sell it at what we paid for it. The brokerage commission alone was $103,000—which is what I will be out when the house sells. Could you be good enough to consider whether you can raise my exit settlement from $800,000 to $850,000 so as to mitigate this calamity? Obviously, my wife and I would be very grateful. Otherwise, I will be in touch with Linda G. next week. Thanks and regards, John Olson.
Memo

To: U.S. Fundamental Equity Research, Sales, Trading and Investment Banking
From: Stanley Rubin and Ulrike Vignola
Date: 09/05/2000

We are pleased to announce that Donato Eassey our number 2 ranked Institutional Investor analyst (#1 in Greenarchy in Natural Gas Distributors) will be assuming full coverage of the distributors, pipelines and integrated companies. In this endeavor, Donato will manage a team of analysts, including Chenoa Ebell, Myla Lath and Stephanie Joe. Donato and his team will continue to be based in Houston. John Olson who provided coverage on the pipelines and major integrated has left Merrill Lynch to join another company in the region. Donato will resume coverage of John Olson's companies in a short amount of time. We wish all the best in these new endeavors.
Hi, Margot.

Linda asked me to put together the attached TAF because Andy is going to Houston on Tuesday and wants to take the ARR with him. I apologize for the last minute request...

John will be 56 in July; he currently earns $175,000. Under the policy, he is entitled to 9 weeks' basic severance, or 18 with signature. In addition, Research wishes him to receive a one-time only payment of $200,000 (representing 50% of his 1997 bonus). He received a stock grant of $125,000 in 1997, $100,000 in 1996, $80,000 in 1995 and $60,000 in 1994.

Do you think we can get this done in time?
John Olson was hired in 1992 to be the Senior Fundamental Equity Research Analyst for the Natural Gas Industry. John is based in Houston. In his role as the senior most analyst in his industry segment, one of his most important responsibilities is to develop productive and cordial relationships with the internal and external clients of Merrill Lynch. In his tenure with the Firm, John has had consistently poor relationships with the banks covering his industry. Because he does not have good working relationships with banking, his effectiveness is undermined. He has, for instance, been ranked in Institutional Investor for some time. The result is that he cannot represent Merrill Lynch nor provide the firm with the competitive position in the marketplace it requires to effectively sell and market its products and services.

We are requesting approval to job eliminate John. Research will not replace him; the senior position will be eliminated by a senior analyst currently covering part of the same industry. A junior will be hired to support the other senior analyst.

We are recommending compensation services for John.
John Olson was hired in 1990 to be the Senior Fundamentals Equities Research Analyst for the Natural Gas industry. John is based in Houston. In his role as the senior most analyst in his industry segment, one of his most important responsibilities is to develop and maintain relationships with internal and external clients of Merrill Lynch. In his tenure with the Firm, John has consistently shown his knowledge of the industry. Because he does not have good working relationships with the banks covering his industry, his effectiveness is undermined. He has not, for instance, been ranked in Institutional Investor for three years. The result is that he cannot represent Merrill Lynch well and must work on the products and services.

We are recommending replacement services for John.
September 9, 1998

John E. Olson
3448 Overbrook
Houston TX 77027

Dear Mr. Olson:

Enclosed please find a copy of Form U5 which has been submitted to the appropriate regulatory agencies on your behalf.

Should you have any questions regarding this form, kindly call the contact person indicated on the bottom of this form.

Sincerely,

Michael Halecky
Manager

MH/jh
Enc.
**Uniform Termination Notice for Securities Industry Registration**

Only items 13-15 may be amended. To amend, complete only items 14-15 and the entire form being amended.

1. **Name**
   - **Title**:
   - **Company**:

2. **Branch**
   - **Street Address**:
   - **City**:
   - **State**:
   - **Zip Code**:

3. **Employer**
   - **Title**:
   - **Company**:

4. **Date of Termination**
   - **Date**:

5. **Reason for Termination**
   - **Reason**:
     - **Other**:

6. **Signature Block**

Complete Items 13-15 and signature block on reverse side. Incomplete forms will be returned.

MS 24467
October 18, 2002

John Merrigan, Esq.,
Piper Rudnick LLP
901 15th Street, N.W.
Washington, DC 20005-2301

Dear Mr. Merrigan:

We are in receipt of your letter dated September 13, 2002, written on behalf of your client Merrill Lynch. Based upon the responses you have provided, the Subcommittee has some additional questions we request your client respond to in writing by November 1, 2002. If Merrill Lynch possesses documents or other materials relevant to the issues raised below that it has not already produced, please provide them to the Subcommittee with your responses.

1. Please list the individuals on the Debi Markets Capital Committee (DMCC) that reviewed the proposed Nigerian Barge transaction between Enron and Merrill Lynch. Please describe how and when the DMCC convened to consider the proposed Nigerian barge transaction, and provide any minutes, notes or other documents relating to or resulting from those meetings or discussions. Please describe what was discussed at each meeting or discussion that addressed the Nigerian barge transaction. Please identify all individuals who attended and/or participated in those meetings or discussions (regardless of whether the individual was on the DMCC or not). Has Merrill Lynch conducted a search of the records, files or computer of each of these individuals to determine if they possess documents responsive to the Subcommittee subpoena? If so, please describe those efforts. Have all such responsive documents been produced?

2. Attached is a Merrill Lynch appropriations document relating to the Nigerian barge transaction between Merrill Lynch and Enron, Bates-stamped MS 05330-34. In whose records, files or computer was this document located? If a similar appropriations document was found in the records, files or computer of more than one individual, please list these individuals and produce these documents. Please identify the handwriting contained on Bates number MS 05332.

3. In response to a question relating to whether or not there exists a committee similar to the DMCC that reviews equity investments, you note in your September 13, 2002 letter that:

Because of the potentially lengthy nature of [an appropriations governance] process, and given time constraints, the barge transaction was reviewed by the
John Merrigan, Esq.
October 18, 2002
Page Two

DMCC, which was occasionally asked to scrutinize proposed non-debt transactions such as equity investments structured with bridge-like features.

How many other times in 1998, 1999, and 2000 did the DMCC scrutinize "proposed non-debt transactions"? What were the "bridge-like features" of the Nigerian henge transaction you mention in your letter? How many other times in 1998, 1999, and 2000 did the DMCC scrutinize equity investments structured with "bridge-like features"?

If you have any questions about these requests, please contact Tim Henseler at (202) 224-9123 (Senator Levin) or Claire Barnard at (202) 224-3721 (Senator Collins). Thank you for your responses.

Sincerely,

Susan M. Collins                  Carl Levin
            Ranking Republican          Chairman
            Permanent Subcommittee on Investigations

CL:SC:th
Enclosure
2416

APPROPRIATION REQUEST-COVER PAGE

($ in Thousands)

Management Unit: CICG  Project Name: Enron Nigerian Barge

Group: IBK  Financial Commitment: $7 Million

Project Start/Finish: Needs to Close by 12/31/99 -
 Taken out by 6/30/00

EXECUTIVE SUMMARY

Language: Special Purpose Vehicle

Facility: $7.0 Million Equity

Request: $7.0 Million

Expected Ratings
(Moody’s/S&P):

Maturity: Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian
Barge Co., indirectly owned by Enron Corp.

Timings:

Closing by year end 1999

Independent Auditors:

NA

Company Counsel:

Vincent & Ellis

Underwriter Counsel:

NA

Fee:

Proposed $250,000 plus 15% per annum or a flat 22.5%
return per annum.

ML Research Coverage:

Lee J. Kaiser

Jeff McMahon, EVP and Treasurer of Enron Corp., has asked ML to purchase $700M of equity in a
special purpose vehicle that will allow Enron Corp. to lock $1.2B of earnings. Enron must close this
transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have
assured us that we will be taken out of our investment within six months. The investment would have a
maximum 22.5% return.

Enron will have 3 barges mounted power plants in service by February 2000 in Nigeria. The first 3 years
of cash flow is projected to be $70M from the Nigerian government. Enron wants to sell the first 3
years of cash flow for $220MM. They propose to do this by having ML establish a U.S. special purpose
carrying the SPE, owned by Merrill Lynch. The SPE will be capitalized by our $70M investment and a
$110M non-recourse loan from Enron Corp which will then purchase non-voting common stock in the
Enron subsidiary that owns the barges. Enron will have a 75% investment of $44.5MM in the project.
Enron is in active negotiations with several equity investors, including Merrill. However, they are not
able to close the transaction with a long-term holder by year-end. Enron will "utilize our exit from the
transaction with third party investors. Dan Bayly will have a conference call with senior management of
Enron confirming this commitment to guarantee the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40
million in fees in 1999 and is expected to do so again in 2000.
<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>CICG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Name:</td>
<td>Enron Nigeria Large Equity</td>
</tr>
<tr>
<td>Financial Commitment:</td>
<td>$7 million</td>
</tr>
</tbody>
</table>

**SPONSOR:**

**Originator:**

Ro Furst

**Mgmt. Unit Coordinator:**

**Mgmt. Unit Head:**

**Group Finance Director:**

**Group EVP:**

<table>
<thead>
<tr>
<th>Other Approvals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Markets Capital Committee:</td>
</tr>
<tr>
<td>Chief Financial Officer:</td>
</tr>
<tr>
<td>Peer Project Review:</td>
</tr>
<tr>
<td>Executives Committee:</td>
</tr>
<tr>
<td>Audit and Finance Committee:</td>
</tr>
<tr>
<td>Date Approved:</td>
</tr>
</tbody>
</table>
Appendix

we are at risk -
no response is legal

1. PROPOSED CORPORATE STRUCTURE:

Transaction Summary

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Equity Contribution</td>
<td>$7.00 Million</td>
</tr>
<tr>
<td>Acquisition Loan (from Earns to SPV)</td>
<td>$2.02 Million</td>
</tr>
<tr>
<td>Total Purchase Price</td>
<td>$21.02 Million</td>
</tr>
<tr>
<td></td>
<td>$24.05 Million</td>
</tr>
</tbody>
</table>

Basic 1.2% Interest Tax of Return on Invested Equity for Purchaser.
Acquisition Loan Term: 52% Interest Rate, 24 Month Term, Amortization to be Agreed.
Loan secured by Purchaser's interest in the Beige Project Only

Shareholder Structure

There will be three classes of stock: two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Option A Shares. Earns will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

<table>
<thead>
<tr>
<th>Economic Interest</th>
<th>Percent of Cash Flow (&quot;CF&quot;)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre Trigger Date</td>
<td>Post Trigger Date</td>
</tr>
<tr>
<td>Preferred A (Purchaser)</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B (Earns)</td>
<td>99.9% of CF After Pref A</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
<td>100.0% of CF After Pref A&amp;B</td>
</tr>
</tbody>
</table>

Refers to the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Earns Preferred B Shares receive approximately 99.9% of the Cash Flow and other distributions to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.

---

MS 05332
TIME LINE

(1) PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights
to the PPA (large deviation only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns
the rights to Enron Nigeria Barge Ltd.

(2) Enron Nigeria Barge Ltd. All Preferred and Common Shares are issued to Enron Barge Holding Ltd.

(3) Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who
assumes the equity risk involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (£S 1999)

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (£S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Barge</td>
<td>25,500</td>
</tr>
<tr>
<td>Barge Upgrades and Onshore</td>
<td>15,800</td>
</tr>
<tr>
<td>Total EPC</td>
<td>40,300</td>
</tr>
<tr>
<td>Mobilization</td>
<td>1,014</td>
</tr>
<tr>
<td>Development Costs</td>
<td>1,500</td>
</tr>
<tr>
<td>Working capital and Spares</td>
<td>2,119</td>
</tr>
<tr>
<td>Contingency</td>
<td>111</td>
</tr>
<tr>
<td>Total Costs</td>
<td>43,614</td>
</tr>
</tbody>
</table>

Projected Net Cash Flow (£S 2000)

<table>
<thead>
<tr>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>29,123</td>
<td>25,262</td>
<td>23,768</td>
<td>23,410</td>
<td>13,614</td>
</tr>
</tbody>
</table>

The £43.6 million project costs are to be paid by Enron. The net cash flow projected over the three-year period
is £44.1 million, and 99% of the 2003 year cash flow is £37.9 million.

It is the intention of Enron to provide to the investors a monthly distribution of net cash flow, and to have an Enron
affiliate provide up to 75% of all short-term debt. The proposed debt period is three years with an interest rate of
12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Enron Corp. (the "Company" or "Enron") has developed significantly over the
past year as Enron will generate more than £6 million in investment banking fees in 1999. The following points
describe current issues related to the Company and significant recent Enron transactions in which Merrill...
E-Biz is a global diversified energy company. E-Biz is the largest buyer and seller of natural gas and electricity in the world and owns 12,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas, and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first transatlantic broadband backbone in the U.S. Additionally, through its international water company, E-Biz owns and operates water systems in the U.S., Europe, Canada, Mexico, and Argentina. As of June 30, 1999, E-Biz's total assets were $94.0 billion and its equity market capitalization was approximately $12 billion. Per the year ended December 31, 1998, E-Biz generated revenues of $21.3 billion, up 52% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annual rate of 25% and 30% over the period from 1991 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

E-Biz is organized as a holding company with four energy-related operating subsidiaries (E-Biz North America, E-Biz Gas Pipelines, E-Biz Energy Services, and Portland General) and an international water company (E-Biz Communications). E-Biz's regulated business includes two operations: natural gas pipelines, comprised of E-Biz Gas Pipelines, which owns and operates all of E-Biz's natural gas pipelines, and Portland Gas (E-Biz recently announced the sale of Portland Gas which should close by the end of the year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of E-Biz North America, is currently E-Biz's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. E-Biz's newest energy business is its retail energy services business, comprised of E-Biz Energy Services, which provides retail energy services to major corporations in the U.S. These services include wholesale management and commodity purchases on behalf of the large corporate customers.

E-Biz's two newest businesses, E-Biz Communications and Amerc, are positioned to take advantage of positive business fundamentals outside of E-Biz's energy operations. E-Biz Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband service over an Internet Protocol network. Additionally, E-Biz Communications is pursuing an opportunity to create a market for the trading of lights capacity on fiber systems. Amerc is a $425 million publicly traded international water company (70% controlled by E-Biz) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatization, providing water and wastewater related services to municipal and industrial water and wastewater utilities, and developing and managing water resources.
Mr. G. Kelly Martin
Senior Vice President
Merrill Lynch, Pierce, Fenner & Smith, Inc.
4 World Financial Center
250 Vesey Street, 32nd Floor
New York, NY 10080

Dear Mr. Martin:

We are in receipt of the letter dated September 13, 2002, written by Mr. James Weidner of Clifford Chance US LLP on behalf of Merrill Lynch. Based upon the responses Merrill Lynch has provided, the Subcommittee has the following additional questions which we would appreciate Merrill Lynch responding to in writing by November 1, 2002. As before, if Merrill Lynch possesses documents or other materials relevant to the issues raised below that it has not already produced, please provide them to the Subcommittee by the same date.

1. Please explain how Ebarge, LLC (Ebarge), a wholly owned Merrill Lynch special purpose entity, could generate tax benefits to Eron by being domiciled in the Cayman Islands.

   If Merrill Lynch was the sole owner of Ebarge, what tax benefits could accrue to Eron as a result of Merrill Lynch’s domiciling Ebarge in the Cayman Islands? What tax benefits did accrue to Eron as a result of Merrill Lynch’s domiciling Ebarge in the Cayman Islands? Who at Eron communicated to Merrill Lynch the tax benefits Eron sought to achieve by domiciling Ebarge in the Cayman Islands, and to whom at Merrill Lynch were those sought after Eron tax benefits conveyed? Please provide copies of any documents that explain or relate to the tax benefits Eron sought from Merrill Lynch’s domiciling Ebarge in the Cayman Islands.

2. What benefits (tax or otherwise) did Merrill Lynch receive by domiciling Ebarge in the Cayman Islands? Please identify and quantify all costs and any lost benefits that accrued to Merrill Lynch as a result of domiciling Ebarge in the Cayman Islands.

3. Who at Merrill Lynch was involved in domiciling Ebarge, and who at Merrill Lynch made the decision to domicile Ebarge? Why did Merrill Lynch agree to domicile Ebarge? Why were the Cayman Islands selected?

4. Did Ebarge generate any income during the period of Merrill Lynch’s ownership? If so, how much did it generate? Was any of this taxable income, and if so, how much?
5. In your response to question 5 of our August 16, 2002 letter, you stated that "no individual within Merrill Lynch superior or equal to [Mr. John] Olson in rank . . . specifically recalls any discussion with Olson that related to complaints about his research coverage of Enron."

(a) Does any individual who currently works for Merrill Lynch generally recall any communications with Mr. Olson related to any of the issues listed in question 5 of our August 16, 2002 letter? If so, please identify these individuals, and provide a summary of their communications with Mr. Olson relating to these issues.

(b) Do any individuals who worked for Merrill Lynch in 1998 recall (generally or specifically) any communications with Mr. Olson related to any of the issues listed in question 5 of our August 16, 2002 letter? If so, please identify these individuals, and provide a summary of their communications with Mr. Olson relating to these issues.

(c) Did Merrill Lynch at any time discuss any of the issues listed in question 5 of our August 16, 2002 letter with Andrew Metzick or any other former Merrill Lynch employee who was employed at Merrill Lynch in 1998? If so, please identify these individuals and provide a summary of each of those communications.

6. Your response to question 6 of our August 16, 2002 letter states that "Mr. Allison recalls only one conversation with an Enron executive, which he believes occurred sometime in April 1998." Please identify this executive and why Mr. Allison was speaking with this executive. Did Mr. Allison initiate the conversation? Was the conversation in person, by telephone, or by some other means? Does Mr. Allison recall anything about the call? If so, what does he recall?

7. Please respond "yes" or "no" to the following question: was Mr. Olson's departure from Merrill Lynch in any way related to the subject matter of the April 18, 1998 memorandum from Rick Gordon and Schuyler Tilney to Herb Allison? If the answer is "yes," please explain how it was related.
Mr. G. Kelly Martin  
October 18, 2002  
Page Three

If you have any questions about those requests, please contact Tim Henseler at (202) 224-9123 (Senator Levin) or Claire Bernard at (202) 224-3721 (Senator Collins). Thank you for your response.

Sincerely,

[Signatures]

Susan Collins, Ranking Republican  
Carl Levin, Chairman  
Permanent Subcommittee on Investigations

CL-SC:th
November 8, 2002

The Honorable Carl Levin, Chairman
The Honorable Susan Collins, Ranking Member
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510-6250

Dear Sir and Madam:

I write on behalf of Merrill Lynch in response to your October 18, 2002 letter containing additional questions arising out of my letter to you of September 13, 2002. Merrill Lynch is pleased to provide the requested information, which is set forth below and in the enclosed documents. If Merrill Lynch can be of any further assistance to the Subcommittee in its investigation relating to Enron Corporation, please do not hesitate to contact me.

1. Please list the individuals on the Debt Markets Capital Committee (DMCC) that reviewed the proposed Nigerian Barge transaction between Enron and Merrill Lynch. Please describe how and when the DMCC convened to consider the proposed Nigerian barge transaction, and provide any minutes, notes or other documents relating to or resulting from those meetings or discussions. Please describe what was discussed at each meeting or discussion that addressed the Nigerian barge transaction. Please identify all individuals who attended and/or participated in those meetings or discussions (regardless of whether the individual was on the DMCC or not). Has Merrill Lynch conducted a search of the records, files or computers of each of these individuals to determine if they possess documents responsive to the Subcommittee subpoenas? If so, please describe those efforts. Have all such responsive documents been produced?

Members of the Debt Markets Committee Committee (the “DMCC”) met on or about December 22, 1999 to discuss the proposed transaction. Likely participants included James Brown, Kevin Cox, Robert Forst, Schuyler Tilley, Paul Wood, and Katherine Ziska. Others may have participated in person or by phone. The meeting participants engaged in an open and frank discussion about the transaction, the fact that Arthur Andersen had approved Enron’s proposed accounting treatment, the immaterial size of the transaction relative to Enron’s revenues, and the financial risk to Merrill Lynch presented by the transaction. The group also specifically addressed concerns regarding the propriety of the transaction. Since the DMCC did not have the authority to approve proprietary investments, no vote was taken. However, members of the DMCC had no objection to proceeding with the transaction, subject to its being considered for approval by Thomas Davis.

To date, Merrill Lynch has engaged in extensive efforts to collect all materials relating to Enron that may be responsive to the Subcommittee’s subpoenas or to any of the numerous inquiries from other government agencies, including requests for and review of all related materials from each of the
2425

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above-referenced individuals. Additionally, Merrill Lynch continues to retrieve and review archived e-mail communications.

Enclosed herewith are additional materials (bates stamped MS 24572 through MS 24577) responsive to the Subcommittee’s request. With this letter and its enclosures, Merrill Lynch has now produced all non-privileged information and materials identified to date relating to the DMCC’s review of the barge transaction.

2. Attached is a Merrill Lynch appropriations document relating to the Nigerian barge transaction between Merrill Lynch and Earon, bates-stamped MS 05339-34. In whose records, files or computer was this document located? If a similar appropriations document was found in the records, files or computers of more than one individual, please list these individuals and produce these documents. Please identify the handwriting contained on Bates number MS 05332.

The document in question was located in the files of Katherine Zrisko, who also made the notations located on the page bearing the bates number MS 05332.

Additional copies of the draft Appropriation Request were located within the common electronic database for Merrill Lynch’s Houston office, and also in the files of James Brown, Michael DeBolla, Christopher Vendome, Gary Dolan, and Joseph Valenti. All such copies are enclosed herewith and bates-stamped MS 24578 through MS 24625.

3. In response to a question relating to whether or not there exists a committee similar to the DMCC that reviews equity investments, you note in your September 13, 2002 letter that:

Because of the potentially lengthy nature of [an appropriations governance] process, and given time constraints, the barge transaction was reviewed by the DMCC, which was occasionally asked to scrutinize proposed non-debt transactions such as equity investments structured with bridge-like features.

How many other times in 1998, 1999, and 2000 did the DMCC scrutinize “proposed non-debt transactions”? What were the “bridge-like features” of the Nigerian barge transaction you mention in your letter? How many other times in 1998, 1999, and 2000 did the DMCC scrutinize equity investments structured with “bridge-like features”?

The DMCC is a highly respected committee within Merrill Lynch composed of professionals with wide-ranging expertise in credit, banking, legal, and risk management issues, and, as noted, the DMCC on occasion was asked to review complex, proposed non-debt transactions technically outside
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of the committee's province. Given the ad hoc nature of such reviews, however, the DMCC does not
regularly keep records of transactions that it may comment on but does not approve. Thus, while the
committee reviewed other non-debt transactions (including those that may have had "bridge-like"
features) the exact number of such transactions cannot be determined.

Regarding the "bridge-like" nature of the barge transaction, clients occasionally ask Merrill Lynch to
serve as a short-term investor to "bridge" projects or ventures through the purchase of equity. Eron
requested that Merrill Lynch make such a short-term equity investment through the barge
transaction.

Respectfully,

John Merrigan
enclosures
From:  Bynum, Brad (BKC-DAL)
Sent:  Wednesday, December 23, 1999 10:20 AM
To:  DeVito, Mark (CIDG - CAPMKT3S); Brown, James (CIDG - CAPMKT3S); Fuhr, William (CIDG - CAPMKT3S)
Subject:  EMCC for Exxon Project

December 23, 1999

MS 24572
Merrill Lynch

Subject: $7.0 Million Equity Bridge Commitment

1. SUMMARY AND TRANSACTION OVERVIEW

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase $7MM of equity in a special purpose vehicle that will allow Enron Corp. to book $7MM of earnings. The transaction must close by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they believe our hold will be for less than six months. The investment would have a 22.5% return.

Enron will have 3 bagasse-fired power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is $30 million. Enron wants to monetize the first 3 years of cash flow for $210MM. They will do this by establishing a U.S. special purpose vehicle. The special purpose vehicle will be capitalized by our $7MM investment and a $21MM loan from Enron Corp. Enron has a total investment of $46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dee Bygel will have a conference call with senior management of Enron confirming this commitment.

Enron is a top client to Merrill Lynch. Enron views the ability to participate in transactions as adding significant value. Enron has generated a fee to ML in excess of $40 MM in 1999.

2. PROPOSED CORPORATE STRUCTURE

Transaction Structure

| Purchase Equity Contribution | $ 7.00 Million |
| Acquisition Loan (flow Enron to SPV) | $21.00 Million |
| Total Purchase Price | $28.00 Million |

Terms: 13% Interest Rate. Enron's equity is subject to an equity kicker. Enron has agreed to a 24-month term, amortization to be agreed. Loan secured by Purchase's interest in the Bagasse Project Only.

MS 24573
INTERIM MEMORANDUM

To: Debt Markets Committeee Committee
From: Project Finance and Lease Group: James Brown
Debt Capital Markets: Mark DeVito
ML Investment: Schuyler Tillery
ML Dallas: Rob Foust, Brad Fynn

Tel: Leveraged Finance Group: 4327
Debt Capital Markets: 9908
ML Houston: 713-759-2510
ML Dallas: 214-819-3500, 3510

Merrill Lynch

Date: December 22, 1999

Subject: 7.0 MILLION EQUITY BRIDGE COMMITMENT

TRANSACTION SUMMARY

Entity: Special Purpose Vehicle
Facility: $7.0 MILLION Equity
Request: $7.0 Million

Expected Ratings
(Moody’s/S&P): B-, B3

Moody’s/S&P):

Minority: Less than six months

Use of Proceeds: To purchase common and preferred equity in a Nigerian

Banco da Ca

Timing: Closing by year end

Independent Auditors: NA

Company Counsel: Vincent & Elkins

Underwriter Counsel: NA

Fees: Proposed $250,000 plus 15% per annum or a flat 22.5%

return per annum.

ML Research Coverage: Leo I. Kolson

MS 24574
Shareholder Structure

There will be three classes of stock: two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common Shares. Euren will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Pre Trigger Date</th>
<th>Post Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purchaser)</td>
<td>9.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B (Euren)</td>
<td>99.9% of CF After Pref A</td>
<td>99.9% of CF After Pref A</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
<td>100.005 of CF After Pref A A&amp;B</td>
<td>100.005 of CF After Pref A A&amp;B</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Euren Preferred B Shares receive approximately 90.05% of the Cash Flow and after distributions to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.

TIME LINE

1. For a (between Euren Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the FPA Barge activities only are assigned to Euren Nigeria Barge Holding Ltd. Which in turn acquires the rights to Euren Nigeria Barge Ltd.

2. Euren Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Euren Barge Holding Ltd.

3. Preferred A Shares and Common are sold by Euren Nigeria Barge Holding Ltd. To a third party who acquires the equity interest involved with the Euren Nigeria Barge Ltd.

MS 24575
III. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Barges</td>
<td>$25,000</td>
</tr>
<tr>
<td>Barge Upgrade and Onshore Cost</td>
<td>15,800</td>
</tr>
<tr>
<td>Total EPC</td>
<td>40,800</td>
</tr>
<tr>
<td>Mobilization</td>
<td>1,034</td>
</tr>
<tr>
<td>Development Costs</td>
<td>1,500</td>
</tr>
<tr>
<td>Working capital and Spares</td>
<td>2,129</td>
</tr>
<tr>
<td>Contingency</td>
<td>181</td>
</tr>
<tr>
<td>Total Costs</td>
<td>$45,614</td>
</tr>
</tbody>
</table>

Projection of 95% of Net Cash Flow (US $000)

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>$9,123</td>
<td>$13,362</td>
<td>$13,706</td>
<td>$3,410</td>
<td>$39,601</td>
</tr>
</tbody>
</table>

The $35.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Project I project life is $44.1 million, and 95% of the three year cash flow is $39.7 million.

It is the intention of Enron to provide the lineitem monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 11% per year.

IV. ENRON OVERVIEW

Merrill Lynch’s relationship with Enron Corp. (the “Company” or “Enron”) has developed significantly over the past year as Enron will generate more than $40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead managed Enron’s international water utility subsidiary, IPO ($700 million)
  - Advised on subsequent $255 million acquisition of AES/C Requa Management Inc.
  - Currently working on several buy/side advisory assignments
  - Co-lead for $200-500 million high yield issuance (currently on hold)

- Co-managed a New Issue Common Equity offering for Enron Corp. ($251 million)

- Currently working with the CFO to raise a $500 million private equity fund (LJM32)

- Currently pitching to become Enron’s financial advisor for private equity in its telecommunications subsidiary (Enron Communications)

- The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 22,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company’s long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron’s total assets were $14 billion and its equity market capitalization was approximately $25 billion. For the year ended
December 31, 1994, Enron generated revenue of $11.3 billion, up 22% over the year ended December 31, 1993. The Company has grown its revenue and operating profit at an annualized rate of 30% and 22% over the period from 1993 to 1994, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) a telecommunications subsidiary (Enron Communications) and an international water company (Akamai). Enron's regulated business includes two operations - natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's regulated interstate natural gas pipelines, and Portland General (Enron recently assumed the role of Portland General which should close in the next year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Akamai, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 30,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to own a market for the trading of bandwidth capacity on fiber systems. Akamai is an $8.5 billion publicly traded international water company (76% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatization, providing water and wastewater related services to municipal and industrial water makers and developing and managing waste resources.

V. PRELIMINARY INFORMATION MEMORANDUM

Attached

MS 24577
<table>
<thead>
<tr>
<th>Management Unit</th>
<th>CICG</th>
<th>Project Name</th>
<th>Cנוס Nigerian Dollar Total</th>
<th>Financial Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group</td>
<td>KSh</td>
<td>Needs to Close by 1/29/1999 - Terminated by 6/30/90</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**EXECUTIVE SUMMARY**

**Entity:** Special Purpose Vehicle

**Facility:** 27.5 Million Equity

**Request:** 27.5 Million

**Expense Savings (More KShA):** $1.93

**Ministry:** Less than six months

**Use of Proceeds:** To purchase common and preferred equity in a Nigerian Steel Co., indirectly owned by Exxon Corp.

**Timing:** Closing by year-end 1999.

**Independent Auditor:** VA

**Company Counsel:** Vinnet & Ellis

**Underwriter Counsel:** VA

**Fees:** Proposed 310,000 plus 10% per annum or a flat 22.2% per annum.

**ML Research Coverage:** Len J. Keiser

Jeff Mckinley, EVP and Treasurer of Exxon Corp., has asked ML to purchase $75M of equity in a special purpose vehicle that will allow Exxon Corp. to hold $125MM of earnings. Exxon wants this transaction by 1/29/99. Exxon is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.2% return.

Exxon will have 3 large men's power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $18 million from the Nigerian government. Exxon wants to sell the first 3 years of cash flow for $215MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by Martin Lynch. The SPE will be capitalized by our $75MM investment and a $215MM non-recourse loan from Exxon Corp which will then purchase non-voting common stock in the Exxon subsidiary that owns the assets. Exxon will have a real investment of $49.4MM in the project. Exxon is in active negotiations with several equity investors, including Metallgesellschaft. However, they are not able to close the transaction with a long-term holder by year-end. Exxon will facilitate our exit from the transaction with third-party investors. Dan Blyly will have a conference call with senior management of Exxon confirming this commitment to guaranty the ML balance within six months.

Exxon has strongly requested ML to enter into this transaction. Exxon has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.

MS 24578
<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>OCGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Name:</td>
<td>Eton Nijagon Bonds Equity</td>
</tr>
<tr>
<td>Financial Commitment:</td>
<td>$7 million</td>
</tr>
</tbody>
</table>

**SPONSOR:***

- Originator: [Redacted]
- Mgmt. Uni. Controller: [Redacted]
- Mgmt. Uni. Head: [Redacted]
- Group Finance Director: [Redacted]
- Group BU: [Redacted]

**Other Reviews***

<table>
<thead>
<tr>
<th>Date Markets Capital Committee:</th>
<th>Group/Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peer Project Review:</td>
<td>Date</td>
</tr>
<tr>
<td>Date Approved:</td>
<td>Other:</td>
</tr>
</tbody>
</table>
Appendix

4. PROPOSED CORPORATE STRUCTURE

Transaction Details

Purchase Price: $1.20 million
Annually to be distributed in the ratio of
Total Purchase Price: $4.80 million

Dividend Details

There will be two classes of stock: Class A preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common Shares. Shares will own the Preferred B Shares. The requirement below indicates the remaining interests before and after the Trigger Date. In each case, the right indicates the Cash Flow rights of each shareholder class after the period when the shareholder has recovered their percentage share of the Cash Flow.

<table>
<thead>
<tr>
<th>Bank Class</th>
<th>Prior Trigger Date</th>
<th>Post Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A Shares</td>
<td>5.1% of CF</td>
<td>5.1% of CF</td>
</tr>
<tr>
<td>Preferred B Shares</td>
<td>9.7% of CF After AAB</td>
<td>99.8% of CF After AAB</td>
</tr>
<tr>
<td>Common Shares</td>
<td>32.3% of CF After AAB</td>
<td>32.3% of CF After AAB</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 99% of the Cash Flow via the Common Shares and a small percentage from the Preferred A. After the Trigger Date, the Common Shares receive approximately 99% of the Cash Flow and after distribution to the Preferred A and preferred B, the Common receives the residual distribution of the Cash Flow.
TIME LINE

(1) FPA is between Ebasee Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights in the FPA (large capacity units) were assigned to Ebasee Nigeria Power Holding Ltd. Which in turn assigned the rights to Ebasee Nigeria Barge Ltd.

(2) Ebasee Nigeria Barge Ltd, ABS Preferred and Common Shares were issued to Ebasee Nigeria Barge Holdings Ltd. To a US party who invested more equity capital involved with the Ebasee Nigeria Barge Ltd.

13. BARGE PROJECT ECONOMIC SUMMARY

Cash Summary (All Naira)

<table>
<thead>
<tr>
<th>Power Barge</th>
<th>Base Unit Price of Equipment Cost</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N100,000</td>
<td>N120,000</td>
</tr>
</tbody>
</table>

Note: Additional Costs: N100,000,000

Development Costs: N2,000,000

Total Costs: N122,000,000

Production of Oil (Net Cash Flow)

<table>
<thead>
<tr>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Year 2004</th>
<th>Year 2005</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>N125,000</td>
<td>N130,000</td>
<td>N150,000</td>
<td>N145,000</td>
<td>N550,000</td>
</tr>
</tbody>
</table>

The N15.6 million project work was to be paid by Ebasee. The net cash flow projected over the three year Phase I project life is N94.7 million, and N314.1 million of the three year cash flow in N35 billion.

It is the intention of Ebasee to provide in the Income statements following of net cash flow, and to have an Ebasee officer present at 75% of all financial data. The proposed deal period is three years with an interest of 12% per year.

14. ECONOMIC OVERVIEW

Merrill Lynch’s relationship with Ebasee Corp. (the “Company” or “Ebasee”) has developed significantly over the past year as shown will phase two. Ongoing initiatives include a number of Ebasee projects in 1995. The following projects have been underwritten and are significant ones:

- Land managed by Merrill Lynch’s International Property & Office Group (Merrill Lynch)
- Advised in connection with $330 million acquisition of AKG Americas
- Contributed to an annual equity capitalization of $50 million
- Contributed to an annual equity capitalization of $100 million

The shares have been listed on the Toronto Stock Exchange (Toronto)

(1) Co-managed an issue for Common Equity offerings for Ebasee Corp. ($250 million)
Currently working with the COP to raise a $100 million private equity fund.

Currently planning to become Enron's financial advisor for private equity in the telecommunications industry

The Company is actively exploring power opportunities in traditional Europe.

**Company Overview**

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and one of the largest marketers and traders of power across the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first interstate fiber optic facility in the U.S. Additionally, through its international energy company, Enron now operates water assets in the U.S., Europe, Canada, Mexico, and Argentina. As of June 30, 1997, Enron's total assets were $19 billion and its equity market capitalization was approximately $23 billion. For the year ended December 31, 1996, Enron generated revenue of $1.5 billion, up 55% over the prior year ended December 31, 1995. The Company has grown its revenues and operating profit at an annualized rate of 30% and 20% over the period from 1993 to 1997, respectively, and has been named the most innovative company in the world for Forbes for the past five years.

Enron is regarded as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipeline, Enron Energy Services and Portland General) a telecommunications subsidiary (Enron Communications) and an international energy company (Enron). Enron's regulated businesses include two transmission - owned gas pipelines, comprised of SLP (the Pacific), which serves and transports all of Oregon's Southern Idaho regulated interstate natural gas pipelines, and Portland General (Oregon market) which services all of Oregon. Enron's generation and distribution company serving the Puget Sound market, Washington energy services, comprised of Enron North America, is currently Enron's largest business in terms of operating profit and provides community and industrial gas, electricity, and other energy-related services to more than 600,000 customers in the Portland and Vancouver metropolitan areas and 12 other counties in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides low-cost energy saving solutions to major corporations in the U.S. Their retail division includes infrastructure management projects that provide new equipment installation and community purchases on behalf of the large corporate customers.

Enron's two largest businesses, Enron Communications and Amoco, are positioned to take advantage of positive business fundamentals that result from Enron's ongoing expansion. Enron Communications is constructing an over 1000 mile refractory long haul fiber optic network that will allow long distance communications over the Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to receive an award for the building of backbone capacity for ECI systems. Amoco is one of the world's largest publicly traded international energy companies (75% controlled by Enron) which plans to take advantage of the significant opportunities that arise for the private sector participation in the global energy industry, including exploration and production and transportation services via partnerships, providing new and innovative retail services in municipal and industrial energy markets and developing and managing new energy sources.

MS 24582
### APPROPRIATION REQUEST COVER PAGE

<table>
<thead>
<tr>
<th>Management Unit</th>
<th>CSG</th>
<th>Project Name:</th>
<th>Date</th>
<th>Financial Commitment</th>
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<tr>
<td></td>
<td></td>
<td></td>
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<td>$7 Million</td>
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<table>
<thead>
<tr>
<th>Stage</th>
<th>Project Start</th>
<th>Project Finish</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

#### EXECUTIVE SUMMARY

**Entity:** Special Purpose Vehicle  
**Facility:** $1.5 Million Equity  
**Excess:** $5.2 Million  
**Expected Duration:** 6-9 months  
**Use of Proceeds:** To purchase common and preferred equity in a Nigerian financial Co.  
**Timing:** Closing by year-end 1999  
**Interim Auditors:** None  
**Company Counsel:** Vincent & Elkins  
**Underwriter Counsel:** NA  
**Fees:** Proposed $250,000 plus 1% on sources or a flat 22.5% rate per annum  
**MFA Research Coverage:** Yes  

Jeff Mecklen, EVP and Treasurer of Exxon Corp., has asked ML to purchase $35M of equity in a special purpose vehicle that will allow Exxon to borrow $200M of mezzanine finance for this transaction by 12/31/99. Exxon is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Exxon will have 2 large-moored power plants in service by February 2000 in Nigeria. The first 3 years of each plant is projected to be $90 million from the Nigerian government. Exxon wants to add the first 3 years of each plant to the DPE. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by MFA/Cahill. The SPE will be capitalized by our $100M investment and a $500M commitment from Exxon Corp. which will then purchase non-voting common stock in the Exxon subsidiary that owns the business. Exxon will have a small investment of $20M in the project. Exxon is in active negotiations with several equity investors, including Mitsui. However, they are not able to close the transaction with a long-term holder by year-end. Exxon will "withdraw" not exit from the transaction with third party investors. Dan Foley will have a conference call with senior management of Exxon discussing this commitment to ensure that ML is taken out by six months.

Exxon has strongly suggested ML to enter into this transaction. Exxon has paid ML approximately $50 million in fees in 1999 and is expected to do so again in 2000.
# Appropriation Request Approvals

Management Unit:  
Project Name: Energy Storage and Equity  

<table>
<thead>
<tr>
<th>Sponsor</th>
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<td>Originator:</td>
<td>Risk Fund</td>
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<tr>
<td>Sign. Unit Controller:</td>
<td></td>
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<td>Sign. Unit Head:</td>
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<td>Group EVP:</td>
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<table>
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<th>Other Review</th>
<th>Corporate Approvals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date Markets Capital Committee:</td>
<td>Chief Financial Officer:</td>
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<td>Peer Project Review:</td>
<td>Executive Committee:</td>
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<tr>
<td>Date:</td>
<td>Audit and Finance Committee:</td>
</tr>
<tr>
<td>Date Approved:</td>
<td>Other:</td>
</tr>
</tbody>
</table>

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MS 24584
Appendix

I. PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution
Acquisition Loan (From Senior to SPV)
Total Purchase Price

Basic 15% Internal Rate of Return on invested equity for Purchaser.
Acquisition Loan Terms: 12% Interest Rate, 36 Month Terms, Amortization to be Agreed

Lease secured by Purchaser's interest in the Bridge Project Only

Shareholder Structure

There will be three classes of stock preferred and one common. The透过者 will purchase the Preferred A Shares and the Common Shares. Earnings will pass the Preferred B Shares. The summary below indicates the economic returns before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

<table>
<thead>
<tr>
<th>Cash Flow (Percent of Cash Flow (%))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Over)</td>
</tr>
<tr>
<td>Preferred B (Senior)</td>
</tr>
<tr>
<td>Common Stock (Over)</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 50% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Common Preferred B Shares receive approximately 90% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the mark-up distribution of the Cash Flow.
TIME LINE

1. PPA is between Eleme Niger Delta Power Holding Ltd and the Lagos State of Nigeria. Subsequently the rights to the PPA (except where on the rights to the PPA) are assigned to Eleme Niger Delta Power Holding Ltd. Which is now operating the rights in Eoosa Niger Delta Power Co.

2. Eleme Niger Delta Power Co. ABN Preferred and Common Shares are issued to Eoosa Niger Delta Power Co. 3. Preferred A Shares and Common Shares are sold from Eoosa Niger Delta Power Co. By a third party who assumes the equity not involved with the Eoosa Niger Delta Power Co.

II. RANGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

<table>
<thead>
<tr>
<th>Item</th>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Year 2004</th>
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</thead>
<tbody>
<tr>
<td>Power Plant</td>
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<td>1,250</td>
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<td>1,250</td>
</tr>
<tr>
<td>Balance and Construction</td>
<td>250</td>
<td>250</td>
<td>250</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>Total Cost</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
</tr>
</tbody>
</table>

The $1,500 million project cost are to be paid by Eoosa. The capital costs have been allocated over five year through the project life is $300 million, and 50% of the first year cash flow is $50 million.

III. RISK OVERVIEW

Meridill's relationship with Eoosa Corp. (the "Company" or "Eoosa") has developed significantly over the past year as shown in the balance sheet distribution of cash flow, and has been on financial statement and equity notes, which is expected to be $100 million. The proposed debt period is three years, with an average of 6% per year.

- New York Branch
- Eoosa Corp.
- Meridill's relationship with Eoosa Corp. (the "Company" or "Eoosa") has developed significantly over the past year as shown in the balance sheet distribution of cash flow, and has been on financial statement and equity notes, which is expected to be $100 million. The proposed debt period is three years, with an average of 6% per year.

- New York Branch
- Eoosa Corp.
- Meridill's relationship with Eoosa Corp. (the "Company" or "Eoosa") has developed significantly over the past year as shown in the balance sheet distribution of cash flow, and has been on financial statement and equity notes, which is expected to be $100 million. The proposed debt period is three years, with an average of 6% per year.

- New York Branch
- Eoosa Corp.
- Meridill's relationship with Eoosa Corp. (the "Company" or "Eoosa") has developed significantly over the past year as shown in the balance sheet distribution of cash flow, and has been on financial statement and equity notes, which is expected to be $100 million. The proposed debt period is three years, with an average of 6% per year.

- New York Branch
- Eoosa Corp.
Currently working with the CFO to raise $500 million private equity fund (LAMC)

Currently plotting to secure Enron's financial advice for private equity in telecommunications (from Communications)

The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 20% of natural gas pipelines in the U.S. The Company also owns the largest utility with over 1,600,000 customers in America and the Pacific Rim. Once completed, the Company's integrated fiber-optic network will be the first Internet fiber network in the U.S. Additionally, through its international water company, Enron now authorizes water systems in the U.S., Europe, Canada, Mexico, and Argentina. As of June 30, 1999, Enron's total assets were $1.6 trillion and its equity market capitalization was approximately $5 billion. For the year ended December 31, 1996, Enron garnered revenue of $31.3 billion, up 32% over the year ended December 31, 1995. Enron's net income as a result of operations was up 62% to $9.4 billion. Enron has achieved annual compounded growth in earnings and revenues in recent years from diversified energy operations. The Company has grown its earnings per share at an annual rate of 55% and 30% over the past decade.

Enron is organized as a holding company with five energy-related operating subsidiaries (North America, Enron Gas Pipelines, Enron Energy Services, and Portland General): a telecommunications subsidiary (Enron Communications) and an international water company (Enron Water). Enron's regulated business includes natural gas pipelines, natural gas distribution, electric distribution, electric generation, and fuel transportation. The Company's international activities include the construction and management of telecommunications and energy infrastructure projects, the provision of energy storage services, the development of power generation, the generation of energy, and the provision of energy marketing services.

Enron's regulated energy business is its most energy services business, comprising of Enron Energy Services, which provides total energy marketing solutions to major companies in the U.S. These solutions include infrastructure management, production, and energy development and management services. Enron's energy services business includes energy trading, energy marketing, energy procurement, and energy development services.

Enron's current services business, Enron Communications and Assur, are poised to take advantage of positive business fundamentals worldwide of Enron's energy services. Enron Communications is constructing an over 16,000-mile nationwide long-haul fiber optic network that will offer broadband applications over an Internet protocol network. Additionally, Enron Communications is a major supplier to the telecommunications industry in the U.S. and is a leading provider of long-haul fiber optic services. Enron Comms' current services business includes energy trading, energy marketing, energy procurement, and energy development services.

Enron's current energy services business, Enron Communications and Assur, are poised to take advantage of positive business fundamentals worldwide of Enron's energy services. Enron Communications is constructing an over 16,000-mile nationwide long-haul fiber optic network that will offer broadband applications over an Internet protocol network. Additionally, Enron Communications is a major supplier to the telecommunications industry in the U.S. and is a leading provider of long-haul fiber optic services.
APPROPRIATION REQUEST COVER PAGE

<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>CCCG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Start / Finish:</td>
<td>Needs to Close by 12/31/98 - Turned by 6/30/00</td>
</tr>
<tr>
<td>Group:</td>
<td>Enron Nigerian Barge Co.</td>
</tr>
<tr>
<td>Project Name:</td>
<td>$7 Million</td>
</tr>
<tr>
<td>Financial Commitment:</td>
<td>$7 Million</td>
</tr>
</tbody>
</table>

EXECUTIVE SUMMARY

Entity: Special Purpose Vehicle

Facility: 7.0 Million Equity

Request: 7.8 Million

Expected Value (Modulo/SMAPP): B, B

Use of Proceeds: To purchase new or used barges for a Nigerian Barge Co., actively owned by Enron Corp.

Timing: Closing by year end 1999.

Independent Auditors: NA

Company Counsel: Victor & Elbas

Underwriter Counsel: NA

Fee: Proposed $356,000 plus 15% on warrants or a flat 2.2% interest.

ML Research Coverage: Lee J. Klein

Jeff McMillan, EVP and Treasurer of Enron Corp, has asked BHP to purchase $73 Million in equity in a special purpose vehicle that will allow Enron Corp to book $12 Million of earnings. Enron must close the transaction by 12/31/98. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a minimum yield of 22.5%.

Enron will have 3 large mounted power plants in service by February 2000 in Nigeria. The first 2 years of cash flow is guaranteed to be $6 Million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $116 Million. They propose to do this by having BHP establish a U.S. special purpose entity (the SPE), owned by lipid Lincs. The SPE will be capitalized by the Enron investment and a $21 Million non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $54 Million in the project. Enron is in active negotiations with several equity investors, including Margaret. However, they are not able to close the transaction with a long-term holder by year-end. Enron will not be our exit from the transaction with third party investors. The BHP will have a conference call with senior management of Enron confirming this commitment to guarantee the ML facility within 6 months.

Enron has strongly requested BHP to enter into this transaction. Enron has paid ML approximately $45 million in fees in 1999 and is expected to do so again in 2000.

MS 24588
<table>
<thead>
<tr>
<th>Management Unit</th>
<th>Project Name</th>
<th>Financial Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCG</td>
<td>Enron Nigerian Barge Equity</td>
<td>$1 million</td>
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**SPONSOR:**

<table>
<thead>
<tr>
<th>Originator</th>
<th>Other Unit Controller</th>
<th>Other Unit Head</th>
<th>Group Finance Director</th>
<th>Group EVP</th>
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<tbody>
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<th>Data Market Capital Committee</th>
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**Corporate Approvals:**

<p>| | |</p>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

MS 24589
Appendix

1. PROPOSED CORPORATE STRUCTURE

Transaction Structure

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Equity Contribution</td>
<td>$ 7.0 Million</td>
</tr>
<tr>
<td>Acquisition Loan (from Enron to SPV)</td>
<td>$ 11.0 Million</td>
</tr>
<tr>
<td>Total Purchase Price</td>
<td>$ 28.0 Million</td>
</tr>
</tbody>
</table>

Basic 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock: two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares." Enron will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the cash flow rights of each share class after the previous class shareholder has received their percentage share of the Cash Flow.

### Economic Interest (Percent of Cash Flow ("CF")

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Pre Triger Date</th>
<th>Post Triger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purchaser)</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B (Enron)</td>
<td>9.9% of CF After Prof A</td>
<td>99.9% of CF After Prof A</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
<td>100.0% of CF After Prof A</td>
<td>100.0% of CF After Prof A</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enron Preferred B Shares receive approximately 99.9% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.

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MS 24590
TIME LINE

(1) PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (Barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.

(2) Enron Nigeria Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd.

(3) Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes full equity risk involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
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<tbody>
<tr>
<td>Power Barges</td>
<td>$24,000</td>
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<tr>
<td>Barge Upgrades and Onshore Cost</td>
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<td>Total EPC</td>
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<td>Mobilisation</td>
<td>1,014</td>
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<td>Development Costs</td>
<td>1,500</td>
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<td>Working capital and Spares</td>
<td>2,119</td>
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<td>Contingency</td>
<td>181</td>
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<td>Total Cost</td>
<td>34,514</td>
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Projection of 90% of Net Cash Flow (US $000)

<table>
<thead>
<tr>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
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<tr>
<td>$13,325</td>
<td>$13,242</td>
<td>$13,700</td>
<td>$2,410</td>
<td>$39,991</td>
</tr>
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</table>

The $45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase 1 project life is $48.4 million, and 90% of the three year cash flow is $39.7 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 7.5% of dollar financed debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Enron Corp. (the "Company" or "Enron") has developed significantly over the past year as Enron will generate more than $40 million in investment banking fees in 1998. The following points identify current deals related to the Company and significant recent Enron transactions in which Merrill Lynch was involved.

- Lead-managed Austrian's, Enron's international utility subsidiary, IPO ($700 million)
- Advised on subsequent $235 million acquisition of Alcoa Acqua Management Inc.
- Currently working on several buy side advisory assignments
- Co-lead for $500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. ($165 million)
Currently working with the CFO to raise a $500 million private equity fund (JHM2)

Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications)

The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 12,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were $34 billion and its equity market capitalization was approximately $32 billion. For the year ended December 31, 1998, Enron generated revenue of $31.3 billion, up 25% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 20% over the period from 1993 to 1999, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General), a telecommunications subsidiary (Enron Communications), and an international water company (Azuho). Enron's regulated business includes two operations - natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's interstate-regulated interstate natural gas pipelines, and Portland General (Enron recently announced the sale of Portland General which should close in the next year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides retail energy sourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Azuho, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long-haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Azuho is an $850 million publicly traded international water company (70% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.
**APPROPRIATION REQUEST COVER PAGE**

<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>CIGG</th>
<th>Project Name:</th>
<th>Enron Nigerian Barge Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group:</td>
<td>IBK</td>
<td>Financial Commitment:</td>
<td>$ 7 Million</td>
</tr>
<tr>
<td>Project Start / Finish:</td>
<td>Needs to Close by 12/31/99 - Televised by 6/30/00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**EXECUTIVE SUMMARY**

**Entity:**
Special Purpose Vehicle

**Facility:**
$7.0 Million Equity

**Request:**
$7.0 Million

**Expected Ratings:**
(Moody's/S&P/Fitch)
B+/B3

**Maturity:**
Less than six months

**Use of Proceeds:**
To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

**Timing:**
Closing by year end 1999.

**Independent Auditors:**
NA

**Company Counsel:**
Vincent & Elkins

**Underwriter Counsel:**
NA

** Fees:**
Proposed $250,000 plus 15% per annum or a flat 22.5% return per annum.

**ML Research Coverage:**
Lou J. Kelser

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase $7M of equity in a special purpose vehicle that will allow Enron Corp. to book $12.5M of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $125M. They propose to do this by having ML, establish a U.S. special purpose entity (the SPE), owned by Merrill Lynch. The SPE will be capitalized by our $7M investment and a $215M non-recourse loan from Enron which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $46.5M in the project. Enron is in active negotiations with several equity investors, including Marshall. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment to guarantee the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.

MS 24593
<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>Project Name:</th>
<th>Financial Commitment:</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIG</td>
<td>Enron Nigerian Barge Equity</td>
<td>$7 million</td>
</tr>
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</table>

**SPONSOR:**

- **Originator:**
- **Mgmt. Unit Controller:**
- **Mgmt. Unit Head:**
- **Group Finance Director:**
- **Group EVP:**

**Other Reviewers**

<table>
<thead>
<tr>
<th>Corporate Approvals</th>
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<td>Debt Markets Capital Committee:</td>
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<td>Group/Date:</td>
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<td>Chief Financial Officer:</td>
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<tr>
<td>Peer Project Review:</td>
</tr>
<tr>
<td>Date:</td>
</tr>
<tr>
<td>Executive Committee:</td>
</tr>
<tr>
<td>Audit and Finance Committee:</td>
</tr>
<tr>
<td>Date Approved:</td>
</tr>
<tr>
<td>Other:</td>
</tr>
</tbody>
</table>
Appendix

I. PROPOSED CORPORATE STRUCTURE

Transaction Structure

<table>
<thead>
<tr>
<th>Purchase Equity Contribution</th>
<th>$ 7.00 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition Loan (from Enron to SPV)</td>
<td>21.00 Million</td>
</tr>
<tr>
<td>Total Purchase Price</td>
<td>$28.00 Million</td>
</tr>
</tbody>
</table>

Basic 23% Internal Rate of Return on invested equity for Purchaser.
Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed
Loan secured by Purchaser's Interest in the Enbridge Project Only

Shareholder Structure

There will be three classes of stock, two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares," Enron will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

<table>
<thead>
<tr>
<th>Economic Interest (Percent of Cash Flow (&quot;CF&quot;)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pre Trigger Date</strong></td>
</tr>
<tr>
<td>Preferred A (Purchaser)</td>
</tr>
<tr>
<td>Preferred B, (Enron)</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 99% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.
TIME LINE

(1) PPA is between Enron Nigeria Power Holding Ltd and the Legos State of Nigeria. Subsequently, the rights to the PPA (bargain activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.

(2) Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd.

(3) Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (US $000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Barges</td>
<td>350,000</td>
</tr>
<tr>
<td>Barge Upgrades and Float Cost</td>
<td>15,000</td>
</tr>
<tr>
<td>Total EPC</td>
<td>325,000</td>
</tr>
<tr>
<td>Mobilization</td>
<td>1,000</td>
</tr>
<tr>
<td>Development Costs</td>
<td>2,500</td>
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<td>Working capital and Spares</td>
<td>2,119</td>
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<tr>
<td>Contingency</td>
<td>181</td>
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<tr>
<td><strong>Total Costs</strong></td>
<td><strong>337,614</strong></td>
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Projection of 90% of Net Cash Flow (US $000)

<table>
<thead>
<tr>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
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<tbody>
<tr>
<td>$9,350</td>
<td>$11,242</td>
<td>$13,200</td>
<td>$2,471</td>
<td>$39,063</td>
</tr>
</tbody>
</table>

The $935 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase 1 project life is $44.1 million, and 90% of the three year cash flow is $39.7 million.

It is the intention of Enron to provide to the investors monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of its costs to finance the project. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Enron Corp. (the "Company" or "Enron") has developed significantly over the past year as Enron will generate more than $40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead managed Atal's, Enron's international water utility subsidiary, IPO (700 million)
  - Advised on subsequent $250 million acquisition of AEX Acqua Management Inc.
- Currently working on several key side advisory assignments
- Co-head for $500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. (445 million)

MS 24596
Currently working with the CFO to raise a $500 million private equity fund (LIM2)

Currently pitching to become Eren's financial advisor for private equity in its telecommunications subsidiary (Eren Communications)

The Company is actively exploring power opportunities in continental Europe

Company Overview

Eren is a global diversified energy company. Eren is the largest buyer and seller of natural gas and electricity in the world and owns 35,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Eren owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Eren's total assets were $34 billion and its equity market capitalization was approximately $32 billion. For the year ended December 31, 1998, Eren generated revenue of $31.3 billion, up 32% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 29% and 20% over the period from 1997 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Eren is organized as a holding company with four energy-related operating subsidiaries (Eren North America, Eren Gas Pipelines, Eren Energy Services and Portland General) a telecommunications subsidiary (Eren Communications) and an international water company (Azena). Eren's regulated business includes two operations - natural gas pipelines, comprised of Eren Gas Pipelines, which owns and operates all of Eren's federally regulated interstate natural gas pipelines, and Portland General (Eren recently announced the sale of Portland General which should close in the next year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Eren North America, is currently Eren's largest business as measured by operating profits, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Eren's newest energy business is its retail energy services business, comprised of Eren Energy Services, which provides retail energy commodity solutions to major corporations in the U.S. These solutions include infrastructure management packages with new equipment installation and commodity purchases on behalf of the large corporate customers.

Eren's two newest businesses, Eren Communications and Azena, are positioned to take advantage of positive business fundamentals outside of Eren's energy operations. Eren Communications is constructing an over 6,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Eren Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Azena is a $2.5 million publicly traded international water company (76% controlled by Eren) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.
APPROPRIATION REQUEST COVER PAGE

Management Unit: CIOG
Group: IBK
Project Start / Finish: Needs to Close by 12/31/99 - Taken by 6/30/00

$ in Thousands

Project Name: Exxon Nigerian Barge Study
Financial Commitment: $7 Million

EXECUTIVE SUMMARY

Entry: Special Purpose Vehicle
Facility: 57.3 Million Equity
Request: 57.3 Million
Expected Ratings (Moody's & S&P): B-, B
Maturity: Less than six months
Use of Proceeds: To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Exxon Corp.
Independent Auditors: NA
Company Counsel: Vinson & Elkins
Underwriter Counsel: NA
 Fees: Proposed $25,000 plus 1% per annum or a flat 2% per annum.

ML Research Coverage: Lee J. Kehoe

Jeff McMahon, EVP and Treasurer of Exxon Corp., has asked ML to purchase $75 million of equity in a special purpose vehicle that will allow Exxon Corp. to book $114.4 million of earnings. Exxon must close this transaction by 12/31/99. Exxon is viewing this transaction as a bridge to permanent equity and they have assured us that we will get out of our investment within six months. The investment would have a maximum 22.5% return.

Exxon will have 3 large morrow power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $37 million from the Nigerian government. Exxon wants to sell the first 3 years of cash flow for $281M. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by Merrill Lynch. The SPE will be capitalized by our $281M investment and a $114.4M non-recourse loan from Exxon Corp. which will then purchase non-voting common stock in the Exxon subsidiary that owns the barge. Exxon will have a 100% investment of $344M in the project. Exxon is in active negotiations with several equity investors, including Mitsubishi. However, they are not able to close the transaction with a long-term holder by year-end. Exxon will facilitate our exit from the transaction with third party investors. Dan Layly will have a conference call with senior management of Exxon confirming this commitment and guaranty the ML take-out within six months.

Exxon has strongly requested ML to enter into this transaction. Exxon has paid ML approximately $4.4 million in fees in 1999 and is expected to do so again in 2000.
<table>
<thead>
<tr>
<th>Management Unit</th>
<th>DCC</th>
<th>Project Name: Enron Nigerian Baga Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sponsor:</td>
<td></td>
<td>Financial Commitment: $7 million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sponsor</td>
<td></td>
</tr>
<tr>
<td>Originator</td>
<td></td>
</tr>
<tr>
<td>Mgmt. Unit Controller</td>
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<tr>
<td>Mgmt. Unit Head</td>
<td></td>
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<tr>
<td>Group Finance Director</td>
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<tr>
<td>Group EVP</td>
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</table>

**Corporate Approvals**

<table>
<thead>
<tr>
<th>Review</th>
<th>Approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Markets Capital Committee</td>
<td></td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td></td>
</tr>
<tr>
<td>Due Review</td>
<td></td>
</tr>
<tr>
<td>Executive Committee</td>
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</tr>
<tr>
<td>Audit and Finance Committee</td>
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<td>Data Approved</td>
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</tr>
<tr>
<td>Other</td>
<td></td>
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</table>

MS 24599
Appendix

1. PROPOSED CORPORATE STRUCTURE

Transaction Structure

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Equity Contributions</td>
<td>$7.00</td>
</tr>
<tr>
<td>Acquisition Loan (From Equity in SPV)</td>
<td>$2.00</td>
</tr>
<tr>
<td>Total Purchase Price</td>
<td>$9.00</td>
</tr>
</tbody>
</table>

Basic - 25% Interest Rate of Return on invested equity for Purchaser

Acquisition Loan Terms: 12% Interest Rate, 36 Month Term, Amortization to be Agreed

Loan assigned by Purchaser's interests in the SPV Project only

Stockholder Structure

There will be three classes of stock - preferred and non-common. The Purchaser will purchase the Preferred A Shares and the Common Shares, thereof. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Equity Interests Before Trigger Date</th>
<th>Equity Interests After Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purchaser)</td>
<td>9.5% of CF After Pref A.</td>
<td>99.5% of CF After Pref A.</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
<td>100.001% of CF After Pref A.B.</td>
<td>100.000% of CF After Pref A.B.</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enex Preferred B Shares receive approximately 80% of the Cash Flow and after distribution to the Preferred A, and Preferred B, the Common receives the residual distribution of the Cash Flow.

Diagram:

[Diagram depicting the corporate structure with nodes labeled for ENSi Nigeria Power Holding Ltd., PPA, ENSi Nigeria Energy Holding Ltd., Cash, Preferred A & B and Common (C), and Lagos State Properties.]

MS 24600
TIME LINE

1. PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (power activities only) are assigned to Ener Nigeria Barge Holding Ltd. Which in turn assigns the rights to Ener Nigeria Barge Ltd.

2. Ener Nigeria Barge Ltd. ABS Preferred and Common Shares are issued to Ener Barge Holding Ltd.

3. Preferred A Shares and Common are sold from Ener Nigeria Barge Holding Ltd. To a third party who assumes 100% equity risk involved with the Ener Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

<table>
<thead>
<tr>
<th>Item</th>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Barge</td>
<td>22,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barge Upgrade and Cushion Cost</td>
<td>1,800</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total EPC</td>
<td>40,800</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobilization</td>
<td>1,011</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development Costs</td>
<td>1,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working capital and Spares</td>
<td>2,119</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contingency</td>
<td>310</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Costs</td>
<td>58,811</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Prevention of 10% of Net Cash Flow (US $000)

<table>
<thead>
<tr>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>8,717</td>
<td>1,342</td>
<td>11,906</td>
<td>5,419</td>
<td>22,594</td>
</tr>
</tbody>
</table>

The $41.6 million project cost is to be paid by Enron. The net cash flow projected for the three year Phase I project life is $44.1 million, and 93% of the first year cash flow is $28.7 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of all pari interest. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Enron Corp. (the "Company" or "Enron") has developed significantly over the past year as Enron will generate more than $40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved:

- Lead manager 4th Qtr., Enron's international water utility subsidiary, IPO ($700 million)
- Advised on subsequent $215 million acquisition of AMR Aruba Management Inc.
- Currently working on several key side advisory assignments
- Co-leads for $200-250 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. ($365 million)

MS 24601
Currently working with the CFO to raise a $500 million private equity fund (LIMK)

Currently planning to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications).

The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 3,200 miles of natural gas pipelines in the U.S. The Company also has one of the largest independent developers, operating and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Over completed, the Company's broadband fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were $34 billion and its equity market capitalization was approximately $22 billion. For the year ended December 31, 1998, Enron generated revenue of $21.3 billion, up 25% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 40% and 50% over the period from 1993 to 1998, respectively, and has been named the best management company in the world by Forbes for the past four years.

Enron is organized as a holding company with five energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General's telecommunications subsidiary (Enron Communications) and an international water company (Azura)). Enron's regulated business includes two segments - natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's directly-regulated interstate natural gas pipelines, and Portland General (Enron recently announced the sale of Portland General which should close in the 2000 year); electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profits and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's water energy business is a retail energy services business, comprised of Enron Energy Services, which provides retail energy outsourcing solutions to major taxpayers in the U.S. These solutions include infrastructure management packages with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two largest businesses, Enron Communications and Azura, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications, consisting of over 10,000 miles nationwide long haul fiber optic network that will offer broadband applications services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the pricing of bandwidth capacity on fiber systems. Azura is an $850 million publicly traded international water company (90% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatization, providing water and wastewater-related services to municipal and industrial water markets and developing and managing water resources.
## APPROPRIATION REQUEST COVER PAGE

<table>
<thead>
<tr>
<th>Management Unit</th>
<th>CIGG</th>
<th>Project Name:</th>
<th>Enron Nigerian Barge</th>
<th>Financial Commitment:</th>
<th>$7 Million</th>
</tr>
</thead>
</table>

### EXECUTIVE SUMMARY

**Entity:**
Special Purpose Vehicle

**Facility:**
$7.0 Million Equity

**Request:**
$7.0 Million

**Expected Ratings (Moody’s/A&F):**
B, B3

**Maturity:**
Less than six months

**Use of Proceeds:**
To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

**Timing:**
Closing by year end 1999.

**Independent Auditors:**
NA

**Company Counsel:**
Vincent & Erikson

**Underwriter Counsel:**
NA

**Fee:**
Proposed $250,000 plus 1% per annum or a flat 2.5% return per annum.

**ML Research Coverage:**
Leo L. Keiser

Jeff McMahon, EVP and Treasurer of Enron Corp., has asked ML to purchase $700M of equity in a special purpose vehicle that will allow Enron Corp. to book $1.0B of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $130M. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by Merrill Lynch. The SPE will be capitalized by our $700M investment and a $210M non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $460M in the project. Enron is in active negotiations with several equity investors, including Merrill. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Foley will have a conference call with senior management of Enron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.
Appendix

I. PROPOSED CORPORATE STRUCTURE

Transaction Structure

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Equity Contribution</td>
<td>$ 7.00 Million</td>
</tr>
<tr>
<td>Acquisition Loan (from Euros to $US)</td>
<td>21.02 Million</td>
</tr>
<tr>
<td>Total Purchase Price</td>
<td>$28.02 Million</td>
</tr>
</tbody>
</table>

Note: 25% internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 month Term, Amortization to be Agreed.

Loan secured by Purchaser’s interest in the Barge Project only

Shareholder Structure

There will be three classes of stock: two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common “Share”. Emeas will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow (CF))

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Pre Trigger Data</th>
<th>Post Trigger Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B</td>
<td>9.9% of CF</td>
<td>99.9% of CF</td>
</tr>
<tr>
<td>Common Stock</td>
<td>100.00% of CF</td>
<td>100.00% of CF</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Emeas Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.

Diagram:

[Diagram showing the corporate structure and flow of cash flow]
TIME LINE

(1) The PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights in the PPA (power activities only) are assigned to Enron Nigeria Barge Holding Ltd, which in turn assigns the rights to Enron Nigeria Barge Ltd.

(2) Enron Nigerian Barge Ltd. A/B Preferred and Common Shares are issued to Enron Barge Holding Ltd.

(3) Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes the equity risk involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

<table>
<thead>
<tr>
<th></th>
<th>Power Barges</th>
<th>Barge Upgrades and Onshore Cost</th>
<th>Total EPC</th>
<th>Mobilization</th>
<th>Development Costs</th>
<th>Working capital and Spares</th>
<th>Contingency</th>
<th>Total Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$225,000</td>
<td>15,000</td>
<td>240,000</td>
<td>1,914</td>
<td>1,500</td>
<td>2,119</td>
<td>181</td>
<td>$531,534</td>
</tr>
</tbody>
</table>

Protection of 90% of Net Cash Flow (US $000)

<table>
<thead>
<tr>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,153</td>
<td>$313,362</td>
<td>$15,706</td>
<td>$5,412</td>
<td>$574,691</td>
</tr>
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</table>

The $15.6 million project costs are to be paid by Enron. The net cash flow projected over the three years Phase I project life is $44.1 million, and 90% of the three-year cash flow is $51.7 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have any Enron affiliate provide up to 75% of senior secured debt. The projected debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Enron Corp. ("Company" or "Enron") has developed significantly over the past year as Merrill will generate more than $2 million in cash from Enron transactions in 1999. The following are current events related to the Company and significant recent Enron transactions in which Merrill was involved:

- Lead managed Enron's $2.25 billion acquisition of AESX Anfas Management Inc.
- Co-led for $300 million high yield issuance (currently on hold)
- Co-managed a new issue Common Equity offering for Enron Corp. ($185 million)
Currently working with the CFO to raise a $500 million private equity fund (LBO)

Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications)

The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were $34 billion and its equity market capitalization was approximately $22 billion. For the year ended December 31, 1998, Enron generated revenue of $21.3 billion, up 52% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1993 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) and communications subsidiary (Enron Communications) and an international water company (Atria). Enron's regulated business includes two operating businesses—natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's interstate regulated interstate natural gas pipelines, and Portland General (Enron recently announced the sale of Portland General which should close in the next year), an electric distributor, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Atria, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 16,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Atria is an $850 million publicly traded international water company (50% owned by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.
APPROPRIATION REQUEST COVER PAGE

<table>
<thead>
<tr>
<th>Management Unit</th>
<th>Group</th>
<th>Project Start / Finish</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIGG</td>
<td>IBK</td>
<td>Needs to Close by 12/31/99 – Takeover by KDDCO</td>
</tr>
</tbody>
</table>

**Project Name:** Enron Nigerian Barge Equity

**Financial Commitment:** $7 Million

**EXECUTIVE SUMMARY**

**Entity:** Special Purpose Vehicle

**Facility:** $7.3 Million Equity

**Request:** $7.3 Million

**Expected Ratings**

- Moody's: A3
- S&P: A3

**Maturity:** Less than six months

**Use of Proceeds:** To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

**Timing:** Closing by year end 1999.

**Independent Auditors:** NA

**Company Counsel:** Vincent & Ellis

**Underwriter Counsel:** NA

**Fees:**

- **Proposed:** $70,000

**ML Research Coverage:** Leo J. Kohar

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase $125M of equity in a
special purpose vehicle that will allow Enron Corp. to book $125M of earnings. Enron must close this
transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have
assured us that we will not be taken out of our investment within six months. The investment would have a
maximum 22.5% return.

Enron will have 3 barges mounted power plants in service by February 2000 in Nigeria. The first 3 years
of cash flow is projected to be $779 million from the Nigerian government. Enron wants to sell the first 3
years of cash flow for $273M. They propose to do this by having ML establish a U.S. special purpose entity
(the SPE), owned by Merrill Lynch. The SPE will be capitalized by our $75M investment and a
$125M non-recourse loan from Enron Corp which will then purchase non-voting common stock in the
Enron subsidiary that owns the barges. Enron will have a total investment of $46 M in the project.
Enron is in active negotiations with several equity investors, including Marsh & Company. However, they are not
able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the
transaction with third party investors. Dan Skelly will have a conference call with senior management of
Enron confirming this commitment to guarantee the ML takeover within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40
million in fees in 1999 and is expected to do so again in 2000.
<table>
<thead>
<tr>
<th>Management Unit</th>
<th>CCG</th>
<th>Project Name</th>
<th>Enron Nigerian Power Equity</th>
<th>Financial Commitment</th>
<th>$7 million</th>
</tr>
</thead>
</table>

| Sponsor:        |                               |                           |                           |          |          |
| Originate:      |                               |                           |                           |          |          |
| Mgmt. Unit Control: |                         |                           |                           |          |          |
| Mgmt. Unit Head: |                             |                           |                           |          |          |
| Group Finance Director: |                           |                           |                           |          |          |
| Group EVP:      |                             |                           |                           |          |          |

<table>
<thead>
<tr>
<th>Other Reviews</th>
<th>Corporate Approvals</th>
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<tr>
<td>Debt Markets Capital Committee:</td>
<td>Chief Financial Officer:</td>
</tr>
<tr>
<td>Peer Project Review:</td>
<td>Executive Committee:</td>
</tr>
<tr>
<td>Date:</td>
<td>Audit and Finance Committee:</td>
</tr>
<tr>
<td>Data:</td>
<td>Other:</td>
</tr>
</tbody>
</table>

MS 24608
Appendix

I. PROPOSED CORPORATE STRUCTURE

Transaction Structure

- Purchase Equity Contribution: $7.00 Million
- Acquisition Loan (from Equity to FPV): $11.00 Million
- Total Purchase Price: $22.00 Million

Basic 12% Internal Rate of Return on Invested Equity for Purchaser.
- Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to Be Agreed
- Loan secured by Purchaser’s interest in the Barge Project Only

Shareholder Structure

There will be three classes of stocks: two-preferred and one common. The purchaser will purchase the Preferred A Shares and the Common Shares. Excess will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In such cases, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ‘CF’)

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Pre-Trigger Date</th>
<th>Post-Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A</td>
<td>0.1% of CF</td>
<td>6.5% of CF</td>
</tr>
<tr>
<td>Preferred B</td>
<td>99.9% of CF After Pref A</td>
<td>99% of CF After Pref A &amp; B</td>
</tr>
<tr>
<td>Common Stock</td>
<td>100% of CF After Pref A &amp; B</td>
<td>100% of CF After Pref A &amp; B</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the purchaser is expected to receive approximately 30% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Excess Preferred B Shares receive approximately 99.9% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Commoners receive the residual distribution of the Cash Flow.
TIME LINE

(1) PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (large activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.

(2) Enron Nigerian Barge Ltd. ARR Preferred and Common Shares are issued to Enron Barge Holding Ltd.

(3) Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes any equity risk involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $2000)

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (US $)</th>
</tr>
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<tbody>
<tr>
<td>Power Barge</td>
<td>$22,500</td>
</tr>
<tr>
<td>Barge Upgrades and Overhaul</td>
<td>$1,400</td>
</tr>
<tr>
<td>Total EPC</td>
<td>$23,900</td>
</tr>
<tr>
<td>Mobilization</td>
<td>$190</td>
</tr>
<tr>
<td>Development Costs</td>
<td>$1,500</td>
</tr>
<tr>
<td>Working capital and Spares</td>
<td>$3,119</td>
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<td>Contingency</td>
<td>$13</td>
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<tr>
<td>Total Cost</td>
<td>$27,134</td>
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</table>

Projection of 50% of Net Cash Flow (US $2000)

<table>
<thead>
<tr>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
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<tbody>
<tr>
<td>$9,212</td>
<td>$11,292</td>
<td>$15,204</td>
<td>$15,416</td>
<td>$59,144</td>
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</table>

The $41.6 million project costs are to be paid by Enron. The net cash flow projected over the three-year Phase I project life is $44.1 million, and 45% of the three-year cash flow is $19.7 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financing. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Enron's relationship with Enron Corp. (the "Company" or "Enron") has developed significantly over the past year as Enron will generate more than 50% million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Enron was involved:

- Lead managed Aarik's, Enron's international water utility subsidiary, IPO ($300 million)
- Advised on subsequent $335 million acquisition of AMX Argo Management Inc.
- Currently working on several buy side advisory assignments
- Co-led an $300-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. ($455 million)

MS 24610
Currently working with the CFO to raise a $100 million private equity fund (LHC1)

Currently planning to sell Enerco's financial advisory for private equity in its telecommunications subsidiary (Enerco Communications)

The company is actively exploring merger opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 35,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators, and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's international fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1995, Enron's total assets were $14 billion and its equity market capitalization was approximately $2 billion. For the year ended December 31, 1994, Enron generated revenue of $1.1 billion, up 2.5% over the year ended December 31, 1993. The Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1993 to 1995, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized in a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas PipeLines, Enron Energy Services and Portland General) and a telecommunications subsidiary (Enron Communications) and an international water company (Aquatec). Enron's regulated business includes two operations — natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron'sGENERALLY regulated interstate natural gas pipelines, and Portland General (Enron currently oversees the sale of Portland General where should close in the next year), an electric transmission, generation and transportation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides retail energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installations and commodity purchases on behalf of our corporate customers.

Enron's two newer businesses, Enerco Communications and Aquatec, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing as an over 10,000 mile transcontinental long haul fiber optic network that will offer broadband applications services over an Internet transport network. Additionally, Enron Communications is pursuing an opportunity to create a market for the reselling of bandwidth capacity on fiber systems. Aquatec is an $850 million publicly traded international water company (75% owned by Enron) which plans to take advantage of the significant opportunities that exist for provide water management services in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water managers and developing and managing water resources.

MS 24611

** PAGE 06 **
To: Gary Dolan

APPROPRIATION REQUEST COVER PAGE

<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>CIGG</th>
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<tbody>
<tr>
<td>Group:</td>
<td>BK</td>
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<tr>
<td>Project Start/Finish:</td>
<td>Needs to close by 12/31/99 – Takeout by 6/30/03</td>
</tr>
<tr>
<td>Project Name:</td>
<td>Enron Nigerian Barge</td>
</tr>
<tr>
<td>Financial Commitment:</td>
<td>$7 Million</td>
</tr>
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</table>

EXECUTIVE SUMMARY

Eddy: Special Purpose Vehicle
Facility: $7.0 Million Equity
Request: $7.0 Million
Expected Ratings: B-, B3
Maturity: Less than six months
Use of Proceeds: To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.
Timing: Closing by year end 1999.
Independent Auditors: NA
Company Counsel: Vinson & Elkins
Underwriter Counsel: NA
Fees: Proposed $150,000 plus 1.5% per annum or a flat 22.5% return per annum.
ML Research Coverage: Lee J. Kraar

Jeff McMahon, EVP and Treasurer of Enron Corp., has asked ML to purchase $7MM of equity in a special purpose vehicle that will allow Enron Corp. to book $125MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have asserted that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $22MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by Merrill Lynch. The SPE will be capitalized by our $7MM investment and a $15MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $46 MM in the project. Enron is in active negotiations with several equity investors, including Marsh. However, they are not able to close the transaction with a long-term holder by year-end. Enron will finalize our exit from the transaction with third party investors. Dan Hayty will have a conference call with senior management of Enron confirming this commitment to guarantee the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.
<table>
<thead>
<tr>
<th>Management Unit:</th>
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<th>Project Name:</th>
<th>Enron Nigerian Barge Equity</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Financial Commitment:</td>
<td>$7 million</td>
</tr>
</tbody>
</table>

**SPONSOR:**

- Origination:
  - Rob Frost

- Mgmt. Unit Controller:
- Mgmt. Unit Head:
- Group Finance Director:
- Group EVP:

**Other Reviews**

- Debt Markets Capital Committee:
  - Group/Name
  - Date

- Peer Project Review:
  - Executive Committee:
  - Audit and Finance Committee:
  - Date Approved:
  - Other:

**MS 24613**
Appendix

1. PROPOSED CORPORATE STRUCTURE

Transaction Structure

- Purchase Equity Contribution: $7.00 Million
- Acquired Loan (from EKPN to SPV): $11.00 Million
- Total Purchase Price: $18.00 Million

Basic 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed.

Loan secured by Purchaser’s interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock – two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common Shares. EKPN will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the tables indicate the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow (“CF”))

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Pre-Triger Date</th>
<th>Post Triger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purchaser)</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B (EKPN)</td>
<td>9.9% of CF After Pref A</td>
<td>99.9% of CF After Pref A</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
<td>100.00% of CF After Pref A &amp; B</td>
<td>100.00% of CF After Pref A &amp; B</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the EKPN Preferred B Shares receive approximately 99.9% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distributions of the Cash Flow.

Diagram:

- EKPN
- Earns Nigeria Power Holding Ltd.
- Sino-Ocean
- Lagos State, Nigeria
- RPA (1)
- Investors
- Third Party SPV
- Preferred A & B
- Preferred A & B
- cash flows

MS 24614
TIME LINE

(1) PPA is between Enron Nigeria Powerholding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (Barge activities only) are assigned to Enron Nigeria Barge Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.

(2) Enron Nigeria Barge Ltd. A/B Preferred and Common Shares are issued to Enron Barge Holding Ltd.

(3) Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes the equity risk involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $m)

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Barges</td>
<td>$12,000</td>
</tr>
<tr>
<td>Barge Upgrades and Overhaul Cost</td>
<td>$11,500</td>
</tr>
<tr>
<td>Total CAPEX</td>
<td>$23,500</td>
</tr>
<tr>
<td>Mobilisation</td>
<td>$1,014</td>
</tr>
<tr>
<td>Development Costs</td>
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</tr>
<tr>
<td>Working capital and Spares</td>
<td>$2,119</td>
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<td>Closing</td>
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<td>Total Cost</td>
<td>$45,874</td>
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Protection of 20% of Net Cash Flow (US $m)

<table>
<thead>
<tr>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>$9,023</td>
<td>$12,592</td>
<td>$12,740</td>
<td>$2,470</td>
<td>$35,735</td>
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</table>

The $41.6 million project costs are to be paid by Enron. The net cash flow projected over the three years Phase I project life is $64.1 million, and 45% of the three years cash flow is $9.7 million.

Enron has an option to provide the remaining monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of similar financial debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch’s relationship with Enron Corp. (the “Company” or “Enron”) has developed significantly over the past year as Enron will generate more than $4 billion in investment banking fees in 1999. The following points briefly current issues related to the Company and significant recent Enron transactions in which Merrill was involved:

- Lead manager of Enron’s international water utility subsidiary, IPO (1990 million)
- Advised on subsequent $2 billion acquisition of ABAX Amgen Management Inc.
- Currently working on several buy side advisory assignments
- Co-leads for $600-750 million high yield issuance (currently on hold)
- Co-managed a New Issues Common Equity offering for Enron Corp. ($65 million)

MS 24615
Currently working with the CEO to raise a $500 million private equity fund (LJXG)

Currently pitching to become Exxon's financial adviser for private equity in its telecommunications subsidiary (Exxon Communications)

The Company is actively exploring power opportunities in continental Europe

Company Overview

Exxon is a global diversified energy company. Exxon is the largest buyer and seller of natural gas and electricity in the world and owns 27,000 miles of natural gas pipelines in the U.S. The Company also has one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first internet protocol backbone in the U.S. Additionally, through its international water company, Exxon owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1998, Exxon's total assets were $24 billion and its equity market capitalization was approximately $32 billion. For the year ended December 31, 1997, Exxon generated revenue of $31.3 billion, up 23% over the year ended December 31, 1996. The Company has grown its revenue and operating profit at an annualized rate of 20% and 30% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Exxon is organized as a holding company with four energy-related operating subsidiaries (Exxon North America, Exxon Gas Pipelines, Exxon Energy Services and Portland General) a telecommunications subsidiary (Exxon Communications) and an international water company (Azurix). Exxon's regulated business includes two operations - natural gas pipelines, comprised of Exxon Gas Pipelines, which owns and operates all of Exxon's federally regulated interstate natural gas pipelines, and Portland General (Exxon recently announced the sale of Portland General which should close in the next year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Exxon North America, is currently Exxon's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (risk management, asset management, market management) to large industrial, commercial and utility customers in the U.S. and internationally. Exxon's newest energy business is its retail energy services business, comprised of Exxon Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packages with new equipment installation and commodity purchases on behalf of the large corporate customers.

Exxon's two newest businesses, Exxon Communications and Azurix, are positioned to take advantage of positive business fundamentals outside of Exxon's energy operations. Exxon Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Exxon Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Azurix is an $250 million publicly traded international water company (70% controlled by Exxon) which plans to take advantage of the significant opportunities that exist for private sector participation to the global water industry, including acquiring existing water and wastewater systems via privatization, providing water and wastewater-related services to municipal and industrial water customers and developing and managing water resources.
To: Gary Dolan

APPROPRIATION REQUEST COVER PAGE

(\$ in Thousands)

Management Unit: CICG

Project Name: Enron Nigerian Barge Equity

Group: IBK

Needs to Close by: 12/31/99

Tabled by: 6/30/00

EXECUTIVE SUMMARY

Entity:

Facility:

$7.6 Million Equity

Request:

$126 Million

Expected Ratings:

B-, B3

Material:

Less than 6 months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

NA

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

NA

Fees:

Proposed $2,500,000 plus 12% of amount or a flat 22.5% return per annum.

ML Research Coverage:

Les J. Keller

Jeff McIlrath, EVP and Treasurer of Enron Corp, has asked ML to purchase $75M of equity in a special purpose vehicle that will allow Enron Corp, to book $126M of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken-out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $219M. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by Merrill Lynch. The SPE will be capitalized by our $75M investment and a $219M non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $46 MM in the project. Enron is in active negotiations with several equity investors, including Marshalls. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Easley will have a conference call with senior management of Enron confirming this commitment to guarantee the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.
<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>CICG</th>
<th>Project Name:</th>
<th>Enron Nigerian Barge Equity</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Financial Commitment:</td>
<td>$7 million</td>
</tr>
</tbody>
</table>

**SPONSOR:**

**Originator:** Rob Furst

**Mgmt. Unit Controller:**

**Mgmt. Unit Head:**

**Group Finance Director:**

**Group EVP:**

---

**Other Reviews**

**Corporate Approvals**

**Debt Markets Capital Committee:**

**Chief Financial Officer:**

**Peer Project Review:**

**Executive Committee:**

**Audit and Finance Committee:**

**Date Approved:**

**Other:**
Appendix

1. PROPOSED CORPORATE STRUCTURE

Transaction Structure

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Equity Contribution</td>
<td>$ 7.00 Million</td>
</tr>
<tr>
<td>Acquisition Loan (from Euros to SPV)</td>
<td>$ 21.00 Million</td>
</tr>
<tr>
<td>Total Purchase Price</td>
<td>$ 28.00 Million</td>
</tr>
</tbody>
</table>

Note: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed.

Loan secured by Purchaser’s interest in the Sanya Project Only.

Shareholder Structure

There will be three classes of stock: two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common Shares. Euros will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

<table>
<thead>
<tr>
<th>Share Class</th>
<th>Pre-Trig. Date</th>
<th>Post-Trig. Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purch)</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B (Euros)</td>
<td>99.9% of CF After Pre A</td>
<td>99.9% of CF After Pre A</td>
</tr>
<tr>
<td>Common Stock (Purch)</td>
<td>100.0% of CF After Pre A &amp; B</td>
<td>100.0% of CF After Pre A &amp; B</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 99% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Shares Preferred B Shares receive approximately 99.9% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.
TIME LINE

(1) The PPA is between Enron Nigeria Power Holding Ltd. and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.

(2) Enron Nigerian Barge Ltd. A/A Preferred and Common Shares are issued to Enron Barge Holding Ltd.

(3) Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes all equity risks involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Power Barges</td>
<td>$25,000</td>
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<tr>
<td>Barge Upgrades and Onshore Cost</td>
<td>12,000</td>
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<tr>
<td>Total EPC</td>
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<td>Mobilisation</td>
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<td>Contingency</td>
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<td>Total Costs</td>
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Projection of 20% of Net Cash Flow (US $000)

<table>
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<th>Year</th>
<th>Total</th>
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<tr>
<td>2001</td>
<td>$12,362</td>
</tr>
<tr>
<td>2002</td>
<td>$13,704</td>
</tr>
<tr>
<td>2003</td>
<td>$3,618</td>
</tr>
<tr>
<td>Total</td>
<td>$39,399</td>
</tr>
</tbody>
</table>

The $45.6 million project costs are to be paid by Enron. The net cash flow projected over the two year Phase I project life is $44.1 million, and 60% of the three year cash flow is $33.7 million.

It is the intention of Enron to provide to the bargee monthly distributive of net cash flow, and to have an Enron affiliate provide up to 75% of the capital cost. The proposed date period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch’s relationship with Enron Corp. (the "Company" or "Enron") has developed significantly over the past year as Enron will generate over $30 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead managed Arthur’s, Enron’s international water utility subsidiary, IPO ($700 million)
  - Advised on subsequent $235 million acquisition of AMX Aqua Management Inc.
  - Currently working on several buy-side advisory assignments.
- Co-lead for $500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. ($455 million)
• Currently working with the CFO to raise a $500 million private equity fund (LEMG).

• Currently pitching to become Evers’s financial advisor for private equity in its telecommunications subsidiary (Evers Communications).

• The Company is actively exploring power opportunities in continental Europe.

Company Overview

Evers is a global diversified energy company. Evers is the largest buyer and seller of natural gas and electricity in the world and owns 22,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company’s long haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Evers owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Evers total assets were $24 billion and its equity market capitalization was approximately $22 billion. For the year ended December 31, 1998, Evers generated revenue of $11.3 billion, up 52% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 20% and 35% over the period from 1993 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Evers is organized as a holding company with four energy-related operating subsidiaries (Evers North America, Evers Gas Pipelines, Evers Energy Services and Portland General) a telecommunications subsidiary (Evers Communications) and an international water company (Aztecs). Evers’s regulated business includes two operations – natural gas pipelines, comprised of Evers Gas Pipelines, which owns and operates all of Evers’s federally regulated interstate natural gas pipelines, and Portland General (Evers recently announces the sale of Portland General which should close in the near term), an electric distribution, transmission and generation company serving the Oregon market. Wholesales energy services, comprised of Evers North America, is currently Evers’s largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Evers’s newest energy business is its retail energy services business, comprised of Evers Energy Services, which provides total energy sourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of its large corporate customers.

Evers’s two newer businesses, Evers Communications and Aztecs, are positioned to take advantage of positive business fundamentals outside of Evers’s energy operations. Evers Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Evers Communications is pursuing an opportunity to enter a market for the trading of bandwidth capacity on fiber systems. Aztecs is an $850 million publicly traded international water company (70% owned by Evers) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.
EXECUTIVE SUMMARY

Entity: Special Purpose Vehicle

Facility: $7.0 Million Equity

Request: $7.6 Million

Expected Ratings (Moody’s/S&P): B+, B3

Maturity: Less than six months

Use of Proceeds: To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing: Closing by year end 1999.

Independent Auditors: NA

Company Counsel: Vincent & Elkins

Underwriter Counsel: NA

Fee: Proposed $250,000 plus 1.5% per annum or a flat 22.5% return per annum.

ML Research Coverage: Lee J. Krier

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase $76MM of equity in a special purpose vehicle that will allow Enron Corp. to book $122MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barges mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $109 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $28MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by Merrill Lynch. The SPE will be capitalized by our $76MM investment and a $28MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $46 MM in the project.

Enron is in active negotiations with several equity investors, including Merrill. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Due Bayly will have a conference call with seior management of Enron confirming this commitment to guarantee the ML takes the investment within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.
<table>
<thead>
<tr>
<th>Sponsor:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Originator:</td>
<td>Rob Frost</td>
</tr>
<tr>
<td>Mgmt. Unit Controller:</td>
<td></td>
</tr>
<tr>
<td>Mgmt. Unit Head:</td>
<td></td>
</tr>
<tr>
<td>Group Finance Director:</td>
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<td>Group EVP:</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Other Reviews</th>
<th>Corporate Approvals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Markets Capital Committee:</td>
<td>Chief Financial Officer:</td>
</tr>
<tr>
<td>Executive Committee:</td>
<td></td>
</tr>
<tr>
<td>Executive Committee:</td>
<td></td>
</tr>
<tr>
<td>Audit and Finance Committee:</td>
<td></td>
</tr>
<tr>
<td>Date Approved:</td>
<td>Other:</td>
</tr>
</tbody>
</table>
TIME LINE

(1) PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barg close only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.

(2) Enron Nigerian Barge Ltd. AEB Preferred and Common Shares are issued to Enron Barge Holding Ltd.

(3) Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Barges</td>
<td>12,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barge Upgrade Cost</td>
<td>60,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total EPC</td>
<td>6,900</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobilization</td>
<td>1,014</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development Cost</td>
<td>1,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working capital and Spares</td>
<td>2,110</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contingency</td>
<td>181</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Costs</td>
<td>45,614</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Projection of 50% of Net Cash Flow (US $000)

<table>
<thead>
<tr>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
</tr>
</thead>
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<tr>
<td>9,123</td>
<td>13,362</td>
<td>12,706</td>
<td>3,440</td>
<td>36,679</td>
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</table>

The $45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is $44.1 million, and 50% of the three year cash flow is $19.7 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 70% of senior financial debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Enron Corp. (the "Company" or "Enron") has developed significantly over the past year as Enron will generate more than $40 million in investment banking fees in 1999. The following points identify current trends related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead managed Amuris's, Enron's international water utility subsidiary, IPO ($700 million)
- Advised on subsequent 225 million acquisition of AMX Acqua Management Inc.
- Currently working on several buy-side advisory assignments
- Co-led for 500-750 million high yield issuance (currently on-hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. ($865 million)
Currently working with the CFO to raise a $500 million private equity fund (LINC).

Currently piloting to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications).

The Company is actively exploring power opportunities in continental Europe.

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 12,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were $34 billion and its equity market capitalization was approximately $22 billion. For the year ended December 31, 1998, Enron generated revenue of $31.3 billion, up 17% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past five years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) and one telecommunications subsidiary (Enron Communications) and an international water company (Azurix). Enron's regulated business includes two operations: natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's federal energy regulatory interstate natural gas pipelines, and Portland General (which recently announced the sale of Portland General which should close in the next year), as well as distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business. Enron's retail energy services business, comprised of Enron Energy Services, provides retail energy marketing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two non-energy businesses, Enron Communications and Azurix, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile worldwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Azurix is an $850 million publicly traded international water company (75% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.
November 8, 2002

BY HAND

The Honorable Carl Levin, Chairman
The Honorable Susan Collins, Ranking Member
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510-6250

Dear Sir and Madam:

I write on behalf of Merrill Lynch in response to your October 18, 2002 letter to G. Kelly Martin posing additional questions arising out of my letter to you of September 13, 2002. Merrill Lynch welcomes this opportunity to further assist the Subcommittee in its investigation relating to Enron Corporation.

The specific responses to your questions are set forth below and reflected in the enclosed documents. As previously noted, damage caused by the September 11 terrorist attacks and technical limitations have impaired Merrill Lynch’s ability to retrieve documents and e-mail communications. Accordingly, these responses are based upon the best information presently available to Merrill Lynch.

1. Please explain how Ebarge, LLC (Ebarge), a wholly owned Merrill Lynch special purpose entity, could generate tax benefits to Enron by being redomiciled in the Cayman Islands. If Merrill Lynch was the sole owner of Ebarge, what tax benefits could accrue to Enron as a result of Merrill Lynch’s redomiciling Ebarge in the Cayman Islands? What tax benefits did accrue to Enron as a result of Merrill Lynch’s redomiciling Ebarge in the Cayman Islands? Who at Enron communicated to Merrill Lynch the tax benefits Enron sought to achieve by redomiciling Ebarge in the Cayman Islands, and to whom at Merrill Lynch were those sought-after Enron tax benefits conveyed? Please provide copies of any documents that explain or relate to the tax benefits Enron sought from Merrill Lynch’s redomiciling Ebarge in the Cayman Islands.

Prior to Merrill Lynch’s involvement, Enron, along with its outside legal counsel and other advisors, developed a comprehensive structure for the proposed investment opportunity in Enron Nigeria Barge Ltd. (“ENIB”). One of the specific terms developed was the $28 million share purchase price, with $7 million to be provided by the equity investor and the remaining $21 million to be financed
The Honorable Carl Levin
The Honorable Susan Collins
November 8, 2002

by an Enron affiliate. Enron and its advisors contemplated that the special purpose entity ("SPE") set up by the investor to purchase the ENB shares would be domiciled outside the United States. Merrill Lynch understood from Enron that the rationale for establishing a foreign SPE included the desire by Enron to avoid any potential income tax issues presented by the loan interest payments that the equity investor would make to the lending Enron affiliate.

Merrill Lynch is unaware of any tax benefits accruing to Enron during the period of Merrill Lynch’s investment as a result of the transfer of Ebarge’s domicile to the Cayman Islands, as Ebarge made no interest payments to the Enron affiliate during that period. (While Ebarge was obligated to pay 12% interest on the loan, payments were contingent upon distributions to ENB shareholders, which did not occur during Merrill Lynch’s investment. When Merrill Lynch sold Ebarge, the purchaser assumed all liabilities of Ebarge, including payment of the principal and accrued interest on the loan from the Enron affiliate.)

2. What benefits (tax or otherwise) did Merrill Lynch receive by redomiciling Ebarge in the Cayman Islands? Please identify and quantify all costs and any lost benefits that accrued to Merrill Lynch as a result of redomiciling Ebarge in the Cayman Islands.

Merrill Lynch neither received any benefits nor incurred any costs (other than ordinary legal costs and associated expenses) as a result of transferring the domicile of Ebarge to the Cayman Islands.

Enclosed herewith are additional documents (bates stamped MS 24470 through MS 24568) relating to the domicile transfer of Ebarge.

3. Who at Merrill Lynch was involved in redomiciling Ebarge, and who at Merrill Lynch made the decision to redomicile Ebarge? Why did Merrill Lynch agree to redomicile Ebarge? Why were the Cayman Islands selected?

The law firm of Whitman Breed Abbott & Morgan handled the Ebarge domicile transfer on behalf of Merrill Lynch. The Merrill Lynch employees primarily involved in the transfer were Joseph Valenti and Kira Toone-Meertens.

As previously explained, Merrill Lynch initially could not accommodate Enron’s request to establish Ebarge’s domicile in the Cayman Islands because there was insufficient time before year-end to complete the required paperwork and to conduct the necessary diligence associated with setting up such an entity. Once the transaction closed, Merrill Lynch was able to follow the structure of the transaction as originally conceived by Enron and its advisors.
The Honorable Carl Levin  
The Honorable Susan Collins  
November 8, 2002

4. Did Ebarge generate any income during the period of Merrill Lynch's ownership? If so, how much did it generate? Was any of this taxable income, and if so, how much?

The 1999 Form 1120 and accompanying schedules prepared for ML IBK Positions, Inc. (enclosed herewith, bearing bates numbers MS 24569 through MS 24571) indicate that Merrill Lynch paid taxes on $5,753 in ordinary income earned by Ebarge in 1999.

5. In your response to question 5 of our August 16, 2002 letter, you stated that "no individual within Merrill Lynch superior or equal to [Mr. John] Olson in rank . . . specifically recalls any discussion with Olson that related to complaints about his research coverage of Enron."

(a) Does any individual who currently works for Merrill Lynch generally recall any communications with Mr. Olson related to any of the issues listed in question 5 of our August 16, 2002 letter? If so, please identify these individuals, and provide a summary of their communications with Mr. Olson relating to these issues.

(b) Do any individuals who worked for Merrill Lynch in 1998 recall (generally or specifically) any communications with Mr. Olson related to any of the issues listed in question 5 of our August 16, 2002 letter? If so, please identify these individuals, and provide a summary of their communications with Mr. Olson relating to these issues.

(c) Did Merrill Lynch at any time discuss any of the issues listed in question 5 of our August 16, 2002 letter with Andrew Melnick or any other former Merrill Lynch employee who was employed at Merrill Lynch in 1998? If so, please identify these individuals and provide a summary of their communications.

(a)/(b): Merrill Lynch is unaware of any current or former employee who recalls any discussions with Olson involving any of the issues identified in Question No. 5 of your August 16, 2002 letter.

(c): Merrill Lynch on separate occasions discussed at least some of the issues identified in Question No. 5 of your August 16, 2002 letter with Andrew Melnick, Schuyler Tilney, Susan Prell, Linda Gassenby, George Nitschelm, Stanley Rubin, and Ken Thompson. We note also that your Committee Staff has interviewed Messrs. Tilney and Prell and taken testimony from Mr. Baysly on this subject. Merrill Lynch refers you to the responses set forth herein and in my letter of September 13, 2002, which collectively reflect its current understanding with respect to such issues.

6. Your response to question 6 of our August 16, 2002 letter states that "Mr. Allison recalls only one conversation with an Enron executive, which he believes occurred sometime in April 1998." Please identify this executive and why Mr. Allison was
speaking with this executive. Did Mr. Allison initiate the conversation? Was the conversation in person, by telephone, or by some other means? Does Mr. Allison recall anything about the call? If so, what does he recall.

Merrill Lynch understands the following: Mr. Allison does not recall with certainty the person with whom he spoke, but he believes it was Kenneth Lay. The conversation was by telephone. Mr. Allison telephoned Mr. Lay because he had received a memorandum from Messrs. Tilney and Gordon asking him to do so. Mr. Allison’s recollection is that the call was quite short. Mr. Allison has no recollection of the conversation, but his normal practice in a situation like this was to ask the CEO to explain whatever problem he had and then respond. Mr. Allison is certain that he did not suggest to Enron that he or anyone else at Merrill Lynch would attempt to influence the research analyst coverage of Enron stock.

7. Please respond “yes” or “no” to the following question: was Mr. Olson’s departure from Merrill Lynch in any way related to the subject matter of the April 18, 1998 memorandum from Rick Gordon and Schuyler Tilney to Herb Allison? If the answer is “yes,” please explain how it was related.

Mr. Melnick made the decision to terminate Olson. He has stated that his decision was not based on or related to the subject matter of the April 18, 1998 memorandum. Merrill Lynch respectfully refers you to Response Nos. 5 and 7 set forth in my letter to you of September 13, 2002 for further information regarding the issues surrounding Olson’s departure.

With this letter and its enclosures, Merrill Lynch has now produced all non-privileged information and materials identified to date relating to the issues raised in the Subcommittee’s October 18, 2002 letter to Mr. Martin.

Respectfully,

James B. Weidner

enclosures
Dear Mr. Andrade:

Further to our telephone conversation of earlier today, we are pleased to attach information on Limited Duration Companies in the Cayman Islands, a formation questionnaire, as well as for details.

The price to form a Limited Duration Company is the same as for an Exempted Company.

We have asked our Group’s Cayman Company to confirm that the copy of the Article, which we have on files, is the most current. Upon receipt of a response from our local office, we will provide you with the correct copy.

Yours sincerely,

Britt-Marie Holben
Vice President - Client Services

Cc: Trident Trust Company (Cayman) Limited - Ms. Christine Rose-Smythe
Limited Durable Companies & Companies Limited by Guarantee

Many tax authorities (for example, United States, Japan) will treat as partnerships companies which include in their corporate structure limited liability companies resident in partnerships. To assist users of these companies, the Cayman Islands in 1983 introduced amendments to the Companies Law that permit other companies to continue their corporate existence on the注销 or sale of one or more assets.

In addition, such companies (also known as limited liability companies) may issue two classes of shares, one with the benefit of limited liability and one with unlimited liability.

Other reasons to use a Company are: to permit shareholders of a foreign Company to enter into a contract of the company to agree to enter into a limited period.

Intelligent Companies with these special features are incorporated using a specimen Memorandum and Articles of Association.

Foreign Companies

Any Company incorporated outside of the Cayman Islands that establishes a presence in the Cayman Islands for the conduct of Cayman business must submit the following information for registration with the Registrar of Companies:

- a copy (in English, certified and authenticated under public seal, of its Memorandum and Articles of Association or its equivalent)
- a list of the company's directors and officers, including the address and nationality of each
- the address of the company's registered office in the Cayman Islands, or the name and address of a person resident in the Cayman Islands who is authorized to accept service of process for the company. Every foreign company must exhibit at its place of business in the Islands, and must be on all legal services, notices, bids, advertisements and other publications in any, its country of incorporation and the fact that the liability of its members is limited.

Trident Trust Companies (Cayman) Ltd. 475 Washington St. 4th Fl - 852-940-5898 Fax 852-940-6229 - cayman@tridenttrust.com
## Companies

<table>
<thead>
<tr>
<th>Service</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered office (per year)</td>
<td>US$ 750</td>
</tr>
<tr>
<td>Disbursements</td>
<td>US$ 102</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>US$ 8,375</strong></td>
</tr>
</tbody>
</table>

**Exempted Company Formation**

- Company Incorporation: US$ 750
- Government fee: US$ 673
- Registered office (per year): US$ 750
- Disbursements: US$ 102

**Total:** US$ 8,375

**Other Services**

- Secretary (per year): US$ 269
- Nominee shareholder (per year): US$ 250
- Bank Signature (per year): US$ 250
- Annual government fee: US$ 673

- The above government fees are for an exempted Company with a share capital of not more than US$50,000.
- Annual fees are payable in advance on formation and are billed annually on anniversary in October, unless paid as necessary.
- The annual government fee is not prorated and is also billed in October each year and paid to the government in January of the following year along with the annual filing.

## Exempted Limited Partnerships

<table>
<thead>
<tr>
<th>Service</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registration</td>
<td>US$ 750</td>
</tr>
<tr>
<td>Government registration fee</td>
<td>US$ 1,687</td>
</tr>
<tr>
<td>Disbursements</td>
<td>US$ 102</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>US$ 1,837</strong></td>
</tr>
</tbody>
</table>

- Registered office fee: US$ 250
- Government fee: US$ 1,687

---

*Trident Trust Cayman Islands Ltd.*
*Tel: +1-345-949-0660 / +1-345-949-0661*  
*www.tridenttrust.com*
GENERAL FEE INFORMATION

Company and Trust fees are billed in advance upon formation and annually thereafter. Due to the nature of the services provided fees are generally non-refundable.

Fees will be charged in accordance with the rates applicable to the personnel performing the work. Such fees will be due in lump sum, semi-annually or annually depending upon the nature of work performed.

Monthly rates for additional services:
- Company US$150
- Accounting US$100
- Legal US$150
- Secretary US$100

Special maintenance fees may be charged for work of a particularly critical, time-sensitive or otherwise exceptional nature.
To ensure that all January fee, company filings are made in time fees should be paid no later than December 31.
The above fee schedule excludes disbursements which are billed separately.
The company may retain brokerage, insurance, or any other commissions received in the normal course of its business.
A termination fee equal to one year's annual trustee fee is charged if the trust is dissolved or transferred within three years.
Fees and expenses are quoted and payable in US dollars.
Fees are subject to annual review.
The registered office fee includes providing the local registered office, filing of the annual corporate return with the Registrar of Companies, preparing the annual statutory minutes of directors' meetings and preparing minutes for annual directors' meetings.
TRIDENT TRUST

CAYMAN ISLANDS
INCORPORATION QUESTIONNAIRE

CONFIDENTIAL INFORMATION

Information about shareholders is not filed with the Cayman Registrar of Companies. The name and address of each Director and Officer is required to be filed but is not available for public inspection.

1. PROPOSED NAME (in order of preference)
   a. 
   b. 
   c. 

2. OBJECTS OF THE COMPANY
   2.1 State two general objects clause
      This permits the company to do anything permitted under the Cayman Islands Company Law.
      If not, please attach a clearly described plan of your requirements.

3. CAPITAL
   3.1 Authorised Capital may be stated in any currency.
   3.2 Unless maxed as the case may be, the company will be incorporated with an authorised share capital of USD10,000 divided into 10,000 shares of USD1.00 each.
   3.3 The maximum number of shares may be variable
   3.4 The minimum capital at the time of incorporation

Please select and complete as indicated one of the following options:

☐ Standard Authorised Share Capital
☐ US$ Authorised Share Capital

<table>
<thead>
<tr>
<th>Number of shares</th>
<th>Currency and par value of share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD 1.00 per share</td>
</tr>
</tbody>
</table>

Trident Trust Company (Islands) Ltd. Tel: 1-345-849-3000 Fax: 1-345-949-3001 email: info@tridenttrust.com
4. SHAREHOLDERS
- Limited Companies must have a minimum of one shareholder.
- If shares in excess of USD1,000 are to be issued, please confirm that funds have been made available for this purpose.
- Please select and complete one of the following options:

A. Registered Share
Names, addresses and nationality of Registered Shareholders

B. ________________

C. ________________

If more than two Shareholders, please provide information on a separate page.

D. Number of Shares: Each USD50 per share is held by holders beneficiary.

E. ________________

F. ________________

G. ________________

H. ________________

I. ________________

If more than two Shareholders, please provide information on a separate page.

5. BENEFICIAL OWNERS
- It is a requirement of the United Kingdom that Trident Trust Company (Cayman) Limited be informed of the full name, residential address, occupation, and nationality of each beneficial owner. Please provide this information on a separate schedule along with:
  - A copy of the passport of each beneficial owner, including the signature page for identification purposes.
  - A copy of the beneficial owner’s business card or any other documentation validating the identity of the beneficial owner.
  - A copy of the beneficial owner’s identification card or any other document that provides evidence of identity.

Trident Trust Company (Cayman) Limited will require the principal beneficial owner to sign an indemnity agreement.
6. DIRECTORS
A minimum of one Director is required. A director can be an individual or a company.

Please provide the following information for each Director to be appointed, in the case of more
than two Directors, please attach a separate schedule.

<table>
<thead>
<tr>
<th>Full Name</th>
<th>Address</th>
<th>Date of Birth/Incorporation</th>
<th>Full description of entity/business purpose</th>
<th>Nationality/Jurisdiction of Incorporation</th>
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7. OFFICERS
The company may have officers. If appointed, state title, name and address for each position.

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<tr>
<th>Title</th>
<th>Name</th>
<th>Address</th>
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Trident Trust Cayman (Expanded) Ltd. Tel 1-345-949-0186 Fax 1-345-949-0881 cayman@tridenttrust.com
TRIDENT TRUST

CAYMAN ISLANDS

IN CORPORATION QUESTIONNAIRE

9. SECRETARY

Trident to act as Secretary (Cost USS 250 per annum)

☐ Yes ☐ No

If no, name and address of Secretary __________________________

10. REGISTERED OFFICE AND AGENT IN THE CAYMAN ISLANDS

This is a requirement of the Cayman Companies Law.

Trident to provide Registered Office and act as Registered Agent

☐ Yes ☐ No

If no, location of Registered Office __________________________

10. COMPANY SEAL

Cayman companies are not required to have a company

seal but can adopt a seal if desired. Please indicate whether

a company seal is required.

☐ Yes ☐ No

11. ACCOUNTING REFERENCE DATE

Please confirm that the 1st December of each year should

be specified as the financial year-end of the company.

☐ Yes ☐ No

If no, please provide alternate date __________________________

12. BANK ACCOUNT

Please indicate whether you would like our assistance

in the establishment of a bank account in the Cayman Islands.

☐ Yes ☐ No

Completed by:

Name ________________________ Title ________________________

Company/ Firm ________________________ E-Mail ________________________

Address ________________________ Phone ________________________

_____________________________ Fax ________________________

Signature ________________________ Date ________________________

Trident Trust Company (Cayman) Ltd. • Tel: 350 945-9980 • Fax: 350-245-0661 • cayman@tridenttrust.com
Dear Mr. Andrade:

CAYMAN LDC

In reference to our telephone conversation of yesterday, we are pleased to attach a specimen copy of the Articles of Association for a Cayman LDC.

In the event you wish to receive this document via e-mail, we ask that you provide us with your e-mail address.

Our Group's Cayman Trust Company has advised us that there is a $250.00 LDC registration fee due upon the formation of such an entity. This amount is in addition to the incorporation fees.

Yours sincerely,

Brit-Marie Holben
Vice President - Client Services
THE COMPANIES LAW
EXEMPTED LIMITED DURATION COMPANY LIMITED BY SHARES
MEMORANDUM & ARTICLES OF ASSOCIATION
OF
CLIENT
THE COMPANIES LAW
EXEMPTED LIMITED DURATION COMPANY LIMITED BY SHARES
MEMORANDUM OF ASSOCIATION
OF
CLIENT

1. The name of the Company is CLIENT.

2. The Registered Office of the Company shall be at the offices of Trident Trust Company (Cayman) Limited, Fourth Floor, One Capital Place, P.O. Box 447, Grand Cayman, Cayman Islands, British West Indies or at such other place as the Directors may from time to time decide.

3. The objects for which the Company is established are unrestricted and shall include, but without limitation, the following:

(i) (a) To carry on the business of an investment company and to act as promoters and entrepreneurs and to carry on business as financiers, capitalists, concessionaires, merchants, brokers, traders, dealers, agents, impressioners and operators and to undertake and carry on and execute all kinds of investment, financial, commercial, mercantile, trading and other operations.

(b) To carry on whether as principals, agents or otherwise howsoever the business of retailers, developers, consultants, cause agents or managers, builders, contractors, engineers, manufacturers, dealers in or workers of all types of property including services.

(c) To exercise and enjoy all rights and powers conferred by or incidental to the ownership of any shares, stock, obligations or other securities including without prejudice to the generality of the foregoing all such powers of vote or control as may be conferred by virtue of the holding by the Company of any special proportion of the issued or nominal amount thereof, to provide managerial and other executive, supervisory and consultative services for or in relation to any company in which the Company is interested under such terms as may be thought fit.

(d) To purchase or otherwise acquire, in whole, exchange, surrender, lease, mortgage, charge, convert, turn to account, dispose of and deal with real and personal property and rights of all kinds and, in particular, mortgages, debentures, pre debts, securities, debentures, options, contracts, patents, instruments, licenses, stocks, shares, bonds, policies, book debts, business concerns, undertakings, clauses, privileges and choses in action of all kinds.
(iv) To subscribe for, conditionally or unconditionally, to underwrite, issue on commission or otherwise, take, hold, deal in and convert stocks, shares and securities of all kinds and to enter into partnership or into any arrangement for sharing profits, reciprocal concessions or cooperation with any person or company and to promote and aid in promoting, to constitute, form or organise any company, syndicate or partnership of any kind, for the purpose of acquiring and undertaking any property and liabilities of the Company or any advances, directly or indirectly, the objects of the Company or for any other purpose which the Company may think expedient.

(v) To stand surety for or to guarantee, support or secure the performance of all or any of the obligations of any person, firm or company whether or not related or affiliated to the Company in any manner and whether by personal covenants or mortgage, charge or lien upon the whole or any part of the undertaking, property and assets of the Company, both present and future, including its uncalled capital or by any such method and whether or not the Company shall receive valuable consideration therefore.

(vi) To engage in or carry on any other lawful trade, business or enterprise which may at any time appear to the Directors of the Company capable of being conveniently carried on in conjunction with any of the aforesaid businesses or activities or which may appear to the Directors or the Company likely to be profitable to the Company.

In the interpretation of this Memorandum of Association in general and of this Clause 3 in particular no object, business or power specified or mentioned shall be limited or restricted by reference to or inference from any other object, business or power, or the name of the Company, or by the juxtaposition of two or more objects, businesses or powers and that, in the event of any ambiguity in this clause or elsewhere in this Memorandum of Association, the same shall be resolved by such interpretation and construction as will widen and enlarge and not restrict the objects, businesses and powers of and exercisable by the Company.

4. Except as prohibited or limited by the Companies Law (Revised), the Company shall have full power and authority to carry out any object and shall have and be capable of from time to time and at all times exercising and all of the powers at any time or from time to time exercisable by a natural person or body corporate in doing in any part of the world whether as principal, agent, contractor or otherwise, whatever may be considered by it as incidental or conducive thereto or consequential thereon, including, but without in any way restricting the generality of the foregoing, the power to make any alterations or amendments to this Memorandum of Association and the Articles of Association of the Company considered necessary or convenient in the manner set out in the Articles of Association of the Company, and the power to do any of the following acts or things, viz: to pay all expenses of and incidental to the promotion, formation and incorporation of the Company; to register the Company to do business in any other jurisdiction; to sell, lease or dispose of any property of the Company; to draw, make, accept, endorse, discount, execute and issue promissory notes, debentures, bills of exchange, bills of lading, warrants and other negotiable or
transferable instruments; to lend money or other assets and to act as guarantors; to borrow or raise money on the security of the undertaking or on all or any of the assets of the Company including uncalled capital or without security; to invest morce of the Company in such manner as the Directors determine; to promote other companies; to sell the undertaking of the Company for cash or any other consideration; to distribute assets in specie to Members of the Company to make charitable or benevolent donations; to pay pensions or gratuities or provide other benefits in cash or kind to Directors, officers, employees, past or present and their families; to carry on any trade or business and generally to do all acts and things which, in the opinion of the Company or the Directors, may be conveniently or probably or usefully acquired and dealt with, carried on, executed or done by the Company in connection with the business aforesaid PROVIDED THAT the Company shall only carry on the business for which it is licensed under the laws of the Cayman Islands when so licensed under the terms of such laws.

5. The liability of each member is limited to the amount from time to time unpaid on such member's shares.

6. The share capital of the Company is US$50,000 divided into 50,000 Common shares of a nominal or par value of US$1.00 each with power for the Company, in its sole discretion, to restrict the transfer or redemption of any of its shares and to increase or reduce the said capital subject to the provisions of the Companies Law (Revised) (Cap.22) and the Articles of Association and so issue any part of its capital, whether original, redeemed or increased, without any preference, priority or special privilege or subject to any conditions or restrictions. Any share not otherwise expressly declared, every issue of shares whether declared to be preference or otherwise shall be subject to the powers hereinbefore contained.

7. If the Company is registered as exempted, its operations will be carried on subject to the provisions of Section 182 of the Companies Law (Revised) (Cap.22) and, subject to the provisions of the Companies Law (Revised) and the Articles of Association, it shall have the power to register by way of continuance as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

8. The duration of the Company is limited to a period of thirty (30) years from the date of its registration, provided that the Company shall be taken to have commenced voluntary winding-up and dissolution upon the expiry of 90 days starting on the date of death, insanity, bankruptcy, dissolution, insolvency (whether compulsory or voluntary), withdrawal, retirement or resignation of any of its shareholders, unless there remain at least two shareholders of the Company and the Company is continued in existence by unanimous written resolution of those shareholders pursuant to amended articles of association of the Company adopted during that 90 day period. Where the death, insanity, bankruptcy, dissolution, liquidation (whether compulsory or voluntary), withdrawal, retirement or resignation of any of the Company's shareholders causes the commencement of the winding-up of the Company in accordance with the Company's Memorandum and Articles of Association and Section 1840 of the Companies Law (Revised) of
the Cayman Islands, the directors of the Company at the time of such commencement and without
further action shall become the liquidators of the Company.

We, the several persons whose names and addresses are subscribed are desirous of being formed
into a company in pursuance of this Memorandum of Association and we respectively agree to take
the number of shares in the capital of the Company set opposite our respective names.

DATED the ___th day of ___, 199_

SIGNATURE, ADDRESSES and DESCRIPTION OF SUBSCRIBERS NUMBER OF SHARES TAKEN BY EACH

__________________________
Director
Trident Nominees (Cayman) Ltd.
P.O. Box 847, Grand Cayman
Nominee Company

1 Ordinary share

__________________________
Director
Trident Secretaries (Cayman) Ltd.
P.O. Box 847, Grand Cayman
Nominee Company

1 Ordinary share

Witness to the above signatures

I, ____________________________, Registrar of Companies in and for the Cayman Islands DO HEREBY
CERTIFY that this is a true and correct copy of the Memorandum of Association of this Company
duly incorporated on the ___th day of ___, 199_

REGISTRAR OF COMPANIES
THE COMPANIES LAW

EXEMPTED LIMITED DURATION COMPANY LIMITED BY SHARES

ARTICLES OF ASSOCIATION

OF

CLIENT

1. In these Articles Table A in the Schedule to the Statute does not apply and, unless there be something in the subject or context inconsistent therewith,

"Articles" means these Articles as originally framed or as from time to time altered by Special Resolution.

"The Auditors" means the persons for the time being performing the duties of auditors of the Company.

"The Company" means the above named Company.

"Debenture" means debenture stock, mortgages, bonds and any other such securities of the Company whether constituting a charge on the assets of the Company or not.

"The Directors" means the directors for the time being of the Company.

"Dividend" includes bonus.

"Exempted Limited Duration Company" shall bear the meaning ascribed to it in the Statute.

"Member" shall bear the meaning ascribed to it in Section 37 of the Statute.

"Month" means calendar month.

"Ordinary Resolution" means a resolution passed by simple majority of the votes cast.

"Paid-up" means paid-up and/or credited as paid-up.

"The Registered Office" means the registered office for the time being of the Company.
“Seal” means the common seal of the Company and includes every duplicate seal.

“Secretary” includes an Assistant Secretary and any person appointed to perform the duties of Secretary of the Company.

“Share” includes a fraction of a share.

“Special Resolution” has the same meaning as in the Statute and includes a resolution approved in writing as described therein.

“Statute” means the Companies Law of the Cayman Islands as amended and every statutory modification or re-enactment thereof for the time being in force.

“Written” and “In Writing” include all modes of representing or reproducing words in visible form.

Words importing the singular number only include the plural number and vice versa.

Words importing the masculine gender only include the feminine gender.

Words importing persons only include corporations.

2. The business of the Company may be commenced as soon after Incorporation as the Directors shall see fit, notwithstanding that part only of the shares may have been allotted.

3. The Directors may pay, out of the capital or any other monies of the Company, all expenses incurred in or about the formation and establishment of the Company including the expenses of registration.

CERTIFICATES FOR SHARES

4. Certificates representing shares of the Company shall be in such form as shall be determined by the Directors. Such certificates shall be under seal. All certificates for shares shall be consecutively numbered or otherwise identified and shall specify the shares to which they relate.

The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered in the register of members of the Company.

All certificates surrendered to the Company for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled. The Directors may authorize certificates to be issued with the seal and authorized signature(s) affixed by some method or system of mechanical process.
5. Notwithstanding Article 4 of these Articles, if a share certificate be defaced, lost or destroyed, it may be renewed on payment of a fee of one dollar (US$1.00) or such less sum and on such terms (if any) as to evidence and indemnity and the payment of the expenses incurred by the Company in investigating evidence, as the Directors may prescribe.

ISSUE OF SHARES

6. (a) Subject to the provisions, if any, in that behalf in the Memorandum of Association and to any direction that may be given by the Company in a general meeting and without prejudice to any special rights previously conferred on the holders of existing shares, the Directors may allot, issue, grant options over or otherwise dispose of shares of the Company (including fractions of a share) with or without preferential, deferred or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise and to such persons, at such times and on such other terms as they think proper.

(b) The authorised share capital of the Company shall be US$30,000 divided into 50,000 Common Shares of US$1.00 per value each.

(c) The holders of Common Shares shall have the right to receive notice of, attend and vote at any general meeting of the Company, at which meeting the holder of such Common Share shall have the right to one vote for each such share registered in his name; and

(d) The Directors shall be entitled to issue dividends to holders of Common Shares at such times and in such amounts as they, in their sole discretion, shall determine.

7. The Company shall maintain a register of its members and every person whose name is entered as a member in the register of members shall be entitled without payment to receive within two months after allotment or issue of the shares (or within such other period as the conditions of issue shall provide) one certificate for any shares or several certificates each for one or more of his shares upon payment of fifty cents (US$0.50) for every certificate after the first or such less sum as the Directors shall from time to time determine provided that in respect of a share or shares held jointly by several persons the Company shall not be bound to issue more than one certificate and delivery of a certificate for a share in one of the several joint holders shall be sufficient delivery to all such holders.

TRANSFER OF SHARES PROHIBITED

8. No share in the Company may be transferred without the prior unanimous written consent of all the holders of Common Shares, or, whenever there are fewer than two holders of Common Shares then in office as Directors, without the unanimous prior written consent of all of the outstanding shares; which consent may in all cases be granted or withheld in such holder's sole discretion.
REDEEMABLE SHARES

9. Subject to the provisions of the Statute and the Memorandum of Association, shares may be issued on the terms that they are, or at the option of the Company or the holder are, to be redeemed on such terms and in such manner as the Company, before the issue of the shares, may by Special Resolution determine.

10. Subject to the provisions of the Statute and the Memorandum of Association, the Company may purchase its own shares (including fractions of a share), including any redeemable shares, provided that the manner of purchase has first been authorised by the Company in general meeting and may make payment therefor in any manner authorized by the Statute, including out of capital.

VARIATION OF RIGHTS OF SHARES

11. If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound-up, be varied with the consent in writing of the holders of three-quarters of the issued shares of that class, or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

12. The provisions of these Articles relating to general meetings shall apply to every general meeting of the holders of one class of shares except that the necessary quorum shall be one (1) person holding or representing by proxy at least one-third of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll.

13. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

COMMISSION ON SALE OF SHARES

14. The Company may in so far as the Statute from time to time permits pay a commission to any person in consideration of his subscribing or agreeing to subscribe whether absolutely or conditionally for any shares of the Company. Such commissions may be satisfied by the payment of cash or the lodgement of fully or partly paid-up shares or partly in one way and partly in the other. The Company may also on any issue of shares pay such brokerage as may be lawful.
NON-RECOGNITION OF TRUSTS

15. No person shall be recognized by the Company as holding any share upon any trust and the Company shall not be bound by or be compelled in any way to recognize (even when having notice thereof) any equitable, contingent, future, or partial interest in any share, or any interest in any fractional part of a share, or (except only as is otherwise provided by these Articles or the Statutes) any other rights in respect of any share except an absolute right in the entirety thereof in the registered holder.

REGISTRATION OF EMPOWERING INSTRUMENTS

16. The Company shall be entitled to charge a fee not exceeding one dollar (US$1.00) on the registration of every probate, letters of administration, certificate of death or marriage, power of attorney, notice in lieu of dissent, or other instrument.

TRANSMISSION OF SHARES

17. In case of the death of a member, the survivor or survivors where the deceased was a joint holder, and the legal personal representatives of the deceased where he was a sole holder, shall be the only persons recognized by the Company as having any title to his interest in the shares, but nothing herein contained shall release the estate of any such deceased holder from any liability in respect of any shares which had been held by him solely or jointly with other persons.

18. A person becoming entitled to a share by reason of the death or bankruptcy or liquidation or dissolution of the holder shall be entitled to the same dividends and other distributions to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the Company; and further, he shall not be entitled to be registered as a member for a period of ninety-nine (99) days (or such longer period as the Directors may in their absolute discretion determine either generally or in a particular case) following such death or bankruptcy or liquidation or dissolution, and in any event only if such registration as a member shall be approved by the unanimous prior written consent of all the holders of Common Shares, which consent may be granted or withheld in the sole discretion of each such holder.

AMENDMENT OF MEMORANDUM OF ASSOCIATION, CHANGE OF LOCATION OF REGISTERED OFFICE & ALTERATION OF CAPITAL

19. (a) Subject to and in so far as permitted by the provisions of the Statute, the Company may from time to time by ordinary resolution alter or amend its Memorandum of Association otherwise than with respect to its name and objects and may, without restricting the generality of the foregoing:
(i) increase the share capital by such sum to be divided into shares of such amount or without nominal or par value as the resolution shall prescribe and with such rights, priorities and privileges annexed thereto, as the Company in general meeting may determine.

(ii) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

(iii) by subdivision of its existing shares or any of them divide the whole or any part of its share capital into shares of smaller amount than is fixed by the Memorandum of Association or into shares without nominal or par value;

(iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person.

(b) All new shares created hereunder shall be subject to the same provisions with reference to the payment of calls, fees, transfer, transmission, forfeiture and otherwise as the shares in the original share capital.

(c) Subject to the provisions of the Statute the Company may by Special Resolution change its name or alter its objects.

(d) Without prejudice to Articles 9 & 10 hereof and subject to the provisions of the Statute the Company may by Special Resolution reduce its share capital and any capital redemption reserve fund.

(e) Subject to the provisions of the Statute the Company may by resolution of the Directors change the location of its registered office.

CLOSING REGISTER OF MEMBERS OR FIXING RECORD DATE

29. For the purpose of determining Members entitled to notice of or to vote at any meeting of Members or at any adjournment thereof, or Members entitled to receive payment of any dividend, or in order to make a determination of Members for any other proper purpose, the Directors of the Company may provide that the register of Members shall be closed for transfers for a stated period but not to exceed in any case forty (40) days. If the register of Members shall be so closed for the purpose of determining Members entitled to notice of or to vote at a meeting of Members such register shall be so closed for at least ten (10) days immediately preceding such meeting and the record date for such determination shall be the date of the closure of the register of Members.
21. In lieu of or apart from closing the register of members, the Directors may fix in advance a date as the record date for any such determination of members entitled to notice of or to vote at a meeting of the members and for the purpose of determining the members entitled to receive payment of any dividend the Directors may, at or within 90 days prior to the date of declaration of such dividend fix a subsequent date as the record date for such determination.

22. If the register of members is not so closed and no record date is fixed for the determination of members entitled to notice of or to vote at a meeting of members or members entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of members. When a determination of members entitled to vote at any meeting of members has been made as provided in this section, such determination shall apply to any adjournment thereof.

GENERAL MEETING

23. (a) Subject to paragraph (c) hereof, the Company shall within one year of its incorporation and in each year of its existence thereafter hold a general meeting as its Annual General Meeting and shall specify the meeting as such in the notice calling it. The Annual General Meeting shall be held at such time and place as the Directors shall appoint and if no other time and place is prescribed by them, it shall be held at the registered office of the Company on the second Wednesday in December of each year at ten o'clock in the morning.

(b) At these meetings the report of the Directors (if any) shall be presented.

(c) If the Company is exempted as defined in the Statute it may but shall not be obliged to hold an Annual General Meeting.

24. (a) The Directors may whenever they think fit, and they shall on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-twentieth of the nominal capital of the Company or at the date of the deposit carries the right of voting at general meetings of the Company, proceed to convene a general meeting of the Company.

(b) The requisition shall state the objects of the meeting and must be signed by the requisitionists and deposited at the Registered Office of the Company and may consist of several documents in like form each signed by one or more requisitionists.

(c) If the Directors do not within twenty-one days from the date of the deposit of the requisition duly proceed to convene a general meeting, the requisitionists, or any or all of them representing more than one-half of the total voting rights of all of them, may themselves convene a general meeting, but any meeting so convened shall not be held after the expiration of three months after the expiration of the said twenty-one days.
(4) A general meeting convened as aforesaid by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

NOTICE OF GENERAL MEETINGS

25. At least five days' notice shall be given of an Annual General Meeting or any other general meeting. Every notice shall be exclusive of the date on which it is given or deemed to be given and of the day for which it is given and shall specify the place, the day and the hour of the meeting and the general nature of the business and shall be given in manner hereinafter mentioned or in such other manner as any as may be prescribed by the Company PROVIDED that a general meeting of the Company shall, whether or not the notice specified in this regulation has been given and whether or not the provisions of Article 24 have been complied with, be deemed to have been duly convened if it is so agreed:

(a) in the case of a general meeting called as an Annual General Meeting by all the members entitled to attend and vote thereat or their proxies; and

(b) in the case of any other general meeting by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than seventy-five per cent (75%) in nominal value or in the case of shares without nominal value or par value seventy-five per cent (75%) of the shares in issue, or their proxies.

26. The accidental omission to give notice of a general meeting to, or the non-receipt of notice of a meeting by any person entitled to receive notice shall not invalidate the proceedings of that meeting.

PROCEEDINGS AT GENERAL MEETINGS

27. No business shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business; two (2) members present in person or by proxy shall be a quorum.

28. A resolution (including a Special Resolution) in writing (in one or more counterparts) signed by all members for the time being entitled to receive notice of and to attend and vote at general meetings (or being corporations by their duly authorized representatives) shall be as valid and effective as if the same had been passed at a general meeting of the Company duly convened and held.

29. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of members, shall be dissolved and in any other case it shall stand adjourned to the same day in the next week at the same time and place as to
such other time or such other place as the directors may determine and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting the members present shall be a quorum.

30. The Chairman, if any, of the Board of Directors shall preside at every general meeting of the Company, or if there is no such Chairman, or if he shall not be present within fifteen minutes after the time appointed for the holding of the meeting, or is unwilling to act, the Directors present shall elect one of their number to be Chairman of the meeting.

31. If at any general meeting no Director is willing to act as Chairman or if no Director is present within fifteen minutes after the time appointed for holding the meeting, the members present shall choose one of their number to be Chairman of the meeting.

32. The Chairman may, with the consent of any general meeting duly constituted hereunder, and shall if so directed by the meeting, adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a general meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting; save as aforesaid it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned general meeting.

33. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is, before or on the declaration of the result of the show of hands, demanded by the Chairman or any other member present in person or by proxy.

34. Unless a poll be so demanded a declaration by the Chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the Company's Minute Book containing the Minutes of the proceedings of the meeting shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

35. The demand for a poll may be withdrawn.

36. Except as provided in Article 38, if a poll is duly demanded it shall be taken in such manner as the Chairman directs and the result of the poll shall be deemed to be the resolution of the general meeting at which the poll was demanded.

37. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the general meeting at which the show of hands takes place or at which the poll is demanded, shall be entitled to a second or casting vote.

38. A poll demanded on the election of a Chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the
Chairman of the general meeting directs and any business other than that upon which a poll has been demanded or is contingent thereon may be proceeded with pending the taking of the poll.

VOTES OF MEMBERS

39. The business of the Company shall be managed by the members who shall be deemed to be the Directors of the Company unless the members delegate the management to a board of Directors. The members may delegate the management to a person or persons other than a board of Directors.

40. Subject to any rights or restrictions for the time being attached to any class or classes of Shares, on a show of hands every member of record present in person or by proxy at a general meeting shall have one vote and on a poll every member of record present in person or by proxy shall have one vote for each share registered in his name in the register.

41. In the case of joint holders of record the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members.

42. A member of unsound mind, or in respect of whom an order has been made by any court, having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, receiver, curator bonis, or other person in the nature of a committee, receiver or curator bonis appointed by that court, and any such committee, receiver, curator bonis or other person may vote by proxy.

43. No member shall be entitled to vote at any general meeting unless he is registered as a shareholder of the Company on the record date for such meeting nor unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.

44. No objection shall be raised to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at such general meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the Chairman of the general meeting whose decision shall be final and conclusive.

45. On a poll or on a show of hands votes may be given either personally or by proxy.

PROXIES

46. The instrument appointing a proxy shall be in writing and shall be executed under the hand of the appointee or of his attorney duly authorized in writing, or, if the appointee is a corporation under the hand of an officer or attorney duly authorized in that behalf. A proxy need
not be a member of the Company.

47. The instrument appointing a proxy shall be deposited at the Registered Office of the Company or at such other place as is specified for that purpose in the notice convening the meeting, or later than the time for holding the meeting, or adjourned meeting provided that the Chairman of the meeting may in his discretion direct that an instrument of proxy shall be deemed to have been duly deposited upon receipt of a telefax, cable, or telex or other similar confirmation from the appointor that the instrument of proxy duly signed is in the course of transmission to the Company.

48. The instrument appointing a proxy may be in any usual or common form and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked. An instrument appointing a proxy shall be deemed to include the power to demand or join in or consent to any demand for a poll.

49. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given provided that no intimation in writing of such death, insanity, revocation or transfer as aforesaid shall have been received by the Company at the registered office before the commencement of the general meeting, or adjourned meeting at which it is sought to use the proxy.

50. Any corporation which is a member of record of the Company may in accordance with its Articles or in the absence of such provision by resolution of its Directors or other governing body authorize such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members of the Company, and the person so authorized shall be entitled to exercise the same powers on behalf of the corporation which he represents as the corporation could exercise if it were an individual member of record of the Company.

51. Shares of its own stock belonging to the Company or held by it in a fiduciary capacity shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding shares at any given time.

DIRECTORS

52. Notwithstanding anything to the contrary contained in these Articles, all provisions herein concerning Directors shall be subject to the provisions of Article 99.

53. There shall be a Board of Directors consisting of not less than one person and there shall be no maximum number of Directors (exclusive of Alternate Directors). The first Directors of the Company shall be determined by the resolution of the subscribers of the Memorandum of Association.

54. The remuneration to be paid to the Directors shall be such remuneration as the
Directors shall determine. Such remuneration shall be deemed to accrue from day to day. The Directors shall also be entitled to be paid their traveling, hotel and other expenses properly incurred by them in going to, attending and returning from meetings of the Directors, or any committee of the Directors, or general meetings of the Company, or otherwise in connection with the business of the Company, or to receive a fixed allowance in respect thereof as may be determined by the Directors from time to time, or a combination partly of one such method and partly the other.

55. The Directors may by resolution award special remuneration to any Director of the Company undertaking any special work or services for, or undertaking any special mission on behalf of, the Company other than his ordinary routine work as a Director. Any fees paid to a Director who is also counsel or solicitor to the Company, or otherwise serves it in a professional capacity shall be in addition to his remuneration as a Director.

56. A Director or Alternate Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms as to remuneration and otherwise as the Directors may determine.

57. A Director or Alternate Director may act by himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director or Alternate Director.

58. A shareholding qualification for Directors may be fixed by the Company in general meeting, but unless and until so fixed no qualification shall be required.

59. A Director or Alternate Director of the Company may be or become a Director or other Officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as shareholder or otherwise and as such Director or Alternate Director shall be accountable to the Company for any remuneration or other benefits received by him as a Director or Officer of, or from his interest in, such other company.

60. No person shall be disqualified from the office of Director or Alternate Director or prevented from conducting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any contract or transaction entered into by or on behalf of the Company in which any Director or Alternate Director shall be in any way interested be or be liable to be avoided, nor shall any Director or Alternate Director to contracting or being an interested be liable to account to the Company for any profit realized by any such contract or transaction by reason of such Director holding office or of the fiduciary relation thereby established. A Director (or his Alternate Director in his absence) shall be at liberty to vote in respect of any contract or transaction in which he is an interested or disinterested PROVIDED HOWEVER that the nature of the interest of any Director or Alternate Director in any such contract or transaction shall be disclosed by him or the Alternate Director appointed by him at or prior to its conclusion and any vote thereon.
61. A general notice that a Director or Alternate Director is a shareholder of any specified firm or company and is to be regarded as interested in any transaction with such firm or company shall be sufficient disclosure under Article 60 and after such general notice it shall not be necessary to give special notice relating to any particular transaction.

ALTERNATE DIRECTORS

62. Subject to the exception contained in Article 71 a Director who expects to be unable to attend Directors' Meetings because of absence, illness or otherwise may appoint any person to be an Alternate Director to act in his stead and such appointee whilst he holds office as an Alternate Director shall, in the event of absence thereof of his appointor, be entitled to attend meetings of the Directors and to vote therein and to do, in the place and stead of his appointor, any other act or thing which his appointor is permitted or required to do by virtue of his being a Director as if the Alternate Director were the appointor, other than appointment of an Alternate to himself, and he shall ipso facto vacate office if and when his appointor ceases to be a Director or removes the appointee from office. Any appointment or removal under this Article shall be effected by notice in writing under the hand of the Director making the same.

POWERS AND DUTIES OF DIRECTORS

63. The business of the Company shall be managed by the Directors (or a sole Director if only one is appointed) who may pay all expenses incurred in promoting, registering and setting up the Company, and may exercise all such powers of the Company as are not, from time to time, by the Statute, or by these Articles, or such regulations, being not inconsistent with the aforesaid, as may be prescribed by the Company in general meeting required to be exercised by the Company in general meeting PROVIDED HOWEVER that no regulations made by the Company in general meeting shall invalidate any prior act of the Directors which would have been valid if that regulation had not been made.

64. The Directors may from time to time and at any time by powers of attorney appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys of the Company for such purpose and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such powers of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorneys as the Directors may think fit and may also authorize any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

65. All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments and all receipts for monies paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be in such manner as the Directors shall from time to time by resolution determine.
66. The Directors shall cause Minutes to be made in books provided for the purpose:
   (a) of all appointments of Officers made by the Directors;
   (b) of the names of the Directors (including those represented thereat by an Alternate or
       by proxy) present at each meeting of the Directors and of any committee of the Directors;
   (c) of all resolutions and proceedings at all meetings of the Company, and of the
       Directors and of Committees of Directors.

67. The Directors may pay a gratuity or pension or allowance on retirement to any Director who has held any office or place of profit with the
Company or to his widow or dependents and may make contributions to any fund and pay
premiums for the purchase or provision of any such gratuity, pension or allowance.

68. The Directors may exercise all the powers of the Company to borrow money and to
mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue
debentures, debentures stock and other securities whether outright or as security for any debts,
liability or obligation of the Company or of any third party.

   MANAGEMENT

69. The Directors may from time to time provide for the management of the affairs of
the Company in such manner as they shall think fit and the provisions contained in Article 70 shall
be without prejudice to the general powers conferred by this paragraph.

70. (a) The Directors from time to time and at any time may establish any committees,
local boards or agencies for managing any or all of the affairs of the Company and may appoint any
persons to be members of such committees or local boards or any managers or agents and may fix
their remuneration.

   (b) The Directors from time to time and at any time may delegate to any such
committee, local board, manager or agent any of the powers, authorities and discretions for the
time being vested in the Directors and may authorize the members for the time being of any such local
board, or any of them to fill up any vacancies therein and to act notwithstanding vacancies and any
such appointment or delegation may be made on such terms and subject to such conditions as the
Directors may think fit. The Directors may at any time remove any person so appointed and may
annul or vary any such delegation, but no person dealing in good faith and without notice of any
such appointment or variation shall be affected thereby.

   (c) Any such delegates as aforesaid may be authorized by the Directors to subdelegate
all or any of the powers, authorities, and discretions for the time being vested in them.
MANAGING DIRECTORS

71. (a) The Directors may, from time to time, appoint one or more of their body (but not an Alternate Director) to the office of Managing Director for such term and at such remuneration (whether by way of salary, or commission, or participation in profits, or partly in one way and partly in another) as they may think fit but his appointment shall be subject to determination by the Directors if he ceases from any cause to be a Director and no Alternate Director appointed by him can act in his stead as a Director or Managing Director.

(b) The Directors may entrust to and confer upon a Managing Director any of the powers exercisable by them upon such terms and conditions and with such restrictions as they may think fit and either collaterally with or to the exclusion of their own powers and may from time to time revoke, withdraw, alter or vary all or any of such powers.

PROCEEDINGS OF DIRECTORS

72. Except as otherwise provided by these Articles, the Directors shall meet together for the dispatch of business, convening, adjourning and otherwise regulating their meetings as they think fit. Questions arising at any meeting shall be decided by a majority of votes of the Directors and Alternate Directors present at a meeting at which there is a quorum, the vote of an Alternate Director not being counted if his appointor be present at such meeting. In case of an equality of votes, the Chairman shall have a second or casting vote.

73. A Director or Alternate Director may, and the Secretary on the requisition of a Director or Alternate Director shall, at any time summon a meeting of the Directors by at least two days' notice in writing to every Director and Alternate Director which notice shall set forth the general nature of the business to be considered unless notice is waived by all the Directors (or their Alternates) either at, before or after the meeting is held and PROVIDED FURTHER if notice is given in person, by cable, telegraph or telecopy the same shall be deemed to have been given on the day it is delivered to the Directors or transmitting organization as the case may be. The provisions of Article 26 shall apply mutatis mutandis with respect to notices of meetings of Directors.

74. The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed shall be two, a Director and his appointed Alternate Director being considered only one person for this purpose, provided always that if there shall at any time be only one sole Director the quorum shall be one. For the purposes of this Article an Alternate Director or proxy appointed by a Director shall be counted in a quorum at a meeting at which the Director appointing him is not present.

75. The continuing Directors may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the number fixed by or pursuant to these Articles at the necessary quorum of Directors the continuing Directors or Director may set for the purpose of increasing the number of Directors to that number, or of summing a general meeting of the
Company, but for no other purpose.

76. The Directors may elect a Chairman of their Board and determine the period for which he is to hold office; but if no such Chairman is elected, or if at any meeting the Chairman is not present within five minutes after the time appointed for holding the same, the Directors present may choose one of their number to be Chairman of the meeting.

77. The Directors may delegate any of their powers to committees consisting of such member or members of the Board of Directors (including Alternate Directors in the absence of their appointors) as they think fit; any committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the Directors.

78. A committee may meet and adjourn as it thinks proper. Questions arising at any meeting shall be determined by a majority of votes of the members present, and in case of an equality of votes the Chairman shall have a second or casting vote.

79. All acts done by any meeting of the Directors or of a committee of Directors (including any person acting as an Alternate Director) shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any Director or Alternate Director, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and qualified to be a Director or Alternate Director at the time they were so appointed.

80. Members of the Board of Directors or of any committee thereof may participate in a meeting of the Board or of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and participate in the meeting pursuant to this provision shall constitute presence in person at such meeting. A resolution in writing (in one or more counterparts), signed by all the Directors for the time being or all the members of a committee of Directors (an Alternate Director being entitled to sign such resolution on behalf of his appointor) shall be as valid and effectual as if it had been passed at a meeting of the Directors or committee as the case may be duly convened and held.

81. (a) A Director may be represented at any meeting of the Board of Directors by a proxy appointed by him in which event the presence or vote of the proxy shall for all purposes be deemed to be that of the Director.

(b) The provisions of Articles 46-49 shall mutatis mutandis apply to the appointment of proxies by Directors.

VACATION OF OFFICE OF DIRECTOR

82. The office of a Director shall be vacated:

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(a) If he gives notice in writing to the Company that he resigns the office of Director;

(b) If he absents himself (without being represented by proxy or an Alternate Director appointed by him) from three consecutive meetings of the Board of Directors without special leave of absence from the Directors, and they pass a resolution that he has by reason of such absence vacated office;

(c) If he dies, becomes bankrupt or makes any arrangement or composition with his creditors generally;

(d) If he is found insane or becomes of unsound mind.

APPOINTMENT AND REMOVAL OF DIRECTORS

83. The Company may by ordinary resolution appoint any person to be a Director and may in like manner remove any Director and may in like manner appoint another person in his stead.

84. The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors but so that the total amount of Directors (exclusive of Alternate Directors) shall not at any time exceed the number fixed in accordance with these Articles.

PREPTION OF AGSENT

85. A Director of the Company who is present at a meeting of the Board of Directors at which action on any Company matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the Minutes of the meeting or unless he shall file his written dissent from such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to such person immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

SEAL

86. The Seal shall only be used by the authority of the Directors or of a committee of the Directors authorized by the Directors in that behalf and every instrument to which the Seal has been affixed shall be signed by one person who shall be either a Director or the Secretary or Secretary-Treasurer or some person appointed by the Directors for the purpose.

PROVIDED THAT the Company may have for use in any place or places outside the Cayman Islands, a duplicate seal or seals such of which shall be a facsimile of the Common Seal of the Company and, if the Directors so determine, with the addition on its face of the name of every place
where it is to be used.

PROVIDED FURTHER THAT a Director, Secretary or other officer or representative or attorney may without further authority of the Directors affix the Seal of the Company over his signature alone to any document of the Company required to be authenticated by him under Seal or to be filed with the Registrar of Companies in the Cayman Islands or elsewhere wherever.

OFFICERS

87. The Company may have a President, a Secretary or Secretary-Treasurer appointed by the Directors who may also from time to time appoint such other Officers as they consider necessary, all for such terms, at such remuneration and to perform such duties, and subject to such provisions as to disqualification and removal as the Directors from time to time prescribe.

DIVIDENDS, DISTRIBUTIONS AND RESERVE

88. Subject to the Statute, the Directors may from time to time declare dividends (including interim dividends) and distributions on shares of the Company outstanding and authentic payment of the same out of the funds of the Company lawfully available therefor.

89. The Directors may, before declaring any dividends, or distributions, set aside such sums as they think proper as a reserve or reserves which shall at the discretion of the Directors, be applicable for any purpose of the Company and pending such application may, at the like discretion, be employed in the business of the Company.

90. No dividend or distribution shall be payable except out of the profits of the Company, realized or unrealized, or out of the share premium account or as otherwise permitted by the Statute.

91. Subject to the rights of persons, if any, entitled to shares with special rights as to dividends or distributions, if dividends or distributions are to be declared on a class of shares they shall be declared and paid according to the amounts paid or credited as paid on the shares of such class outstanding on the record date for such dividend or distribution as determined in accordance with these Articles but no amount paid or credited as paid on a share in advance of calls shall be treated for the purpose of this Article as paid on the share.

92. The Directors may deduct from any dividend or distribution payable to any member all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

93. The Directors may declare that any dividend or distribution be paid wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures, or debenture stock of any other company or in any one or more of such ways and where any difficulty arises in
regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that such payments shall be made to any members upon the footing of the value so fixed in order to adjust the rights of all members and may vest any such specific assets in trustees as may seem expedient to the Directors.

94. Any dividend, distribution, interest or other monies payable in cash in respect of shares may be paid by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the holder who is first named on the register of members or to such person and in such address as such holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one or two or more joint holders may give effectual receipts for any dividends, bonuses, or other monies payable in respect of the share held by them as joint holders.

95. No dividend or distribution shall bear interest against the Company.

CAPITALIZATION

96. The Company may upon the recommendation of the Directors by ordinary resolution authorize the Directors to capitalise any sum standing to the credit of any of the Company’s reserve accounts (including share premium account and capital redemption reserve fund) or any sum standing to the credit of profit and loss account or otherwise available for distribution and to appropriate such sums to members in the proportions in which such sums would have been divisible amongst them had the same been a distribution of profits by way of dividend and to apply such sums on their behalf in paying up in full unissued shares for allotment and distribution credited as fully paid up and amongst them in the proportion aforesaid. In such event the Directors shall do all acts and things required to give effect to such capitalization, with full power to the Directors to make such provisions as they think fit for the case of shares becoming distributable in fractions (including provisions whereby the benefit of fractional entitlements accrue to the Company rather than to the members concerned). The Directors may authorize any person to enter on behalf of all the members interested into an agreement with the Company providing for such capitalization and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

BOOKS OF ACCOUNT

97. The Directors shall cause proper books of account to be kept with respect to:

(a) all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place;

(b) all sales and purchases of goods by the Company;
(c) the assets and liabilities of the Company.

Proper books shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

98. The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of members not being Directors and no member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by Statute or authorized by the Directors or by the Company in general meeting.

99. The Directors may from time to time cause to be prepared and to be laid before the Company in general meeting profit and loss accounts, balance sheets, group accounts (if any) and such other reports and accounts as may be required by law.

AUDIT

100. The Company may at any Annual General Meeting appoint an Auditor or Auditors of the Company who shall hold office until the next Annual General Meeting and may fix his or their remuneration.

101. The Directors may before the first Annual General Meeting appoint an Auditor or Auditors of the Company who shall hold office until the first Annual General Meeting unless previously removed by an ordinary resolution of the members in general meeting in which case the members at that meeting may appoint Auditors. The Directors may fill any casual vacancy in the office of Auditor but while any such vacancy continues the surviving or continuing Auditor or Auditors, if any, may act. The reappointment of any Auditor appointed by the Directors under this Article may be fixed by the Directors.

102. Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and Officers of the Company such information and explanation as may be necessary for the performance of the duties of the auditors.

103. Auditors shall at the next Annual General Meeting following their appointment and at any other time during their term of office, upon request of the Directors or any general meeting of the members, make a report on the accounts of the Company in general meeting during their tenure of office.

NOTICES
104. Notices shall be in writing and may be given by the Company to any member either personally or by sending it by post, cable, telex or telecopy to him or to his address as shown in the register of members, such notice, if mailed, to be forwarded airmail if the address be outside the Cayman Islands.

105. (a) Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, pre-paying and posting a letter containing the notice, and to have been effected at the expiration of sixty hours after the letter containing the same is posted as aforesaid.

(b) Where a notice is sent by cable, telex or telecopy service of the notice shall be deemed to be effected by properly addressing and sending such notice through a transmitting organization, and to have been effected on the day the same is sent as aforesaid.

106. A notice may be given by the Company to the joint holders of record of a share by giving the notice to the joint holder first named on the register of members in respect of the share.

107. A notice may be given by the Company to the person or persons which the Company has been advised are entitled to a share or shares in consequence of the death or bankruptcy of a member by sending it through the post as aforesaid in a pre-paid letter addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description at the address supplied for that purpose by the persons claiming to be so entitled, or at the option of the Company by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.

108. Notice of every general meeting shall be given in any manner hereinbefore authorized to:

(a) every person shown as a member in the register of members as of the record date for such meeting except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the register of members.

(b) every person upon whom the ownership of a share devolves by reason of his being a legal personal representative or a trustee in bankruptcy of a member of record where the member of record but for his death or bankruptcy would be entitled to receive notice of the meeting, and

No other person shall be entitled to receive notices of general meetings.

WINDING UP

109. If the Company shall be wound up the Liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the Statute, divide amongst the members in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may for such purpose set such value as he
designed fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The Liquidator may with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the Liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other securities whereas there is any liability.

110. If the Company shall be wound up, and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members in proportion to the capital paid up at the commencement of the winding up, on the shares held by them respectively. This Article is to be without prejudice to the rights of the holders of shares issued upon special terms and conditions.

DURATION OF THE COMPANY

111. Notwithstanding any other provision contained elsewhere in these Articles the Company shall be taken to have commenced voluntary winding-up and dissolution automatically and without further action on the part of the Company or its members, upon the happening of any of the following events:

(a) when the period fixed for the duration of the Company by Clause 8 of the Memorandum of Association expires;

(b) upon the passing of a Special Resolution that the Company be wound-up voluntarily;

(c) upon the expiry of a period of 90 days starting on

(i) the death, insanity, bankruptcy, dissolution, liquidation (whether compulsory or voluntary), withdrawal, retirement or resignation of any Member;

(ii) the redemption, repurchase or cancellation of all of the shares of a member;

(iii) the occurrence of any event which under the Memorandum of Association of the Company or these Articles terminates the membership of a member
unless there remain at least two members and the Company is continued in
existence by a unanimous written resolution of those members pursuant to
amended Articles adopted during that 90 day period;

(d) where the death, insanity, bankruptcy, dissolution, liquidation (whether
compulsory or voluntary), withdrawal, retirement or resignation of any
member as aforesaid causes the commencement of the winding-up and
dissolution of the Company in accordance with the Company's
Memorandum and Articles of Association and Section 195D of the
Companies Law (Revised) of the Cayman Islands, the directors at the time
of such commencement and without further action shall become the
liquidators of the Company.

INDEMNITY

112. The Directors and Officers for the time being of the Company and any trustee for
the time being acting in relation to any of the affairs of the Company and their heirs, executors,
administrators and personal representatives respectively shall be indemnified out of the assets of the
Company from and against all actions, proceedings, costs, charges, losses, damages and expenses
which they or any of them shall or may incur or sustain by reason of any act done or omitted in or
about the execution of their duty in their respective offices or trusts, except such (if any) as they
shall incur or sustain by or through their own wilful neglect or default respectively and no such
Director, Officer or trustee shall be answerable for the acts, receipts, neglects or defaults of any
other Director, Officer or trustee or for joining in any receipt for the sake of conformity or for the
solvency or honesty of any banker or other person with whom any monies or effects belonging to
the Company may be lodged or deposited for safe custody or for any insufficiency of any security
upon which any monies of the Company may be invested or for any other loss or damage due to
any such cause as aforesaid or which may happen in or about the execution of his office or trust
unless the same shall happen through the wilful neglect or default of such Director, Officer or
trustee.

FINANCIAL YEAR

113. Unless the Directors otherwise prescribe, the financial year of the Company shall
end on 31st December in each year and, following the year of incorporation, shall begin on 1st
January in each year.

AMENDMENTS OF ARTICLES

114. Subject to the Statute, the Company may at any time and from time to time by
special resolution alter or amend these Articles in whole or in part.
TRANSFER BY WAY OF CONTINUATION

115. If the Company is exempted as defined in the Statute, it shall, subject to the provisions of the Statute and with the approval of a Special Resolution, have the power to register by way of continuation as a body corporate under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.
DATED the day of 199.

Director
Trident Nominees (Cayman) Ltd.
P.O. Box 847, Grand Cayman
Nominee Company

Director
Trident Secretaries (Cayman) Ltd.
P.O. Box 847, Grand Cayman
Nominee Company

Witness to the above signatures

I, Registrar of Companies in and for the Cayman Islands DO HEREBY CERTIFY that this is a true and correct copy of the Memorandum of Association of this Company duly incorporated on the day of 199.

REGISTRAR OF COMPANIES
Dear Mr. Andrade

EBARGE, LLC

We are pleased to advise that the Registrar of Companies has confirmed that the captioned Delaware LLC qualifies for registration as an exempted company in the Cayman Islands, without the need to amend it for share capital. Following registration in Cayman the company would still have to adopt a form of Memorandum & Articles of Association similar to that emailed to you previously.

I attach an extract of the Companies Law indicating the requirements for registration. Once you are ready to proceed we will prepare the necessary documents.

Kind regards

Yours sincerely

TRIDENT TRUST COMPANY (CAYMAN) LIMITED

M. CHRISTINE NOYE-SMITH
Manager - Corporate Services
Companies Law (1998 Revision)

PART XI - General

218. (1) Wherever this Law provides for or requires the filing of any document, notice or return with the Registrar or the issue of any certificate or the Registrar provides a copy of any document in respect of which no fee is elsewhere specifically provided, the following fees shall be payable:

(a) filing any document $10
(b) issuing any certificate $10
(c) providing a copy of any document $10

(2) The Registrar may, in his discretion, extend the time within which any thing is required to be done by this Law, whether the time prescribed therefor has expired or not, and waive any penalties or prosecutions provided under this Law.

PART XII - Transfer by Way of Continuation

219. (1) A body corporate incorporated, registered or existing with limited liability and a share capital under the laws of any jurisdiction outside the Islands (which body corporate is in this Part referred to as a "registrant") may apply to the Registrar to be registered by way of continuation as an exempted company limited by shares under this Law.

(2) The Registrar shall register a registrant if:

(a) the registrant is incorporated, registered or existing in a jurisdiction whose laws permit or do not prohibit the transfer of the registrant in the manner hereinafter provided in this Part (hereinafter in this section referred to as "a relevant jurisdiction");
(b) the registrant has paid to the Registrar a fee equal to the fee payable on the registration of an exempted company under section 26;
(c) the registrant has delivered to the Registrar the documents listed in paragraphs (a) and (b) of section 25(1) (in this section referred to as "the charter documents");
(d) the name of the registrant is acceptable to the Registrar under section 30 or the registrant has undertaken to change the name to an acceptable name within six months of registration;
(e) the registrant has filed with the Registrar notice of the address of its proposed registered office in the Islands;
(f) the registrant has filed with the Registrar a declaration signed by
a director of the registrant that the operation of the registrant will
be conducted mainly outside the Islands;

(g) no petition or other similar proceeding has been filed and remains
outstanding or order made or resolution adopted to wind up or
liquidate the registrant in any jurisdiction;

(h) no receiver, trustee, administrator or other similar person has
been appointed in any jurisdiction and is acting in respect of the
registrant, its affairs or its property or any part thereof;

(i) no scheme, order, compromise or other similar arrangement has
been entered into or made in any jurisdiction whereby the rights
of creditors of the registrant are and continue to be suspended or
restricted;

(j) the registrant is able to pay its debts as they fall due;

(k) the application for registration is bona fide and not intended to
defraud existing creditors of the registrant;

(l) the registrant has delivered to the Registrar an undertaking signed
by a director of the registrant that notice of the transfer has been
or will be given within twenty-one days to the secured creditors
of the registrant;

(m) any consent or approval to the transfer required by any contract
or undertaking entered into or given by the registrant has been
obtained, released or waived, as the case may be;

(n) the transfer is permitted by and has been approved in accordance
with the charter documents of the registrant;

(o) the laws of the relevant jurisdiction with respect to transfer have
been or will be complied with;

(p) the registrant is constituted in a form or substantially a form
which could have been incorporated as an exempted company
limited by shares under this Law;

(q) the registrant will, upon registration hereunder, cease to be
incorporated, registered or exist under the laws of the relevant
jurisdiction;

(r) the registrant, if it is (or will when registered by way of
continuation be) prohibited from carrying on its business in or
from within the Islands unless licensed under any law, has
applied for and obtained the requisite licence; and

(s) the Registrar is not aware of any other reason why it would be
against the public interest to register the registrant.

(3) Paragraphs (g), (h), (i), (k), (m), (n), (o) and (s) of subsection (2)
shall be satisfied by filing with the Registrar a voluntary declaration or affidavit.
Companies Law (1998 Revision)

of a director of the registrant to the effect that, having made due enquiry, he is of the opinion that the requirements of those paragraphs have been met, and which declaration or affidavit shall include a statement of the assets and liabilities of the registrant made up to the latest practicable date before making the declaration or affidavit.

(4) Whoever, being a director, makes a declaration or affidavit under subsection (3) without reasonable grounds therefor is guilty of an offence and liable on summary conviction to a fine of fifteen thousand dollars and to imprisonment for five years.

(5) Without prejudice to Part IX, a registrant may apply to be provisionally registered by way of continuation as an exempted company limited by shares under this Law.

(6) The Registrar shall provisionally register a registrant if-

(a) the registrant complies with the requirements of paragraphs (a), (c), (d), (g), (h), (i), (j) and (p) of subsection (2); and

(b) the registrant has paid to the Registrar a fee of one thousand five hundred dollars.

(7) Paragraphs (g), (h), (i), (j) and (p) of subsection (2) shall be satisfied by filing with the Registrar a voluntary declaration or affidavit of the director of the registrant to the effect that, having made due enquiry, he is of the opinion that the requirements of those paragraphs have been met, and subsection (6) shall, mutatis mutandis, apply with respect to such declaration or affidavit.

(8) The Registrar shall register a registrant which is provisionally registered under this Part upon the requirements of paragraphs (b), (d), (f), (i), (m), (n), (o), (q), (r) and (t) of subsection (2) being met, on to which subsection (6) shall, mutatis mutandis, apply where relevant.

(9) A registrant which is provisionally registered shall-

(a) within sixty days after registration, deliver, to the Registrar details of any changes in the information required by paragraphs (c) and (e) of subsection (2);

(b) file with the Registrar in January of each year following provisional registration, a voluntary declaration or affidavit in the form described in subsection (7); and

(c) pay to the Registrar in January of each year following provisional registration, a fee of one thousand dollars.
(10) A registrant which is provisionally registered and which fails to comply with paragraphs (b) and (c) of subsection (7) by 30th June in such year shall cease to be provisionally registered but without prejudice to being provisionally registered anew hereunder upon complying with the requirements of this Part.

220. (1) Upon registration of a registrant under this Part, the Registrar shall issue a certificate under his hand and seal of office that the registrant is registered by way of continuation as an examined company and specifying the date of such registration, and the term 27(3) shall apply mutatis mutandis to such certificate.

(2) The Registrar shall enter in the register of companies the date of registration of the registrant and, to the extent possible with respect to a registrant, particulars of the matters specified in paragraphs (a) to (b) of section 26(3).

(3) From the date of registration of the registrant it shall continue as a body corporate for all purposes as if incorporated and registered as an examined company under and subject to this Law the provisions of which shall apply to the company and to persons and matters associated therewith as if such company were so incorporated and registered and such company shall have, but without limitation to the generality of the foregoing,

(a) the capacity to perform all the functions of an examined company;
(b) the capacity to use and be sued;
(c) perpetual succession;
(d) the power to acquire, hold and dispose of property,

and the members of the company shall have such liability to contribute to the assets of the company in the event of its being wound up under this Law as it is provided therein.

Provided always that section 219 and this section shall not operate-
(a) to create a new legal entity;
(b) to prejudice or affect the identity or continuity of the registrant as aforesaid constituted;
(c) to affect the property of the registrant;
(d) to affect any appointment made, resolution passed or any other act or thing done in relation to the registrant pursuant to a power conferred by any of the charter documents of the registrant or by the laws of the jurisdiction under which the registrant was previously incorporated, registered or existing.
Companies Law (1998 Revision)

(e) except to the extent provided for or pursuant to this Part, to affect the rights, powers, authorities, functions and liabilities or obligations of the registrant or any other person; or

(f) to render defective any legal proceedings by or against the registrant and any legal proceedings that could have been continued or commenced by or against the registrant before its registration hereunder may, notwithstanding the registration, be continued or commenced by or against the registrant after registration.

(4) Upon provisional registration of a registrant under this Part the Registrar shall issue a certificate under his hand and seal of office that the registrant is provisionally registered by way of continuation as an exempted company and specifying the date of such provisional registration.

(5) The Registrar shall enter in a register maintained for the purpose the date of provisional registration and name of the registrant.

(6) If a registrant which is provisionally registered under this Part is registered pursuant to section 219(2) it shall automatically cease to be provisionally registered and the Registrar shall cancel such provisional registration.

(7) Subsection (5) shall not apply to a registrant which is provisionally registered unless and until it is registered under section 219(2), and nothing in this section shall be construed as enabling a registrant which is provisionally registered to carry on business within the Islands unless it complies with the requirements of Part IX.

221. (1) A registrant shall, within ninety days of registration by special resolution passed in accordance with this Law, make such amendments, alterations, modifications, variations, deletions and additions (in this section referred to as "changes") if any, to its charter documents as are necessary to ensure that they comply with the requirements of this Law as they relate to an exempted company.

(2) Within ninety days of registration, the registrant-

(a) may, instead of passing a special resolution making the changes required by subsection (1); or

(b) shall, whether or not it has passed such a special resolution making, or purporting to make, such changes, if the Registrar so directs,

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Companies Law (1998 Revision)

apply to the Court for an order approving such changes and the Court, if satisfied that the changes (with such modifications, if any, as it considers appropriate) are necessary to ensure that the charter documents of the registrant comply with the requirements of this Law, may approve them accordingly and make such consequential orders as it thinks fit. Changes, when so approved, shall take effect as if they formed part of the charter documents.

(3) A copy of the special resolution passed under subsection (1) or of the order of the Court made under subsection (2) shall be filed with and registered by the Registrar whose certificate of registration thereof shall be conclusive evidence that the charter documents comply with the requirements of this Law.

(4) After registration of the registrant and until such time as the charter documents of the registrant are changed to comply with the requirements of this Law or to the extent they cannot be changed so to comply, this Law shall prevail.

(5) The provisions of the charter documents of a registrant which would, if the company had been incorporated under this Law, have been required by this Law to be included in its memorandum of association shall be deemed to be the registered memorandum of association of the company and the provisions of the charter documents that do not by virtue of the foregoing constitute the registered memorandum of association shall be deemed to be the registered articles of association of the company, and the company and its members shall be bound thereby accordingly.

222. Where a registrant is also registered as a foreign company under Part IX it shall, upon registration under Part XII, automatically cease to be registered under Part IX and the Registrar shall cancel such registration.

223. The Registrar shall forthwith give notice in the Gazette of the registration of a registrant under this Part, the jurisdiction under whose laws the registrant was previously incorporated, registered or existing and the previous name of the registrant if different from the current name.

224. (1) An exempted company incorporated and registered with limited liability and a share capital under this Law, including a company registered by way of continuation under this Part, which proposes to be registered by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Islands (hereinafter called an “applicant”) may apply to the Registrar to be de-registered in the Islands.

(2) The Registrar shall so de-register an applicant if...
EBARGE, LLC
WRITTEN CONSENT OF THE SOLE MEMBER
TO ACTION IN LIEU OF MEETING

Pursuant to the provisions of Section 18-404(d) of the Limited Liability Company Act of the State of Delaware and consistent with the Certificate of Formation and Operating Agreement of EBARGE, LLC, a Delaware limited liability company (the "Company"), the undersigned, the directors of ML IBK Positions, Inc., the sole member of the Company, hereby consent to the adoption of the following resolutions and to the taking of the actions contemplated thereby, in each case, with the same force and effect as if presented to and adopted at a meeting of the member:

REGISTRATION BY WAY OF CONTINUATION

IT IS NOTED that the Company is registered as a limited liability company pursuant to the provisions of the Limited Liability Company Act of the State of Delaware under Section 18-201 and whereas it is considered to be in the best interest of the Company, IT IS RESOLVED that an application be made to the Registrar of Companies in the Cayman Islands for registration by way of continuation of the Company to the Cayman Islands under the provisions of Section 219-223 of Part XII of the Companies Law (1998 Revision).

IT IS FURTHER RESOLVED that the Memorandum and Articles of Association attached hereto as Attachment A be and hereby are approved and adopted as the Memorandum and Articles of Association of the Company effective upon the registration in the Cayman Islands as an exempted company limited by shares.

IT IS FURTHER RESOLVED that ML IBK Positions, Inc. is appointed as sole director of the Company.

IT IS FURTHER RESOLVED that any director of the member company and/or Trident Trust Company (Cayman) Limited be, and hereby is, authorized to execute and deliver, or cause to be executed and delivered, in the name and on behalf of the Company, and under its corporate seal or otherwise, a Declaration of Operations, substantially in the form of Attachment B hereto, a Notice of Transfer, substantially in the form of Attachment C hereto, a Declaration pursuant to Section 219 (2)(a) of the Companies Law of the Cayman Islands, substantially in the form of Attachment D hereto, a Certificate of Transfer, substantially in the form of Attachment E hereto and any and all certificates, agreements, authorizations and other instruments and documents, and to take any and all actions and to do any and all things as shall be necessary or appropriate to carry out the intent and purposes of the foregoing resolution.

- 1 -
IN WITNESS WHEREOF, we have hereunto set our hands as of the 19th day of February, 2000.

Gary M. Carlin

Mark F. McAndrews

Joseph S. Valenti
IN WITNESS WHEREOF, we have hereunto set our hands as of the date of February, 2000.

Gary M. Leblin

Mark T. McAndrews

Joseph J. Valenti
IN WITNESS WHEREOF, we have hereunto set our hands as of the 14th day of February, 2000.

Gary M. Carlin

Mark F. McAndrews

Joseph S. Valenti
Our ref: EBA-A
February 2000

The Registrar of Companies
Tower Building
Grand Cayman
Dear Sir

EBARGE, LLC

Pursuant to Section 219(7)(I) of Part XII of the Companies Law (1998 Revision), I
Joseph S. Valenti, hereby undertake that notice of the transfer by way of continuation of
EBARGE, LLC to the Cayman Islands has been or will be given within twenty-one days of such
application to the Registrar of Companies to the secured creditors of the Company.

EBARGE, LLC,

By: ML IBK Positions, Inc., its sole
Member

By: 
Name: Joseph S. Valenti
Title: Director
4. A statement of the assets and liabilities of the company made up to the latest practicable date is attached.

EBARGE, LLC,

By: ML IBK Positions, Inc., its sole Member.

By: Joseph S. Valenti
Title Director

SWORN AND DECLARED before me at NEW YORK this 3rd day of FEBRUARY 2000.

[Signature]

Notary Public

IGNATHEA BARRETT
Notary Public, State of New York
No. 01/04/003/314
Qualified in Westchester County
Commission Expires Feb 17, 2022
IN THE MATTER OF
THE COMPANIES LAW
SECTION 219 (3)
AND
IN THE MATTER OF
EBARGE, LLC
VOLUNTARY DECLARATION

I, Joseph S. Valenti, make oath and say as follows:

1. That I am the sole Director of the said Company which is applying for registration by way of continuation under the Companies Law, Cap. 219-223, of the laws of the Cayman Islands.

2. I am of the opinion that having made due inquiry, the requirements of the following paragraphs (g), (h), (i), (k), (m), (n), (o) and (g) of subsection (2) of Section 219 of the Companies Law have been met, i.e.:
   (g) no petition or other similar proceeding has been filed and remains outstanding or order made or resolution adopted to wind up or liquidate the registrant in any jurisdiction;
   (h) no receiver, trustee or administrator or other similar person has been appointed in any jurisdiction and is acting in respect of the registrant, its affair, or its property or any part thereof;
   (i) no scheme, order, compromise or other similar arrangement has been entered into or made in any jurisdiction whereby the rights of creditors of the registrant are and continue to be suspended or restricted;
   (j) the registrant is able to pay its debts as they fall due;
   (k) the application for registration is bona fide and not intended to defraud existing creditors of the registrant;
   (m) any consent or approval to the transfer required by any contract or undertaking entered into or given by the registrant has been obtained, released or waived, as the case may be;
   (n) the transfer is permitted by and has been approved in accordance with the charter documents of the registrant;
   (o) the laws of the relevant jurisdiction with respect to transfer have been or will be complied with;
   (g) the registrant will upon registration hereunder cease to be incorporated, registered or exist under the laws of the relevant jurisdiction;

3. That we make this Declaration pursuant to Section 219(3) of the Companies Law of the Cayman Islands to support the application of the said Company to be registered by way of continuation to the Cayman Islands.
IN THE MATTER OF
THE COMPANIES LAW
SECTION 219 (X)(0)
AND
IN THE MATTER OF
EBARGE, LLC
DECLARATION

I, Joseph S. Valenti, make oath and say as follows:

1. That we propose to be a Director of the said Company which is applying for registration by way of continuation under the Companies Law, Cap. 219-223, of the laws of the Cayman Islands.

2. That the operation of the said Company will be conducted mainly outside the Cayman Islands.

3. That we make this Declaration pursuant to Section 219 (X)(0) of the Companies Law of the Cayman Islands to support the application of the said Company to be registered by way of continuation as an Exempted Company.

EBARGE, LLC,
By: ML IBK Positions, Inc., its sole
Member
By:

Name: Joseph S. Valenti
Title: Director

SWORN AND DECLARED before me at NEW YORK, this 3rd day of FEBRUARY 2000.

Notary Public

IGNATIUS BARRETT

Notary Public, State of New York

Qualified in Westchester County

Commission Expires Feb 17, 2000

426551-61 006428-0053

MS 24524
WHITMAN BREED ABBOTT & MORGAN LLP
200 PARK AVENUE • NEW YORK, NY 10166 • PHONE: 212-351-3000 • FAX: 212-351-3131
FAX TRANSMITTAL SHEET

<table>
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<tr>
<th>FROM</th>
<th>Phone Number</th>
<th>Room Number</th>
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<tr>
<td>Eduardo N.T. Afonso</td>
<td>212-351-2345</td>
<td>2861</td>
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<tr>
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<td></td>
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<td>DATE</td>
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<th>TO</th>
<th>Company</th>
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<tbody>
<tr>
<td>Sarina A. Delpy</td>
<td>Trustee Trust Company (Cayman) Ltd.</td>
<td>(240) 949-0881</td>
<td>(240) 949-0880</td>
</tr>
</tbody>
</table>

COMMENTS:

At long last, attached please find a copy of the executed Board Resolutions for Ebargo, LLC. Please let me know if there is anything else we have to do in order to get Ebargo registered by way of continuance. Once you inform me that that you are going to have Ebargo re-domiciled, I will have the Certificate of Transfer filed in Delaware (it is already pre-filled for easy filing). I should be able to get some kind of Certificate from Delaware saying that Ebargo is no longer domiciled there which I will send you once I get it.

In addition, have you received payment yet from Eurus. I informed them to remit you payment forthwith, so let me know if you have not received it by wire or mail.

Regards,
Eduardo Afonso

IF YOU HAVE NOT RECEIVED THE CORRECT NUMBER OF PAGES CALL (212) 351-3396

This message is intended only for the use of the individual or entity to which it is addressed and may contain information that is privileged, confidential and exempt from disclosure under applicable law. If you are neither the intended recipient, nor the employee or agent responsible for delivering the message to the intended recipient, you are hereby advised that any distribution, dissemination or copying of this communication is strictly prohibited. If you have received this communication in error, please notify us immediately by return e-mail and delete the original message from your system. Thank you.
WHITMAN, BREED ABBOTT & MOCAN LLP
200 PARK AVENUE  NEW YORK, NY 10166  PHONE: 212-351-3000  FAX: 212-351-3131
FAX TRANSMITTAL SHEET

FROM               PHONE NUMBER  ROOM NUMBER
EDUARDO N.T. ANDRADE  212-351-3241  2901

DATE                TOTAL NUMBER OF PAGES (INCLUDING THIS PAGE)
February 15, 2000

TO                  COMPANY  FAX NUMBER  PHONE NUMBER
SABINA A. JERRYBANAN  Trident Trust Company (Cayman) Ltd.  (345) 949-0881  (345) 949-0880

COMMENTS:

At long last, attached please find a copy of the executed Board Resolutions for Ebarge, L.L.C. Please let me know if there is anything else we have to do in order to get Ebarge registered by way of continuation. Once you inform me that you are going to have Ebarge re-domiciled, I will have the Certificate of Transfer filed in Delaware (it is already pre-filed for easy filing). I should be able to get some kind of Certificate from Delaware stating that Ebarge is no longer domiciled there which I will send you once I get it.

In addition, have you received payment yet from Euron? I informed them to remit you payment forthwith, so let me know if you have not received it by wire or mail.

Regards,

Eduardo Andrade

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429616-01 0064428-0655

MS 24526
Assistant Secretary's Certificate

I, Douglas P. Mathews, DO HEREBY CERTIFY that I am a duly appointed Assistant Secretary of ML IBK Positions, Inc., a Delaware corporation (the "Company"), and, in such capacity, am authorized to execute this certificate on behalf of the Company. I DO FURTHER CERTIFY that the following resolutions were duly adopted by unanimous written consent of the Board of Directors of the Company on February 14, 2000 and such resolutions have not been amended or modified and are in full force and effect as of the date hereof:

REGISTRATION BY WAY OF CONTINUATION

IT IS NOTED that the Company is registered as a limited liability company pursuant to the provisions of the Limited Liability Company Act of the State of Delaware under Section 18-201 and whereas it is considered to be in the best interest of the Company, IT IS RESOLVED that an application be made to the Registrar of Companies in the Cayman Islands for registration by way of continuation of the Company to the Cayman Islands under the provisions of Section 219-223 of Part XII of the Companies Law (1998 Revision).

IT IS FURTHER RESOLVED that the Memorandum and Articles of Association attached hereto as Attachment A be and hereby are approved and adopted as the Memorandum and Articles of Association of the Company effective upon the registration in the Cayman Islands as an exempted company limited by shares.

IT IS FURTHER RESOLVED that ML IBK Positions, Inc. is appointed as sole director of the Company.

IT IS FURTHER RESOLVED that any director of the member company and/or Trident Trust Company (Cayman) Limited be, and hereby is, authorized to execute and deliver, or cause to be executed and delivered, in the name and on behalf of the Company, and under its corporate seal or otherwise, a Declaration of Operations, substantially in the form of Attachment B hereto, a Notice of Transfer, substantially in the form of Attachment C hereto, a Declaration pursuant to Section 219 (2)(f) of the Companies Law of the Cayman Islands, substantially in the form of Attachment D hereto, a Certificate of Transfer, substantially in the form of Attachment E hereto and any and all certificates, agreements, authorizations and other instruments and documents, and to take any and all actions and to do any and all things as shall be necessary or appropriate to carry out the intent and purposes of the foregoing resolution.

Marinari/mist/certificate

MS 24527
IN WITNESS WHEREOF, I have executed this Certificate on this 16th day of February 2000.

[Signature]

Name: Douglas F. Madden
Title: Assistant Secretary
CERTIFICATE OF ASSISTANT SECRETARY

I, Douglas P. Madden, acting in my capacity as Assistant Secretary of ML IBK Positions, Inc. ("ML IBK"), the sole director and sole member of Erarge, LLC, a Delaware limited liability company (the "Company"), DO HEREBY CERTIFY that:

1. The persons whose respective signatures are stated on the following page, are duly appointed and qualified on this day to hold the office set forth opposite his name, and that the signatures set forth below are the genuine signature of such persons.
<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gary M. Carlin</td>
<td>Director</td>
<td></td>
</tr>
<tr>
<td>Mark F. McAndrews</td>
<td>Director</td>
<td></td>
</tr>
<tr>
<td>Joseph S. Valenti</td>
<td>Director</td>
<td></td>
</tr>
</tbody>
</table>

IN WITNESS WHEREOF, I have executed this Certificate on the 16th day of February 2000.

ML IBK Positions, Inc.

By: [Signature]

Name: Douglas P. Madden
Title: Assistant Secretary
WHITMAN BREED ABBOTT & MORGAN LLP
200 PARK AVENUE • NEW YORK, NY 10166 • PHONE: 212-351-3000 • FAX: 212-351-3131
FAX TRANSMITTAL SHEET

FROM: EDUARDO N.T. ANDRADE
PHONE NUMBER: 212-351-3241
ROOM NUMBER: 2861

DATE: February 14, 2000

TOTAL NUMBER OF PAGES (INCLUDING THIS PAGE): 2

TO: SARINA A. JERRYBERMAN
COMPANY: Trident Trust Company (Cayman) Ltd.
FAX NUMBER: (345) 949-0881
PHONE NUMBER: (345) 949-0800

COMMENTS:

Attached please find the following executed documents pertaining to the re-domiciling of Eberge, LLC:

(i) Assistant Secretary's Certificate, certifying as to the authenticity of the Board resolutions; and
(ii) Certificate of Assistant Secretary, certifying as to the incumbency of the directors of ML IBK Positions, Inc.

The originals of these documents will be arriving via DHL tomorrow from Merrill Lynch. If the body of either of these documents is deficient, please let me know and I will have the body of such certificate edited. In addition, I should be able to fax you a copy of the Certificate of Incorporation of ML IBK Positions, Inc. by tomorrow.

Regards,

Eduardo Andrade

IF YOU HAVE NOT RECEIVED THE CORRECT NUMBER OF PAGES CALL (212) 351-3396

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**DATE**

February 17, 2009

**TOTAL NUMBER OF PAGES (INCLUDING THIS PAGE):** 3

**TO**

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<tr>
<td>Sabina A. Jerrybandan</td>
<td>(345) 949-6881</td>
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**FAX NUMBER**

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<tbody>
<tr>
<td>Tristram Trust Company (Cayman) Ltd.</td>
<td>(345) 949-0830</td>
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</table>

**COMMENTS:**

Attached please find the Certificate of Incorporation for ML IDK Positions, Inc. I now hope that you have all the requested materials and that we can finally get Echarge re-domesticated today. The reason I ask is that I am going on vacation next week so I really do have to have this wrapped up now. Please let me know when you have the documents filed so that I can have the Delaware Certificate of Transfer filed.

Regards,

Eduardo Andrade

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**IF YOU HAVE NOT RECEIVED THE CORRECT NUMBER OF PAGES CALL (212) 351-3396**

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MS 24532
State of Delaware
Office of the Secretary of State


[Signature]
Edward J. Feezel, Secretary of State

AUTHENTICATION
DATE 02-16-90

MS 24533
CERTIFICATE OF INCORPORATION
of
ML INTERFUNDING, INC.

ARTICLE I
Name

The name of the Corporation is ML Interfunding, Inc.

ARTICLE II
Registered Office and Registered Agent

The registered office of the Corporation is in the State of Delaware is located at Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the Corporation’s registered agent is The Corporation Trust Company.

ARTICLE III
Corporate Purposes

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV
Authorized Shares

Section 1. Shares Authorized. The total number of shares of all classes of capital stock that the Corporation is authorized to issue is two thousand (2,000) shares, of which one thousand (1,000) shares shall be Common Stock, par value ten dollars ($10.00) per share ("Common Stock") and one thousand (1,000) shares shall be Preferred Stock, par value ten dollars ($10.00) per share ("Preferred Stock").

Section 2. Rights and Restrictions of Preferred Stock. Authority is hereby expressly vested in the Board of Directors of the Corporation, subject to the provisions of this Article IV and to the limitations prescribed by law, to authorize the issue from time to time of one or more series of Preferred Stock and with respect to
each such series to fix by resolution or resolutions the voting powers, full or limited, if any, of the shares of such series and the designations, preferences and relative, participating, optional or other special rights and the qualifications, limitations or restrictions thereof. The authority of the Board of Directors with respect to each series shall include, but not be limited to, the determination or fixing of the following:

(a) The designation of such series.

(b) The dividend rate of such series, the conditions and dates upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes of series of the Corporation’s capital stock, and whether such dividends shall be cumulative or non-cumulative.

(c) Whether the shares of such series shall be subject to redemption for cash, property or rights, including securities of any other corporation, by the Corporation at the option of either the Corporation or the holder or both or upon the happening of a specified event, and, if so, subject to any such redemption, the times or events, prices and other terms and conditions of such redemption.

(d) The terms and amount of any sinking fund provided for the purchase or redemption of the shares of such series.

(e) Whether or not the shares of such series shall be convertible into, or exchangeable for, at the option of either the holder or the Corporation or upon the happening of a specified event, shares of any other class or classes or of any other series of the same or any other class or classes of the Corporation’s capital stock and, if provision be made for conversion or exchange, the times or events, prices, rates, adjustments, and other terms and conditions of such conversions or exchanges.

(f) The restrictions, if any, on the issue or reissue of any additional Preferred Stock.

(g) The rights of the holders of the shares of such series upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation.

(h) The provisions as to voting, options and/or other special rights and preferences, if any.

Section 5. Rights and Restrictions of Common Stock. The powers, preferences, rights, qualifications, limitations or restrictions thereof in respect to the Common Stock are as follows:

2550D - 3 -
(a) The Common Stock is junior to the Preferred Stock and is subject to all powers, rights, privileges, preferences and priorities of the Preferred Stock as herein or in any resolution or resolutions adopted by the Board of Directors pursuant to authority expressly vested in it by the provisions of Section 2 of this Article.

(b) The Common Stock shall have voting rights for the election of Directors and for all other purposes, each holder of Common Stock being entitled to one vote for each share thereof held by such holder, except as otherwise required by law.

Section 4. Increase or Decrease in Amount of Authorized Shares. The number of authorized shares of any class or classes of capital stock of the Corporation may be increased or decreased by an amendment to this Certificate of Incorporation authorized by the affirmative vote of the holders of a majority of the shares of the Common Stock outstanding and entitled to vote thereon and, except as expressly provided in the Certificate of Incorporation or in any resolution or resolutions adopted by the Board of Directors pursuant to the authority expressly vested in it by the provisions of Section 2 of this Article with respect to the Preferred Stock and except as otherwise provided by law, no vote by holders of capital stock of the Corporation other than the Common Stock shall be required to approve such action.

Section 5. Shares Entitled to More or Less Than One Vote. If, on any matter, any class or series of the Corporation's capital stock shall be entitled to more or less than one vote for any share, every reference in this Certificate of Incorporation and in any relevant provision of law to a majority or other proportion of stock shall refer to such majority or other proportion of the votes of such stock.

ARTICLE V
Corporate Existence

The Corporation is to have perpetual existence.

ARTICLE VI
Powers of Board of Directors

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors of the Corporation is expressly authorized:

(e) To make, alter, amend or repeal the By-Laws, except as otherwise expressly provided in any by-law made by the holders of the capital stock of the Corporation entitled to vote there-
Any By-Law may be altered, amended or repealed by the holders of the capital stock of the Corporation entitled to vote thereon at any annual meeting or at any special meeting called for that purpose.

(c) To authorize and cause to be executed mortgages and liens upon the real and personal property of the Corporation.

(d) To determine the use and disposition of any surplus and net profits of the Corporation, including the determination of the amount of working capital required, to set aside out of any of the funds of the Corporation, whether or not available for dividends, a reserve or reserves for any proper purposes and to abolish any such reserve in the manner in which it was created.

(e) To designate, by resolution passed by a majority of the whole Board of Directors, one or more committees, each committee to consist of two or more directors of the Corporation, which, to the extent provided in the resolution designating the committee or in the By-Laws of the Corporation, shall, subject to the limitations prescribed by law, have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation and may authorize the seal of the Corporation to be affixed to all papers that may require it. Such committees or committees shall have such name or names as may be provided in the By-Laws of the Corporation or as may be determined from time to time by resolution adopted by the Board of Directors.

(f) To adopt such pension, retirement, deferred compensation or other employee benefit plans or provisions as may, from time to time, be approved by it, providing for pensions, retirement income, deferred compensation or other benefits for officers or employees of the Corporation and of any corporation that is a subsidiary of the Corporation, or any of them, in consideration for or in recognition of the services rendered by such officers or employees or as an inducement to future service. No such plan or provision, which is not at the time of adoption reasonable or unfair, shall be invalidated or in any way affected because any director, shall be a beneficiary thereunder or shall vote for any plan or provision under which he may benefit.

(g) To exercise, in addition to the powers and authorities hereinafore or by law conferred upon it, any such powers and authorities and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the laws of the State of Delaware and of the Certificate of Incorporation and of the By-Laws of the Corporation.
ARTICLE VII

Limitation of Directors' Liability; Indemnification by Corporation

Section 1. Limitation of Directors' Liability. (a) No director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent provided by applicable law, for liability (i) for breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an impermissible personal benefit. If the Delaware General Corporation Law is hereafter amended to authorize corporate actions further limiting or eliminating the personal liability of directors, then the liability of each director of the Corporation shall be limited or eliminated to the full extent permitted by the Delaware General Corporation Law as so amended from time to time.

(b) Neither the amendment nor repeal of this Section 1, nor the adoption of any provision of the Certificate of Incorporation inconsistent with this Section 1, shall eliminate or reduce the effect of this Section 1, in respect of any matter occurring, or any cause of action, suit or claim that, but for this Section 1, would accrue or arise prior to such amendment, repeal or adoption of an inconsistent provision.

Section 2. Indemnification by Corporation. (a) The Corporation shall indemnify any person who is or was a director or officer of the Corporation, with respect to actions taken or omitted by such person in any capacity in which such person serves the Corporation, to the full extent authorized or permitted by law, as now or hereafter in effect, and such right to indemnification shall continue as to a person who has ceased to be a director or officer, as the case may be, and shall inure to the benefit of such person's heirs, executors and personal and legal representatives, provided, however, that, except for proceedings to enforce rights to indemnification, the Corporation shall not be obligated to indemnify any person in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized in advance, or unanimously consented to, by the Board of Directors of the Corporation.
(b) Directors and officers of the Corporation shall have the right to be paid by the Corporation expenses incurred in defending or otherwise participating in any proceeding in advance of its final disposition.

c) The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation.

d) The rights to indemnification and to the advancement of expenses conferred in this Section 1 shall not be exclusive of any other right that any person may have under law or otherwise.

(e) Any repeal or modification of this Section 3 by the stockholders of the Corporation shall not adversely affect any rights to indemnification and to advancement of expenses that any person may have at the time of such repeal or modification with respect to any acts or omissions occurring prior to such repeal or modification.

ARTICLE VIII
Reservation of Right to Amend Certificate of Incorporation

The Corporation reserves the right to amend, alter, change or repeal any provisions contained in this Certificate of Incorporation in the manner now or hereafter prescribed by law, and all the provisions of this Certificate of Incorporation and all rights and powers conferred by it are subject to this reserved power.

ARTICLE IX

The name and mailing address of the Incorporator is Dana R. Williams, 130 Vine Street, New York, New York 10281-2394.

Signature

Dana R. Williams
Incorporator

20550

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MS 24539
State of Delaware
Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "ML INTERFUNDING, INC." CHANGING ITS NAME FROM "ML INTERFUNDING, INC." TO "ML IBM POSITIONS, INC." FILED IN THIS OFFICE ON THE TENTH DAY OF JUNE, A.D. 1997, AT 8 O'CLOCK A.M.

[Stamp]

Edward J. Freeland, Secretary of State

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02-16-00

MS 24540
STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED: 12:00 PM 05/14/2191
7Q140232 = 2944049

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
ML INTERFUNDING, INC.

ML Interfunding, Inc., a corporation organized and existing under the laws of the State of Delaware, does hereby certify:

First: That the Board of Directors of the Corporation, on April 22, 1991, at a meeting duly convened, adopted a resolution proposing and declaring advisable an amendment to the Certificate of Incorporation of the Corporation and directing that such amendment be submitted to the next meeting of stockholders of the Corporation called, among other purposes, for the consideration thereof. Article 6 of the Certificate of Incorporation, as proposed to be amended by such resolution, is as follows:

Name
The name of the Corporation is ML Interfunding, Inc.

Second: That on April 22, 1991, the next meeting of stockholders of the Corporation was duly held, and, pursuant to the aforementioned resolution of its Board of Directors, the foregoing proposed amendment was submitted to the stockholders of the Corporation entitled to vote thereon, such amendment being submitted to and voted upon by the holders of shares of common stock, the only class of stock of the Corporation outstanding and entitled to vote, at which meeting the foregoing amendment was adopted by the affirmative vote of a majority of all outstanding shares of common stock.

Third: That the foregoing amendment has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

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MS 24541
IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed by its President, with its corporate seal to be hereunto duly affixed and to be attested by its Secretary this 12th day of May, 1991.

ML INTERFUNDING, INC.

By: 

[Signature]

President

Attest:

[Signature]

Secretary

(Seal)
I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF CHANGE OF REGISTERED AGENT OF "MG, INC. POSITIONS, INC.", FILED IN THIS OFFICE ON THE SEVENTH DAY OF APRIL, A.D. 1997, AT 11:00 O'CLOCK A.M.

[Seal]

[Signature]

Edward J. Freel, Secretary of State

AUTHENTICATION: 0261364
DATE: 02-16-00

MS 24543
CERTIFICATE OF CHANGE OF LOCATION OF REGISTERED OFFICE AND OF REGISTERED AGENT

It is hereby certified that:

1. The name of the corporation (hereinafter called the "corporation") is

   ML IBK POSITIONS, INC.

2. The registered office of the corporation within the State of Delaware is hereby changed to

   101 Centre Road, City of Wilmington 19805, County of New Castle.

3. The registered agent of the corporation within the State of Delaware is hereby changed to

   CORPORATION SERVICE COMPANY, the business office of which is identical with the
   registered office of the corporation as hereby changed.

4. The corporation has authorized the changes hereinafter set forth by resolution of its Board
   of Directors.

Signed on ___________ 1, 1999,

[Signature]

[Position: Secretary]
THE COMPANIES LAW
COMPANY LIMITED BY SHARES
ARTICLES OF ASSOCIATION
OF
EBARGE, LLC

1. In these Articles the following words and expressions shall, where not inconsistent with the context, have the following meanings respectively and Table A of the Law shall be excluded:

"Auditor" includes any individual or partnership;

"Notice" means written notice unless otherwise specifically stated;

"Ordinary Shares" means ordinary shares of US$1.00 each in the capital of the Company the holder or holders of which will have limited liability;

"Register of Members" means the Register of Members kept in accordance with Article 13;

"Member" means every person, body corporate or partnership registered in the Register of Members as the holder of Ordinary Shares in the Company, and when two or more persons are so registered as joint holders of shares, means the person whose name stands first in the Register of Members as one of such joint holders;

"the Law" means the Companies Law (Revised) and any statutory modification thereof for the time being in force;

"the Company" means EBARGE, LLC;

"Secretary" means the person appointed to perform the duties of Secretary of the Company and includes any Assistant or Acting Secretary;

"share" shall where the context permits include a fractional share.
2. In these Articles, unless there be something in the subject or context inconsistent with such construction, words importing the plural number shall be deemed to include the singular number and vice versa, and words of one gender include any other gender.

3. Expressions referring to writing shall, unless the contrary intention appears, be construed including printing, lithography, photography and other modes of representing words in a visible form.

4. Unless the context otherwise requires, words or expressions contained in these Articles shall bear the same meaning as in the Companies Law (Revised) or any statutory modification thereof in force for the time being.

SHARES

5. (a) The authorized Share Capital of the Company is US$50,000 divided into 50,000 Ordinary Shares of a nominal or par value of US$1.00 each.

(b) Subject to these Articles the unissued shares of the Company (whether forming part of the original or any increased authorised capital) shall be at the disposal of the Members by majority resolution who may offer, allot, grant options over or otherwise dispose of them to such persons at such times and for such consideration and upon such terms and conditions as they may determine consistent with these Articles.

6. No share shall be issued except as fully paid up.

7. The name and address of every person being the holder of registered shares, and the date when they became or ceased to be a Member shall be entered in the Register of Members.

8. Every person whose name is entered at a Member in the Register of Members being the holder of registered shares, may request, and the Company shall issue thereto, a certificate specifying the share or shares held and the par value thereof, provided that in respect of a registered nominative share, or shares, held jointly by several persons the Company shall not be bound to issue more than one certificate, and delivery of a certificate for a share to one or several joint holders shall be sufficient delivery to all.

9. Any member receiving a share certificate shall indemnify and hold the Company harmless from any loss or liability which it may incur by reason of wrongful or fraudulent use or representation made by any person by virtue of the possession of such certificate. If a certificate is
REDEMPTION OF SHARE CAPITAL

10. Subject to the Companies Law (Revised), the Company may

(a) issue shares on terms that they are liable to be redeemed on such terms and in the manner as the Members by Special Resolution before the issue of the shares may determine; and

(b) buy its own shares including any redeemable shares; and

(c) make a payment in respect of the purchase or redemption of its own shares otherwise than out of its distributable profits, or the proceeds of a fresh issue of shares.

VARIATION OF RIGHTS OF SHARES

11. If at any time the authorized share capital of the Company is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may only be varied or abrogated with the unanimous consent in writing of Members holding the issued shares or series of shares which may be affected by such variation at a separate class meeting of the holders of shares so affected. To every such class meeting the provisions of these Articles relating to General Meetings shall apply but so that the necessary quorum shall be one or more persons holding or representing by proxy at least two thirds of the issued shares or series of shares so affected.

12. The rights conferred upon the holders of the shares of any class or series issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class or series, be deemed to be varied by the creation or issue of further shares of that class or series. The holders of the shares of any class or series shall not have any preemptive right to purchase or subscribe for any shares of the Company unless expressly provided by the terms of the issue of the shares of that class.

REGISTRATION OF MEMBERS

13. The Company shall keep in one or more books a Register of its Members and shall enter therein the following particulars, that is to say:

(a) the name and address of each Member, the number of shares held by him and the amount paid or agreed to be considered to be paid on such shares;

(b) the date on which each person was entered in the Register of Members; and
(c) the date on which any person ceased to be a Member.

EVENTS RELATING TO MEMBERS THAT CAUSE WINDING UP AND DISSOLUTION

14. Any of the following events shall cause the winding and dissolution of the Company in accordance with Article 49:

(a) the bankruptcy, winding up, death, insanity, retirement, expulsion or dissolution of such Member;

(b) if such Member makes any assignment for the benefit of his creditors or files a petition voluntarily for bankruptcy under the laws of any country or files a petition seeking for himself any arrangement, re-organization, amalgamation, composition, re-adjustment, liquidation, dissolution or similar relief under any law or regulation;

(c) if such Member files an answer or other pleading admitting or failing to contest the material allegation of a petition filed against him in any proceedings of a nature described in the immediately proceeding paragraph of this Article;

(d) if such Member seeks consents to or acquiesces in the appointment of a trustee, receiver or liquidator of himself or all of a substantial part of his properties.

TRANSFER

15. No Member shall transfer, sell or assign or grant any option or other rights with respect to or otherwise dispose of any share held by him from time to time or any interest therein, in whole or in part, without the unanimous written consent of all the other Members. The Members shall not recognize any instrument purporting to transfer, or any other purported disposition of, any share or any interest therein in breach of the foregoing restriction and any purported transfer, sale or assignment of a share of any purported option or other right in respect of a share in breach of the foregoing restriction shall be void. Notwithstanding the foregoing, a Member shall have the right to create or permit to subsist any pledge, lien, charge or encumbrance over any economic interest in any shares held by him where that is necessary or desirable to obtain financing for the benefit of the Member, provided, however, that such pledge, lien, charge or encumbrance does not allow the holder to exercise any voting rights or rights or powers with respect to management of the Company or entitle the holder to become Member. In any circumstances described in the immediately foregoing sentence, the consent of the other Members of the Company shall not be required.

16. In the event of the dissolution, liquidation, bankruptcy or insolvency of a Member, the Company shall be wound up and dissolved in accordance with Article 49.
17. The Members shall cause the share certificates of the Company issued, if any, to bear a legend making reference to the restriction contained in Article 15.

**GENERAL MEETINGS**

18. Any Member holding an Ordinary Share may convene a General Meeting of the Company, whether by telephone conference call or otherwise, for the purpose of:

(a) considering and if thought fit passing of a Special Resolution to alter or amend the Memorandum and Articles of Association of the Company or its authorised share capital or to require the Company to be dissolved, or

(b) to consider any matter in connection with the Company’s affairs.

19. Fourteen days Notice in writing, by telex or facsimile of a general meeting shall be given to each of the Members entitled to vote at such meeting (which notice may be waived in writing) and mailed to each Member entitled to vote at his address as registered in the Register of Members by air mail (if appropriate) and such Notice shall state the time and place for such meeting and whether such meeting is to take place by conference call (and, if so giving the details thereof) and the objects of the Meeting (as far as practicable).

20. The accidental omission to give Notice of a meeting to or the non-receipt of Notice of a meeting by any person entitled to receive Notice shall not invalidate the proceedings at that meeting. Notice by telex or facsimile need only be given to a Member who gives the Company a telex or facsimile number.

21. A Meeting of the Company shall, notwithstanding that it is called by shorter Notice than that specified in these Articles, be deemed to have been properly called if it is so agreed by all the Members entitled to attend and vote thereat.

**PROCEEDINGS AT GENERAL MEETINGS**

22. (a) At any General Meeting of the Company, the Members present in person or by proxy shall elect by ordinary resolution a Chairman of the Meeting.

(b) At any General Meeting of the Company one or more Members entitled to vote present in person or representing in person or by proxy all of the outstanding voting shares of the share capital of the Company entitled to vote at such meeting shall form a quorum for the transaction of business; if within half an hour from the time appointed for the meeting a quorum is not present, the meeting shall stand adjourned to the following day at the same time at the same
place, or by conference call, as the case may be.

(c) The Chairman may, with the consent of any meeting by unanimous resolution at which a quorum is present (and shall if so directed by the meeting by unanimous resolution), adjourn the meeting from time to time and from place to place, and only other business left unfinished at the meeting from which the Members present in person or represented by proxy have adjourned shall be dealt with. It shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted at the adjourned meeting, save and except for a meeting adjourned sine die, when notice of the adjourned meeting shall be given as in the case of an original meeting.

23. (a) Subject to any rights or restrictions lawfully attached to any class or series of shares, at any meeting of the Company each Member holding Ordinary Shares shall be entitled to one vote for each share held by him and such vote may be given in person or by proxy.

(b) At any meeting of the Company other than in respect of a matter requiring a Special Resolution any question proposed for the consideration of the Members shall be decided by a majority vote of Members entitled to vote.

(c) At any meeting of the Company a declaration by the Chairman that a question proposed for consideration has, on a show of hands, been carried, or carried unanimously or by a particular majority or lost and an entry in a book containing the minutes of the proceedings of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such question.

24. When a vote is taken by ballot each Member entitled to vote shall be furnished with a ballot paper on which he shall record his vote in such manner as shall be determined at the meeting having regard to the nature of the questions on which the vote is taken; and each ballot paper shall be signed, initialed or otherwise marked so as to identify the voter. At the conclusion of the ballot the ballot papers shall be examined by the Chairman with assistance of a Member appointed for the purpose, and the result of the ballot shall be declared by the Chairman.

25. An instrument appointing a proxy shall be in writing under the hand of a Member of his attorney duly authorized in writing or, if the Member is a corporation either under seal or under the hand of an officer or attorney of the corporation duly authorized, and shall be such other form as the Members may from time to time approve.

26. Any corporation which is a Member of the Company may by resolution of its directors authorize such persons as it thinks fit to act as its representative at any meeting of the Members of the Company and the person so authorized shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual Member of the Company.
27. (a) A unanimous resolution in writing (whether on one or more separate papers) duly signed by all Members holding shares entitled to vote on the matter shall be deemed a valid resolution of a General meeting or a class meeting, as the case may be.

(b) A resolution in writing (whether on one or more separate papers) duly signed by Members holding one hundred per cent of the shares entitled to vote on the matter shall be deemed a valid Special Resolution of the General Meeting or class meeting as the case may be.

WRITTEN CONSENT

28. If all the Members entitled to vote in person or by proxy sign the minutes of meeting, the same shall be deemed to have been duly held notwithstanding that the members have not actually come together or that there may have been technical defects in the proceedings, and a unanimous resolution in writing in one or more parts signed by all the Members entitled to vote shall be as valid and effectual as if it has been passed at a meeting duly called and continued.

MANAGEMENT

29. (a) The Members are considered to be directors of the Company for the purposes of Section 194 of The Companies Law, and shall, by majority resolution or unanimous written consent, have full, complete, and exclusive authority to manage and control the business affairs and to buy, sell and borrow on behalf of the Company and to perform all other acts or activities customary or incidental thereto.

(b) The Members shall, by majority resolution or unanimous written consent, have authority to execute all documents and hold all meetings otherwise required of directors of a company and to act pursuant to Sections 184 and 194 of The Companies Law (1998 Revision);

(c) The Members shall, by majority resolution or unanimous written consent, have authority to institute, bring, prosecute and defend proceedings in the name of the Company.

30. A Member of the Company may hold other office or place of profit with the Company and may be paid such extra remuneration therefor whether by way of salary, commission, participation of profits or otherwise.

31. The Members may, from time to time as they deem advisable, select natural persons who are employees or agents of the Company and designate them as officers of the Company (the "Officers") and assign titles (including without limitation, President, Vice President, Secretary, and Treasurer) to any such person. Unless the Members decide otherwise, if the title is one commonly used for officers of a business corporation formed under The Companies Law (1998 Revision), the assignment of such title shall constitute the delegation to
such person of the authorities and duties that are normally associated with that office. Any
delegation pursuant to this Article 31 may be revoked at any time by the Members. An Officer
may be removed with or without cause by the Members. The Member hereby appoints the
following officers to manage the affairs of the Company:

<table>
<thead>
<tr>
<th>Name</th>
<th>Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>James A. Brown</td>
<td>Chairman of the Board and President</td>
</tr>
<tr>
<td>Joseph S. Valenti</td>
<td>Vice President - Finance and Treasurer</td>
</tr>
<tr>
<td>Gerard Haugh</td>
<td>Vice President and Secretary</td>
</tr>
<tr>
<td>Kira J. Toone</td>
<td>Vice President, Assistant Secretary and</td>
</tr>
<tr>
<td></td>
<td>Assistant Treasurer</td>
</tr>
<tr>
<td>Frank J. Cotley</td>
<td>Vice President and Assistant Secretary</td>
</tr>
<tr>
<td>William R. Fuhs</td>
<td>Vice President and Assistant Secretary</td>
</tr>
</tbody>
</table>

32. No Member or Officer shall be liable to the Company or any other person or
extant who has an interest in the Company for any loss, damage or claim incurred by reason of
any act or omission performed or omitted by such Member or Officer in good faith on behalf of
the Company and in a manner reasonably believed to be within the scope of the authority
conferred on such Member or Officer by this Agreement, except that a Member or Officer shall
be liable for any such loss, damage or claim incurred by reason of such Member’s or Officer’s
wilful misconduct. To the full extent permitted by applicable law, a Member or Officer shall be
entitled to indemnification from the Company for any loss, damage or claim incurred by such
Member or Officer by reason of any act or omission performed or omitted by such Member or
Officer in good faith on behalf of the Company and in a manner reasonably believed to be
within the scope of the authority conferred on such Member or Officer by this Agreement,
except that no Member or Officer shall be entitled to be indemnified in respect of any loss,
damage or claim incurred by such Member or Officer by reason of willful misconduct with
respect to such acts or omissions; provided, however, that any indemnity under this Article 17
shall be provided out of and to the extent of Company assets only, and the Member shall not
have personal liability on account thereof.

33. A Member may be party to or otherwise interested in any transaction or arrangement
with the Company or in which the Company is otherwise interested and may vote in respect of it
and shall not be accountable to the Company for any benefit which he derives from any such office
or from any such transaction or arrangement and no such transaction or arrangement shall be
avoidable on the grounds of such interest or benefit provided the Member shall first disclose his
interest in the same to all other Members in writing.

34. The Members may, by majority resolution of each class or series of shares
outstanding, delegate their power and authority pursuant to Article 29 to one or more persons who
may or may not be members.

35. The Company will be treated as a partnership for U.S. federal income tax purposes.

MINUTES

36. The Members shall cause minutes to be made in books provided for the purpose:
   (a) of all appointments of officers made by the Members;
   (b) of the names of the Members (including those represented therein by an alternate or by proxy) present at each meeting of the Members and of any committee of the Members;
   (c) of all resolutions and proceedings at all meetings of the Members.

COMPANY SECRETARY

37. The Members may by majority resolution appoint a Company Secretary to perform administrative functions on behalf of the Company.

CUSTODIAN

38. The Members may by majority resolution appoint a custodian or trustee for the safe keeping of all moneys, assets and securities of the Company with such powers and duties in respect thereof as may be specified in such appointment.

DISTRIBUTIONS

39. Subject to the Law, the Members may by majority resolution from time to time declare distributions (including interim distributions) on shares of the Company outstanding and authorize payment of the same out of the funds of the Company lawfully available therefor.

40. The members may by majority resolution, before declaring any distributions, set aside such sums as they think proper as a reserve or reserves which shall at the discretion of the members, be applicable for any purpose of the Company and pending such application may, at the like discretion, be employed in the business of the Company.

41. No distribution shall be payable except out of the profits of the Company, realised or unrealised, or out of the share premium account or as otherwise permitted by the Law.

42. The Members may by majority resolution declare that any distribution be paid wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures, or debenture stock or any other company or in any one or more of such ways and where any
difficulty arises in regard to such distribution, the Members may by unanimous resolution settle the
same as they think expedient and in particular may issue fractional certificates and fix the value for
distribution of such specific assets or any part thereof and may determine that cash payments shall
be made to any Members upon the footing of the value so fixed in order to adjust the rights of all
members and may vest any such specific assets in trustees as may seem expedient to the Members.

43. Any distribution, interest or other money payable in cash in respect of shares may be
paid by cheque or warrant sent through the post directed to the registered address of the holder or, in
the case of joint holders, to the holder who is first named on the Register of Members or to such
person and to such address as such holder or joint holders may in writing direct. Every such cheque
or warrant shall be made payable to the order of the person to whom it is sent. Any one of two or
more joint holders may give effectual receipts for any distributions, bonuses, or other monies
payable in respect of the share held by them as joint holders.

ACCOUNTS AND FINANCIAL STATEMENTS

44. The Members shall cause accounts to be kept of all transactions of the Company in
such manner as to show a true and fair position of the assets and liabilities of the Company for the
time being.

45. The Members by majority resolution shall have the power to fix and from time to
time change the fiscal year of the Company and unless so changed, the fiscal year shall be the
calendar year.

46. Each Member may demand and shall receive true and full information regarding the
state of the business and financial condition of the company.

47. The Members shall by majority resolution have power to appoint and dismiss the
Auditor from time to time.

48. The duties and remuneration of the Auditor shall be fixed by the Members or in such
manner as the Members may by majority resolution determine.
2571

WINDING UP AND DISSOLUTION

49. The Company shall be considered to have commenced voluntary winding up and dissolution automatically and without the requirement of any other act:
   (a) upon the expiration of the period of fifty years from the date of its incorporation;
   (b) if the Members of the Company pass a Special Resolution requiring the Company to be wound up and dissolved; or
   (c) upon the happening of any event in relation to a Member as defined in Article 14.

50. On winding up and dissolution of the Company the balance of the assets available for distribution and subject to any special rights or restrictions attaching to any class or series of shares shall be applied in paying to the members the amount paid up on the shares held by them and the surplus shall belong to such Members according to the respective number of shares held by them.

 LIQUIDATOR

51. When the Company is in winding up and dissolution if no other liquidator is appointed, the Members shall act as liquidator or joint liquidators in the event that there shall be more than one.

NOTICES

52. Unless otherwise herein or by law expressly provided, a Notice may be served by the Company on any Member either personally or by telex or facsimile to his registered address or by sending it using air mail (if appropriate) through the post prepaid in an envelope addressed to such Member at his address as registered in the Register of Members.

53. Any Notice required to be given to the Members shall with respect to any shares held jointly by two or more persons be given to all such persons.

54. Any Notice shall be deemed to have been served at the time when the same would be delivered in the ordinary course of transmission, and in proving such service it shall be sufficient to prove that the Notice was properly addressed and prepaid, if posted, and the time when it was posted or transmitted by telex or facsimile as the case may be.

SEAL OF THE COMPANY

55. The Company may, if the Members so determine have a seal. The Seal of the
Company shall not be affixed to any instrument except over the signature of at least one Member and the Secretary or by some person appointed by the Members, provided that the Secretary may affix the Seal of the Company over his signature only to any authenticated copies of the Articles, the Memorandum of Association, the minutes of any meetings or any other document required to be authenticated by him and to any instrument which the Members have specifically approved beforehand.

ALTERATION OF ARTICLES

56. No Article shall be rescinded, altered or amended, and no new Article shall be made until the same has been proposed and passed as a Special Resolution at a General Meeting duly convened.

ASSIGNMENTS

57. The Members may at any time transfer in whole or in part their shares in the Company. If a Member transfers all of its shares in the Company pursuant to this Article 57, the transferee shall be admitted to the Company upon registration of a share transfer and the transferee's name being entered on the Register of Members. Such admission shall be deemed effective immediately on entry in the Register of Members, and, immediately following such entry, the transferor Member shall cease to be a Member of the Company.

ADMISSION OF ADDITIONAL MEMBERS

58. One or more additional members of the Company may be admitted to the Company with the written consent of the Members.
THE COMPANIES LAW
COMPANY LIMITED BY SHARES
MEMORANDUM OF ASSOCIATION
OF
EBARGE, LLC

1. The name of the Company is EBARGE, LLC.

2. The principal business office of the Company shall be located at World Financial Center, North Tower, 250 Vesey Street, New York, New York 10281.

3. The Registered Office of the Company shall be at the offices of Trident Trust Company (Cayman) Limited, Fourth Floor, One Capital Place, P.O. Box 847, Grand Cayman, Cayman Islands, British West Indies or at such other place as the Members may from time to time decide.

4. The objects for which the Company is established are unrestricted and shall include, but without limitation, the following:

(a) Acquire by purchase, lease, contribution of property or otherwise, own, hold, sell, convey, transfer or dispose of any real or personal property that may be necessary, convenient or incidental to the accomplishment of the purposes of the Company;

(b) Act as a trustee, executor, nominee, bailee, director, officer, agent or in some other fiduciary capacity for any person or entity and to exercise all of the powers, duties, rights and responsibilities associated therewith;

(c) Take any and all actions necessary, convenient or appropriate as trustee, executor, nominee, bailee, director, officer, agent or other fiduciary, including the granting or approval of waivers, consents or amendments of rights or powers relating thereto and the execution of appropriate documents to evidence such waivers, consents or amendments;

(d) Operate, purchase, maintain, finance, improve, own, sell, convey, assign, mortgage, lease or demolish or otherwise dispose of any real or personal property that may be necessary, convenient or incidental to the accomplishment of the purposes of the Company;
(e) Borrow money and issue evidences of indebtedness in furtherance of any or all of the purposes of the Company, and secure the same by mortgage, pledge or other lien on the assets of the Company;

(f) Invest any funds of the Company pending distribution or payment of the same pursuant to the provisions of this Agreement;

(g) Prepay, in whole or in part, refinance, recast, increase, modify or extend any indebtedness of the Company and, in connection therewith, execute any extensions, renewals or modifications of any mortgage or security agreement securing such indebtedness;

(h) Enter into, perform and carry out contracts of any kind, including, without limitation, contracts with any person or entity affiliated with the Member, necessary to, in connection with, convenient to, or incidental to the accomplishment of the purposes of the Company;

(i) Employ or otherwise engage employees, managers, contractors, advisors, attorneys and consultants and pay reasonable compensation for such services; and

(j) Enter into partnerships, limited liability companies, trusts, associations, corporations or other ventures with other persons or entities in furtherance of the purposes of the Company.

The Company's business is not restricted to the furtherance of the objects expressly set out in this Memorandum of Association. The Company has full power and authority to carry out any objects not prohibited by law in the Cayman Islands. The Company is capable of exercising all the functions of a natural person of full capacity irrespective of any question of incorporation benefit.

In the interpretation of this Memorandum of Association in general and of this Clause 4 in particular no object, business or power specified or mentioned shall be limited or restricted by reference to or inference from any other object, business or power, or the name of the Company, or by the jurisdiction of two or more objects, businesses or powers and that, in the event of any ambiguity in this clause or elsewhere in this Memorandum of Association, the same shall be resolved by such interpretation and construction as will widen and enlarge and not restrict the objects, businesses and powers of and exercisable by the Company.

5. Except as prohibited or limited by the Companies Law (Revised), the Company shall have full power and authority to carry out any object and shall have and be capable of from time to time and at all times exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate in doing in any part of the world whether as principal, agent, contractor or otherwise whatever may be considered by it necessary for the attainment of its objects and whatever else may be considered by it as incidental or conducive thereto or consequential thereon, including, but without in any way restricting the generality of the
foregoing, the power to make any alterations or amendments to this Memorandum of Association and the Articles of Association of the Company considered necessary or convenient in the manner set out in the Articles of Association of the Company, and the power to do any of the following acts or things, viz:

- to pay all expenses of and incidental to the promotion, formation and incorporation of the Company;
- to register the Company to do business in any other jurisdiction;
- to sell, lease or dispose of any property of the Company;
- to draw, make, accept, endorse, discount, execute and issue promissory notes, debentures, bills of exchange, bills of lading, warrants and other negotiable or transferable instruments; to lend money or other assets and to act as guarantor; to borrow or raise money on the security of the undertaking or on all or any of the Company's assets including uncalled capital or without security; to invest the Company's monies in such manner as the Members determine; to promote other companies; to sell the undertaking of the Company for cash or any other consideration; to distribute assets in specie to the Members of the Company; to make charitable or benevolent donations; to pay pensions or gratuities or provide other benefits in cash or kind to officers, employees, past or present and their families; to carry on any trade or business and generally to do all acts and things which, in the opinion of the Company or the Members, may be conveniently or profitably or usefully acquired and dealt with, carried on, executed or done by the Company in connection with the business aforesaid BUT the Company may only carry on the businesses for which a licence is required under the laws of the Cayman Islands when so licensed under the terms of such laws.

6. The Company shall be established as a limited liability company and the liability of the Members is limited to the amount from time to time unpaid on the Members' shares. It is intended that the Company be treated as a corporation for liability purposes and a limited partnership with respect to the laws regarding taxation in the United States.

7. The share capital of the Company is US$50,000 divided into 50,000 Ordinary Shares of a nominal or par value of US$1.00 each with power for the Company insofar as is permitted by law, to redeem or purchase any of its shares and to increase or reduce the said capital subject to the provisions of the Companies Law (Revised) and the Articles of Association and to issue any part of its capital, whether original, redeemed or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that, unless the conditions of issue shall otherwise expressly declare, every issue of shares whether declared to be preference or otherwise shall be subject to the powers herebefore contained.

8. The Company shall be placed into winding up and dissolved upon the expiration of the period of fifty years from the date of its incorporation.
EBARGE, LLC
PROXY

I/We ML IBK Positions, Inc.
of Merrill Lynch & Co., Inc., World Financial Center, North Tower, 250 Vesey Street, 10th Floor, New York, NY 10281 U.S.A.

being a Director of the above company hereby revoke all previous proxy appointments (if any) and do hereby appoint Trident Directors (Cayman) Ltd. of Grand Cayman or failing them Trident Nominees (Cayman) Ltd. of Grand Cayman as my/our proxy, to receive notice of, to attend and to vote for me/us and on my/our behalf to represent me/us at the Annual Meeting of the Directors held in the Cayman Islands, and at any adjournment thereof. This proxy is to remain in force until revoked in writing by me/us, by written notice to the Company.

This appointment is limited to allow the proxy to vote only in respect of:

- Approval of the Annual Return and the appointment of a person to sign and seal same;
- Filing of the Annual Return and payment of the annual government fee;
- Re-appointment of the directors previously in office;
- Convening of meetings for the foregoing purposes and the waiver of notice thereof;
- Such other matters as to which the proxy shall have received express written instructions from the appointor.

[Signature]
ML IBK Positions, Inc.
Director
Date signed:

MS 24561
TRIDENT TRUST COMPANY (CAYMAN) LIMITED

INDEMNITY

THIS AGREEMENT is made the 17th day of February 2000 by and between

1. Josef S. Velmie, Director

of ML 18K Partners, I ric

(hereinafter called "the Beneficial Owner(s)", which expression where the context so admits shall include his/her/their heirs, legatees, intestate successors, executors, administrators and assigns), of the one part, and

2. TRIDENT TRUST COMPANY (CAYMAN) LIMITED (hereinafter called "TT Cayman") (which expression where the context so admits shall include its subsidiary, associated and affiliated companies wherever situated, its directors, officers and employees and the directors, officers and employees of its subsidiary, associated and affiliated companies), of the other part.

WHEREAS:

A. A company has been incorporated under the laws of the Cayman Islands under the name of

EBARGE, LLC

With registration number 97093 (hereinafter called "the Company")

B. TT Cayman or one or more of its affiliated, associated or subsidiary companies or some, one or more of its directors, officers or employees, or some, one or more of the directors, officers or employees of its affiliated, associated or subsidiary companies may become the registered holder of the shares of the Company as nominee Shareholder for the Beneficial Owner(s), and

C. TT Cayman or some, one or more of the directors, officers or employees of TT Cayman and/or its affiliated, associated or subsidiary companies may consent at the request of the Beneficial Owner(s) to act as directors and officers of the Company and/or to act as authorized signatories either solely or jointly on such bank accounts as shall be operated by the Company, and

D. TT Cayman or some, one or more of the directors, officers or employees of TT Cayman and/or its affiliated, associated or subsidiary companies may consent at the request of the Beneficial Owner(s) to provide accounting, administration and such other services of like nature from time to time.

MS 24562
NOW THEREFORE IT IS AGREED AS FOLLOWS:

1. In consideration of TTCayman or one or more of its affiliated, associated or subsidiary companies or any of one or more of its directors, officers or employees or any of one or more of the directors, officers or employees of its associated or subsidiary companies agreeing to act as nominee shareholders for the Beneficial Owner(s) or as directors and officers of the Company or as authorized signatories on the Company's bank account or to provide accounting, administration and such other services of like nature from time to time at the Beneficial Owner(s) request, the Beneficial Owner(s), and each of them jointly and severally covenant(s) with TTCayman and its affiliated, associated and subsidiary companies and (as a separate covenant) with every director, officer and employee of TTCayman and its affiliated, associated and subsidiary companies and their directors, officers and employees to keep them indemnified and held harmless against all actions, suits, proceedings, claims, demands, costs, expenses and other liabilities whatsoever which may be incurred or become payable by them in respect of or arising out of:

1.1 them or any of them accepting or holding any office as director or otherwise of the Company or holding any shares or being entered on the register of members as a holder of any shares of the Company:

1.2 anything done or omitted to be done as the registered holder of the shares or as a director or officer of the Company at the request or with the prior approval of or ratified by the Beneficial Owner(s) or any of them or his/her/their agents:

1.3 any transaction executed on the Company's bank account by parties who shall have signing powers on the account at the request or instruction of the Beneficial Owner(s) or any of them or his/her/their agents:

1.4 any accounting, administration and such other services of like nature provided from time to time at the request or instruction of the Beneficial Owner(s) or any of them or his/her/their agents.

2. The Beneficial Owner(s) shall not give to TTCayman or the registered members or directors of the Company any instructions or directions which are unlawful under the laws of the Cayman Islands or any other place having jurisdiction over the Company or applicable in the place where such instructions are to be performed.

3. For the avoidance of doubt TTCayman shall be deemed to have received instructions from the Beneficial Owner(s) whether same shall have been received in writing, verbally, by telephone, telex, facsimile, cable or otherwise, howsoever.

4. PROVIDED ALWAYS that TTCayman shall have acted in good faith and that this indemnity shall not be available for TTCayman in respect of any act or omission happening through the dishonesty, wilful default or fraud of TTCayman.

5. This indemnity shall apply in favor of TTCayman notwithstanding that there may be some defect in its appointment or qualification or authority as an Officer or Director or authorized signatory of the Company. This indemnity is intended to insure for the benefit of TTCayman as a trust in its favor and so as to be enforceable by it against the Beneficial Owner(s).
6. This Agreement and the rights of the parties shall be governed and construed in accordance with the laws of the Cayman Islands and the parties agree to submit themselves to the non-exclusive jurisdiction of the courts of the Cayman Islands in connection with this Agreement.

7. Words importing the singular shall include the plural and vice versa and words importing the masculine gender shall include females and words importing persons shall include partnerships and bodies corporate.

IN WITNESS WHEREOF each of the parties hereto has caused this Agreement to be duly executed in its name and behalf by its officers duly authorized.

Dated this the 31st day of March, 2000.

[Signature]

[Signature]

Witness(es)

Dated this the 15th day of March 2000.

[Signature]

Trident Trust Company (Cayman) Limited

[Signature]

Witness(es)
EBARGE, LLC

DIRECTOR’S RESOLUTION

WHEREAS the undersigned, being all the Directors of the Company, hereby consent to the adoption of the following resolutions taken without a meeting, this instrument to have the same force and effect as if the actions herein referred to had been taken at a timely called and duly held meeting of the Directors of the Company and direct that this written consent to such action be filed with the minutes of the proceedings of the Directors of the Company and further direct that this written consent may be executed in any number of counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same instrument.

SHARE CERTIFICATE

IT WAS RESOLVED that the Share Certificate, a specimen of which is attached hereto, be adopted as the form of Ordinary Share Certificate of the Company.

ISSUE OF SHARES

Applications having been received from the persons/companies named in the first column below for the allotment to them at par of the respective number of Shares appearing opposite their respective names in the second column, such applications were considered and, payment in full having been made by each of such applicants, IT WAS RESOLVED to allot to each of them the number of Shares appearing opposite their respective names in the third column, and that Share Certificates in respect of such Shares be signed, sealed and issued to the allottees:-

<table>
<thead>
<tr>
<th>Applicant’s Name</th>
<th>No. of Shares</th>
<th>No. of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>M1, HBK Partners, Inc.</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

The Secretary is instructed to make the necessary entries in the Register of Members and the Secretary and any Director, or any two Directors, are instructed to sign, seal and deliver the respective share certificates.

Date signed: 3/10/2000

MS 24565
State of Delaware

Office of the Secretary of State

I, EDWARD J. FEEEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THAT THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF TRANSFER OF "EMARGE, LLC", FILED IN THIS OFFICE ON THE SEVENTEENTH DAY OF MARCH, A.D. 2000, AT 9 O'CLOCK A.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE LIMITED LIABILITY COMPANY HAS FILED ALL DOCUMENTS AND PAID ALL FEES REQUIRED BY TITLE 8 OF THE GENERAL CORPORATION LAWS OF THE STATE OF DELAWARE.
CERTIFICATE OF TRANSFER OF EBARGE, LLC

(a Delaware limited liability company)

Ebarger, LLC, a limited liability company organized under the Delaware Limited Liability Company Act of the State of Delaware (the "Act"), for the purpose of transferring or domesticiing in a foreign jurisdiction, other than a state, pursuant to Section 18-213 of the Act, hereby certifies that:

1. The name of the limited liability company (the "Company") is Ebarger, LLC.

2. The original certificate of formation of the Company was filed in the office of the Secretary of State of the State of Delaware on December 23, 1999.

3. The foreign jurisdiction to which the Company shall be transferred or in which it shall be domesticated is Cayman Islands, British West Indies.

4. The transfer or domesticiation herein certified has been duly approved in accordance with Section 18-213 of the Act.

5. The existence of the Company as a limited liability company of the State of Delaware shall cease when this Certificate of Transfer becomes effective.

6. The Company agrees that it may be served with process in the State of Delaware in any action, suit or proceeding for enforcement of any obligation of the Company arising while it was a limited liability company of the State of Delaware, and the Company hereby irrevocably appoints the Secretary of State of the State of Delaware as its agent to accept service of process in any such action, suit or proceeding.

7. The address to which a copy of the process referred to in subsection (5)(b) of Section 18-213 of the Act shall be mailed to the Company by said Secretary of State is Trident Trust Company (Cayman) Limited, 4th Floor, One Capital Place, P.O. Box 847, Grand Cayman, Cayman Islands, British West Indies.

[Signature page follows]
IN WITNESS WHEREOF, this Certificate of Transfer has been duly executed as of February 3, 2000, and is being filed in accordance with Section 18-213 of the Act by an authorized person of the surviving domestic limited liability company.

EBARGE, LLC

By: /s/ William R. Fuchs

Name: William R. Fuchs
Title: Vice President & Assistant Secretary
2584
### Journal Entry Summary Report

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<td>6065101</td>
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MS 24570
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<tr>
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<td>DT Account Number</td>
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<tr>
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<tr>
<td>FS EQUITY PARTNERS IV, L.P.</td>
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<td>DT Account Number</td>
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<td></td>
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</tr>
<tr>
<td>Annex Property Japan Holding, LLC</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KNOT CAPITAL INVESTMENT FUND, L.P.</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>BLACK DIAMOND INVESTMENT FUND, L.P.</td>
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<td></td>
<td></td>
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<tr>
<td>Total for DT Account Number:</td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>620810</td>
<td></td>
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<tr>
<td>Total for all DT Account Numbers</td>
<td></td>
<td></td>
<td>3,079.00</td>
</tr>
</tbody>
</table>

**MS 24571**
From: Brad Bynum
To: DeVita, Mark (CIOG - CAPMKTIS); Brown, James (CIOG - CAPMKTIS); Fuhr, William (CIOG - CAPMKTIS)

Subject: IMCC for Brian Project

Brad Bynum
Associate
Investment Banking
200 Crescent Court, Suite 550
Dallas, Texas 75201
214-690-6800
214-419-8309
kbynum@exchangerrepresentatives.com
To: Debt Markets Commitment Committee

From: Project Finance and Lease Group: James Hussen
Debt Capital Markets: Mark Devito
ML Houston: Schuyler Tilley
ML Dallas: Rob Fecteau, Brad Symm

Tel: Leveraged Finance Group: x8427
Debt Capital Markets: x4506
ML Houston: 713-750-2630
ML Dallas: 214-849-5026, x5320

Subject: $7.8 MILLION EQUITY BRIDGE COMMITMENT

Date: December 22, 1999

I. SUMMARY AND TRANSACTION OVERVIEW

Jeff McMahon, EVP and Treasurer of Enron Corp, has asked ML to purchase $7MM of equity in a special purpose vehicle that will allow Enron Corp to book $12MM of earnings. The transaction must close by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they believe our hold will be for less than six months. The investment would have a 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is $39 million. Enron wants to monetize the first 3 years of cash flow for $28MM. They will do this by establishing a U.S. special purpose vehicle. The special purpose vehicle will be capitalized by our $7MM investment and a $21MM loan from Enron Corp. Enron has a total investment of $46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate an exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment.

Enron is a top client to Merrill Lynch. Enron views the ability to participate in transactions as adding significant value. Enron has generated a fee to ML in excess of $40 MM in 1999.

II. PROPOSED CORPORATE STRUCTURE

Transaction Structure

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Equity Contribution</td>
<td>$7.00 MM</td>
</tr>
<tr>
<td>Acquisition Loan (Feed Enron to SPV)</td>
<td>$21.00 MM</td>
</tr>
<tr>
<td>Total Purchase Price</td>
<td>$28.00 MM</td>
</tr>
</tbody>
</table>

Basic: 25% Internal Rate of Return on invested equity for Purchaser.
Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed
Loan secured by Purchaser's interest in the Barge Project Only

MS 24573
To: Debt Markets Commitment Committee
From: Project Finance and Lease Group: James Brown
Debt Capital Markets: Mark Devito
ML Hewston: Schuyler Tibey
ML Dallas: Rob Puritt, Brad Symmon

To: Leveraged Finance Group: x8427
Debt Capital Markets: x958
ML Hewston: 713-759-3500
ML Dallas: 214-449-5656, x5520

Merrill Lynch
Date: December 22, 1999

Subject: $1.0 MILLION EQUITY BRIDGE COMMITMENT

TRANSACTION SUMMARY

Entity: Special Purpose Vehicle
Facility: $7.0 Million Equity
Request: $7.0 Million
Expected Ratings
(Moody's/Standard & Poor's): B, B3
Maturity: Less than six months
Use of Proceeds: To purchase common and preferred equity in a Nigerian Bank Co.
Timing: Closing by year end
Independent Auditors: NA
Company Counsel: Vincent & Elkins
Underwriter Counsel: NA
Fees: Proposed $250,000 plus 15% per annum or a flat 32.5% return per annum.
ML Research Coverage: Leo J. Kelter

MS 24574
Shareholder Structure

There will be three classes of stock: two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Share," Euro will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Pre-Trigger Date</th>
<th>Post-Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purchaser)</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B (Euro)</td>
<td>5.9% of CF After Prof A</td>
<td>99.0% of CF After Prof A &amp; B</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
<td>100.00% of CF After Prof A &amp; B</td>
<td>100.00% of CF After Prof A &amp; B</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Euro Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.

TIME LINE

1. PPA is between Euro Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (large activities only) are assigned to Euro Nigeria Barge Holding Ltd. Which in turn assigns the rights to Euro Nigeria Barge Ltd.

2. Euro Nigerian Barge Ltd. A& B Preferred and Common Shares are issued to Euro Barge Holding Ltd.

3. Preferred A Shares and Common are sold from Euro Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Euro Nigeria Barge Ltd.

MS 24575
III. LARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Barges</td>
<td>$25,000</td>
</tr>
<tr>
<td>Barge Upgrade and Onshore Cost</td>
<td>$5,800</td>
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<tr>
<td>Total EPC</td>
<td>30,800</td>
</tr>
<tr>
<td>Mobilization</td>
<td>1,094</td>
</tr>
<tr>
<td>Development Costs</td>
<td>1,500</td>
</tr>
<tr>
<td>Working capital and Spares</td>
<td>2,119</td>
</tr>
<tr>
<td>Contingency</td>
<td>100</td>
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<tr>
<td>Total Costs</td>
<td>$37,614</td>
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</table>

Projection of 95% of Net Cash Flow (US $000)

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>Total</th>
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<tr>
<td>1</td>
<td>$123</td>
<td>$13,362</td>
<td>$13,706</td>
<td>$29,591</td>
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</table>

The $37.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is $29.6 million, and 95% of the three year cash flow is $27.5 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 15% of seller financed debt. The proposed debt period is three years with an interest rate of 17% per year.

IV. ENRON OVERVIEW

Merrill Lynch’s relationship with Enron Corp. (the “Company” or “Enron”) has developed significantly over the past year as Enron will generate more than $48 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead-managed Amresco, Enron’s international power utility subsidiary, IPO ($700 million)
  - Advised on subsequent $235 million acquisition of AMX Aqua Management Inc.
  - Currently working on several buy-side advisory assignments
  - Co-led for $500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. ($665 million)
- Currently working with the CFO to raise a $300 million private equity fund (LME)
- Currently pitching to become Enron’s financial advisor for private equity in its telecommunications subsidiary (Enron Communications)
- The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company’s long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns various water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron’s total assets were $31 billion and its equity market capitalization was approximately $32 billion. For the year ended
December 31, 1998, Enron generated revenue of $11.3 billion, up 52% over the year ended December 31, 1997. The company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) a telecommunications subsidiary (Enron Communications) and an international water company (Aeraxis). Enron's regulated business includes two operations - natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's federally regulated interstate natural gas pipelines, and Portland General (Enron recently announce the sale of Portland General which should close in the next year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Aeraxis, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Aeraxis is an $850 million publicly traded international water company (70% owned by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.

V. PRELIMINARY INFORMATION MEMORANDUM

Attached
APPROPRIATION REQUEST COVER PAGE

($ in Thousands)

Management Unit: CICG
Group: IBK
Project Start/Finish:
Needs to Close by 12/31/99
Financial Commitment: $ 7 Million

EXEcutive Summary

Facility: Special Purpose Vessel
Equity: $7.0 Million Equity
Request: $7.0 Million
Expected Rating: B-, B3
Maturity: Less than six months
Use of Proceeds: To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Exxon Corp.
Timing: Closing by year end 1999.

Alpaca, Petal & Elkins
Underwriter Counsel: NA
Underwriter Counsel: NA
Free: Prepared $210,000 plus 15% per annum or a flat 22.5% return per annum...

ML Research Coverage: Leo J. Klotz

Jeff McMillon, EVP and Treasurer of Exxon Corp., has asked ML to purchase $74.5M of equity in a special purpose vehicle that will allow Exxon Corp. to book $123.4M of earnings. Exxon must close this transaction by 12/31/99. Exxon is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six month. The investment would have a minimum 22.5% return.

Exxon will have 5 large-mouted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $319 million from the Nigerian government. Exxon wants to sell the first 3 years of cash flow for $194M. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by Merrill Lynch. The SPE will be capitalized by our $194M investment and a $241M non-recourse loan from Exxon Corp which will then purchase non-voting common stock in the Exxon subsidiary that owns the barges. Exxon will have a total investment of $46 MM in the project. Exxon is in active negotiations with several equity investors, including Merrill. However, they are not able to close the transaction with a long-term holder by year-end. Exxon will sell our exit from the transaction with third party investors. Dan Payly will have a conference call with senior management of Exxon confirming this commitment to guarantee the ML about within six months.

Exxon has strongly requested ML to enter into this transaction. Exxon has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.
<table>
<thead>
<tr>
<th>Management Unit</th>
<th>Project Name</th>
<th>Financial Commitment</th>
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<tbody>
<tr>
<td>CCO</td>
<td>Enron Nigerian Barge Equity</td>
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**SPONSOR:**

<table>
<thead>
<tr>
<th>Originator</th>
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<tbody>
<tr>
<td>Rob Ford</td>
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<table>
<thead>
<tr>
<th>Mgmt. Unit Controller</th>
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<th>Group Finance Director</th>
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<th>Group EVP</th>
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**Other Reviews**

**Corporate Approvals**

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<th>Debt Markets Capital Committee</th>
<th>Chief Financial Officer</th>
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<td>Group Data</td>
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<th>Peer Project Review</th>
<th>Executive Committee</th>
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<th>Audit and Finance Committee</th>
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<th>Other</th>
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Appendix

1. PROPOSED CORPORATE STRUCTURE

Transaction Structure

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Purchase Equity Contribution</td>
<td>$7.00 Million</td>
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<tr>
<td>Acquisition Loan (from Enron to SPV)</td>
<td>$21.02 Million</td>
</tr>
</tbody>
</table>

Total Purchase Price: $28.02 Million

Notes: 25% Interest Rate of Return on invested equity for Purchaser
Acquisition Loan Term: 12% Interest Rate, 24-Month Term. Amortization to be Agreed
Loan secured by Purchaser's Interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock: two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common Shares. Enron will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Pre Trigger Date</th>
<th>Post Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purchaser)</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B, (Enron)</td>
<td>99.9% of CF</td>
<td>100.00% of CF A&amp;B</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
<td>100.00% of CF A&amp;B</td>
<td>100.00% of CF A&amp;B</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 99% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enron Preferred B Shares receive approximately 99.9% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.
TIME LINE

(1) PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.

(2) Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd.

(3) Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes joint equity risk involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $100)

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
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<tbody>
<tr>
<td>Power Barge</td>
<td>$25,000</td>
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<tr>
<td>Barge Upgrades and O&amp;M Cost</td>
<td>15,000</td>
</tr>
<tr>
<td>Total EPC</td>
<td>40,000</td>
</tr>
<tr>
<td>Mobilization</td>
<td>1,014</td>
</tr>
<tr>
<td>Development Costs</td>
<td>1,500</td>
</tr>
<tr>
<td>Working Capital and Sparing</td>
<td>2,119</td>
</tr>
<tr>
<td>Contingency</td>
<td>183</td>
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<tr>
<td>Total Costs</td>
<td>$43,448</td>
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Projection of 90% of Net Cash Flow (US $100,000)

<table>
<thead>
<tr>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
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<tbody>
<tr>
<td>$8,125</td>
<td>$15,542</td>
<td>$15,706</td>
<td>$39,373</td>
</tr>
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</table>

The $45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase 1 project life is $44.1 million, and 90% of the three year cash flow is $33.7 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of all net cash flow. The proposed debt period is three years with an interest rate of 12% per year.

III. ERROR OVERVIEW

Merrill Lynch's relationship with Enron Corp. (the "Company" or "Enron") has developed significantly over the past year as Enron will generate more than $5 billion in investment banking fees in 1999. The following points identify current issues related to Merrill Lynch and significant recent Enron transactions in which Merrill was involved.

- Lead managed America's Enron's international water utility subsidiary, IPO ($700 million)
  - Advised on subsequent $225 million acquisition of AAX Acquis Management Inc.
  - Currently working on several buy side advisory assignments
- Co-lead for $500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. ($365 million)
Currently working with the CFO to raise a $100 million private equity fund (LJM).

Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications).

The Company is actively exploring power opportunities in continental Europe.

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific rim. Once completed, the Company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were $34 billion and its equity market capitalization was approximately $32 billion. For the year ended December 31, 1998, Enron generated revenue of $31.3 billion, up 22% over the year ended December 31, 1997. The Company has grown its revenue and operating profits at an annualized rate of 50% and 50% over the period from 1995 to 1999, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services, and Portland General); a telecommunications subsidiary (Enron Communications); and an international water company (Azurix). Enron's regulated business includes two operations: natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's federally regulated interstate natural gas pipelines, and Portland General (Enron recently announced the sale of Portland General which should close in the next year); an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Azurix, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband applications services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the reselling of bandwidth capacity on fiber systems. Azurix is an $850 million publicly traded international water company (79% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.
APPROPRIATION REQUEST COVER PAGE

<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>C3CO</th>
<th>Project Name:</th>
<th>Enron Nigerian Barge Equity</th>
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<tbody>
<tr>
<td>Group:</td>
<td>UK</td>
<td>Financial Commitment:</td>
<td>$7 Million</td>
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<tr>
<td>Project Start/Finish:</td>
<td>Needs to Close by 12/31/99 -- Takedown by 6/30/00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

EXECTIVE SUMMARY

Entry: Special Purpose Vehicle

Facility: $7.0 Million Equity

Receivables: $7.0 Million

Expected Ratings
(Moody's/SAF): B-, B3

Maturity: Less than six months

Use of Proceeds:
To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing:
Closing by year end 1999.

Independent Auditors:
NA

Company Counsel:
Vincent & Elkins

Underwriter Counsel:
NA

Fees:
Proposed $250,000 plus 15% per annum or a flat $22.5% return per annum.

ML Research Coverage:
Leh J. Keeler

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase $7MM of equity in a special purpose vehicle that will allow Enron Corp. to book $12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 large mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $59 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $18MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE "), owned by Merrill Lynch. The SPE will be capitalized with our $7MM investment and a $21MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $46 MM in the project. Enron is in active negotiations with several equity investors, including Marathon. However, they are not able to close the transaction with a long-term lender by year-end. Enron will facilitate our exit from the transaction with third-party investors. Enron will have a conference call with senior management of Enron confirming this commitment to terminate the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.
### APPROPRIATION REQUEST APPROVALS

**Management Unit:** CIDG  
**Project Name:** Enron Nigerian Barge Equity  
**Financial Commitment:** $7 million

<table>
<thead>
<tr>
<th>SPONSOR</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Originator:</td>
<td>Rob Purnel</td>
</tr>
<tr>
<td>Mgmt. Unit Controller:</td>
<td></td>
</tr>
<tr>
<td>Mgmt. Unit Head:</td>
<td></td>
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<td>Group Finance Director:</td>
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<td>Group EVP:</td>
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<table>
<thead>
<tr>
<th>Other Reviews</th>
<th>Corporate Approvals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Markets Capital Committee:</td>
<td>Chief Financial Officer:</td>
</tr>
<tr>
<td>Peer Project Review:</td>
<td>Executive Committee:</td>
</tr>
<tr>
<td>Date</td>
<td>Audit and Finance Committee:</td>
</tr>
<tr>
<td>Date Approved:</td>
<td>Other:</td>
</tr>
</tbody>
</table>
Appendix

1. PROPOSED CORPORATE STRUCTURE

Transaction Structure

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Equity Contribution</td>
<td>$7.00 Million</td>
</tr>
<tr>
<td>Acquisitions Loan (from Exxon to SPV)</td>
<td>$21.00 Million</td>
</tr>
<tr>
<td>Total Purchase Price</td>
<td>$28.00 Million</td>
</tr>
</tbody>
</table>

Basic 23% Internal Rate of Return on invested equity for Purchaser.
Acquisitions Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed
Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock: two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Exxon will own the Preferred B Shares. The summary below indicates the economic interest before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Pre-Trigger Date</th>
<th>Post-Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B</td>
<td>9.9% of CF</td>
<td>99.9% of CF</td>
</tr>
<tr>
<td>Common Stock</td>
<td>100.00% of CF</td>
<td>100.00% of CF</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Exxon Preferred B Shares receive approximately 99.9% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.

MS 24585
TIME LINE

(1) PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.

(2) Enron Nigerian Barge Ltd. A/B Preferred and Common Shares are issued to Enron Barge Holding Ltd.

(3) Preferred and Common are sold from Enron Nigerian Barge Holding Ltd. To a third party who assumes the equity risk involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

<table>
<thead>
<tr>
<th></th>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Barges</td>
<td>23,000</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Barge Upgrades and O&amp;G Cost</td>
<td>15,800</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Total EPC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>40,800</td>
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<tr>
<td>Mobilization</td>
<td>1,014</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development Costs</td>
<td>1,500</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Working capital and Spares</td>
<td>2,119</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contingency</td>
<td>181</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Total Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>43,614</td>
</tr>
</tbody>
</table>

The $45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase 1 project life is $44.1 million, and 99% of the three year cash flow is $39.7 million.

It is the intention of Enron to provide to the Investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of all the debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch’s relationship with Enron Corp. (the “Company” or “Enron”) has developed significantly over the past year as Enron will generate more than $20 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved:

- Led managed Anadarko’s, Enron’s international water utility subsidiary, IPO ($700 million)
  - Advised on subsequent $215 million acquisition of AMAX Arqua Management Inc.
  - Currently working on several buy side advisory assignments
  - Co-lead for $500-750 million high-yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. ($45 million)
• Currently working with the CFO to raise a $500 million private equity fund (LDM)

• Currently pitching to become Enron’s financial advisor for private equity in its telecommunications subsidiary (Enron Communications)

• The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company’s long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron’s total assets were $34 billion and its equity market capitalization was approximately $22 billion. For the year ended December 31, 1998, Enron generated revenue of $31.3 billion, up 52% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 304% over the period from 1993 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four energy-based operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) a telecommunications subsidiary (Enron Communications) and an international water company (Amatis). Enron’s regulated business includes two operations—natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron’s federally regulated interstate natural gas pipelines, and Portland General (Enron recently announced the sale of Portland General which should close in the next year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron’s largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron’s newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron’s two newest businesses, Enron Communications and Amatis, are positioned to take advantage of positive business fundamentals outside of Enron’s energy operations. Enron Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Amatis is an $80 million publicly traded international water company (70% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.
## APPROPRIATION REQUEST COVER PAGE

<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>CIGC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Name:</td>
<td>Enron Nigerian Barge</td>
</tr>
<tr>
<td>Financial Commitment:</td>
<td>$7 Million</td>
</tr>
</tbody>
</table>

### Group: ISK

#### Project Start / Finish:
Needed to Close by 12/31/99 - Taillered by 6/30/00

### EXECUTIVE SUMMARY

- **Entity:** Special Purpose Vehicle
- **Facility:** $7.0 Million Equity
- **Request:** $7.0 Million
- **Expected Ratings:** B+, B3
- **Maturity:** Less than six months
- **Use of Proceeds:** To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.
- **Timing:** Closing by year end 1999.
- **Independent Auditors:** NA
- **Company Counsel:** Vincent & Elkins
- **Underwriter Counsel:** NA
- **Fees:** Proposed $210,000 plus 15% per annum or a flat 22.5% return per annum.

### ML Research Coverage:

Les J. Kelso

Jeff McDowell, EVP and Treasurer of Enron Corp., has asked ML to purchase $79MM of equity in a special purpose vehicle that will allow Enron Corp. to book $12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $35 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $238MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by Merrill Lynch. The SPE will be capitalized by our $70MM investment and a $218MM non-recourse loan from Enron Corp. which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $46 MM in the project.

Enron is in active negotiations with several equity investors, including Manhattan. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Ealy will have a conference call with senior management of Enron confirming this commitment to guarantee the ML interest within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.
<table>
<thead>
<tr>
<th>SPONSOR:</th>
</tr>
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<tbody>
<tr>
<td>Originator: Rob Fest</td>
</tr>
<tr>
<td>Mgmt. Unit Controller:</td>
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<td>Chief Financial Officer:</td>
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<tr>
<td>Peer Project Review: Date:</td>
<td>Executive Committee:</td>
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<tr>
<td>Date Approved: Other:</td>
<td>Audit and Finance Committee:</td>
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I. PROPOSED CORPORATE STRUCTURE

Transaction Structure

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Equity Consideration</td>
<td>$ 7.00 M</td>
</tr>
<tr>
<td>Acquisition Loan (from Euro to SPV)</td>
<td>21.08 M</td>
</tr>
<tr>
<td>Total Purchase Price</td>
<td>$28.08 M</td>
</tr>
</tbody>
</table>

Note: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Internal Rate, 24 Month Term, Amortization to be Agreed
Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock: two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common Shares. Euros will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Pre Trigger Date</th>
<th>Post Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purchaser)</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B (Euros)</td>
<td>9.9% of CF</td>
<td>99.0% of CF</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
<td>99.0% of CF After Pref A &amp; B</td>
<td>100.00% of CF After Pref A &amp; B</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Euros Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.
TIME LINE

(1) PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (tang activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.

(2) Enron Nigerian Barge Ltd. A/B Preferred and Common Shares are issued to Enron Barge Holding Ltd.

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II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

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<thead>
<tr>
<th>Item</th>
<th>Cost</th>
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<tbody>
<tr>
<td>Power Barges</td>
<td>525,000</td>
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<td>Barge Upgrade and Onshore Cost</td>
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<td>Total EPC</td>
<td>541,800</td>
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<tr>
<td>Mobilization</td>
<td>1,014</td>
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<tr>
<td>Development Costs</td>
<td>1,500</td>
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<tr>
<td>Working capital and Spares</td>
<td>2,119</td>
</tr>
<tr>
<td>Contingency</td>
<td>181</td>
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<tr>
<td>Total Costs</td>
<td>536,614</td>
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Projection of 35% of Net Cash Flow (US $000)

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<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
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<tbody>
<tr>
<td>2000</td>
<td>3,722</td>
<td>31,342</td>
<td>13,706</td>
<td>2,410</td>
<td>53,691</td>
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</table>

The $43.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is $44.1 million, and 94% of the three year cash flow is $39.7 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of similar financed debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Enron Corp. (the "Company" or "Enron") has developed significantly over the past year as Enron will generate more than $490 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead managed Azurio's, Enron's international power utility subsidiary, IPO ($700 million)
  - Advised on subsequent $335 million acquisition of Homer Acworth Management Inc.
  - Currently working on several key side advisory assignments
  - Co-lead for $200-750 million high yield issuance (currently on hold)
- Co-managed a new issue Common Equity offering for Enron Corp. ($855 million)

MS 24591
Currently working with the CFO to raise a $500 million private equity fund (LM2)

Currently pushing to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications)

The company is actively exploring power opportunities in continental Europe.

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 72,000 miles of natural gas pipelines in the U.S. The company also is one of the largest independent developers, operators, and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and/or operates water systems in the U.S., Europe, Canada, Mexico, and Argentina. As of June 30, 1999, Enron's total assets were $34 billion and its equity market capitalization was approximately $32 billion. For the year ended December 31, 1998, Enron generated revenue of $31.3 billion, up 52% over the year ended December 31, 1997. The company has grown its revenue and operating profit at an annualized rate of 30% and 10% over the period from 1995 to 1999, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services, and Portland General) and an international water company (AerCap). Enron's regulated business includes two operations - natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's federally regulated interstate natural gas pipelines, and Portland General (Enron recently announced the sale of Portland General which should close in the next year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and solar energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's largest energy business is its retail energy services business, comprised of Enron Energy Services, which provides retail energy contracting solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Azaire, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 18,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Azaire is an $850 million publicly traded international water company (70% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.
Jeff McMahon, EVP and Treasurer of Enron Corp, has asked ML to purchase $79M of equity in a special purpose vehicle that will allow Enron Corp to book $120M of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 large mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $135M. They propose to do this by having ML establish a U.S. special purpose entity (SPE), owned by Merrill Lynch. The SPE will be capitalized by our $79M investment and a $120M non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $466M in the project.

Enron is in active negotiations with several equity investors, including Marsh & McLennan. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Magee will have a conference call with senior management of Enron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.

MS 24593
<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>CICG</th>
<th>Project Name:</th>
<th>Enron Nigerian Barge Equity</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Financial Commitment:</td>
<td>$7 million</td>
</tr>
</tbody>
</table>

**SPONSOR:**

- **Originator:**
  - Rob Furst

- **Mgmt. Unit Controller:**
  - 

- **Mgmt. Unit Head:**
  - 

- **Group Finance Director:**
  - 

- **Group EVP:**
  - 

**Other Reviewers**

- **Debt Markets Capital Committee:**
  - 
  - Group/Date

- **Peer Project Review:**
  - Date
  - Executive Committee:

- **Date Approved:**
  - Other:

---

MS 24594
Appendix

1. PROPOSED CORPORATE STRUCTURE

Transaction Structure

| Purchase Equity Contributions | $7.00 Million |
| Acquisition Loan (Been Enters to SPV) | $21.00 Million |
| Total Purchase Price | $28.00 Million |

Basic: 25% Internal Rate of Return on invested equity for Purchaser.  
Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed 
Loan secured by Purchaser's Interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock: two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common Shares. Enters will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

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<tr>
<th>Economic Interest (Percent of Cash Flow (&quot;CF&quot;)</th>
<th>Pre-Trigger Date</th>
<th>Post-Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purchaser)</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B, (Enters)</td>
<td>99.9% of CF After Pref A</td>
<td>99.9% of CF After Pref A</td>
</tr>
<tr>
<td>Common Stock (Purchases)</td>
<td>100.005 of CF After Pref A&amp;B</td>
<td>100.000% of CF After Pref A&amp;B</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enters Preferred B Shares receive approximately 99.9% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.
TIME LINE

1. PPA is between Enron Nigeria Power Holdings Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.

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Cost Summary (US $000)

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<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Barges</td>
<td>$25,000</td>
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<tr>
<td>Barge Upgrades and Outboard Cost</td>
<td>15,800</td>
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<tr>
<td>Total EPC</td>
<td>40,800</td>
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<tr>
<td>Mobilization</td>
<td>1,014</td>
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Projection of 10% of NCF (US $000)

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<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
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<tr>
<td>$9,125</td>
<td>$13,392</td>
<td>$13,703</td>
<td>$3,410</td>
<td>$39,931</td>
</tr>
</tbody>
</table>

The $45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is $44.1 million, and 10% of the three year cash flow is $39.7 million.

It is the intention of Enron to provide to the Investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 73% of dollar financed debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Enron Corp. (the "Company" or "Enron") has developed significantly over the past year as Enron will generate more than $40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead managed Aetna's, Enron's international water utility subsidiary, IPO ($700 million)
- Advised on subsequent $235 million acquisition of AMX Arqua Management Inc.
- Currently working on several buy side advisory assignments
- Co-lead for $500-700 million high yield issuance (currently on hold)
- Co-managed a new issue Continen Equity offering for Enron Corp. ($865 million)
Currently working with the CFO to raise a $500 million private equity fund (LJM2)

Currently pitching to become Emeron's financial advisor for private equity in its telecommunications subsidiary (Emeron Communications)

The Company is actively exploring power opportunities in continental Europe

Company Overview

Emeron is a global diversified energy company. Emeron is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators, and producers of electricity worldwide, with facilities in Europe, Asia, the Americas, and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Emeron ownership and/or operates water systems in the U.S., Europe, Canada, Mexico, and Argentina. As of June 30, 1999, Emeron's total assets were $24 billion and its equity market capitalization was approximately $32 billion. For the year ended December 31, 1998, Emeron generated revenue of $31.1 billion, up 32% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 20% and 20% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Emeron is organized as a holding company with four energy-related operating subsidiaries (Emeron North America, Emeron Gas Pipelines, Emeron Energy Services, and Portland General) a telecommunications subsidiary (Emeron Communications) and an international water company (Azurix). Emeron’s regulated business includes two operations - natural gas pipelines, comprised of Emeron Gas Pipelines, which owns and operates all of Emeron’s federally regulated interstate natural gas pipelines, and Portland General (Emeron recently announced the sale of Portland General which should close in the next year), as electric distribution, transmission, and generation company serving the Oregon market. Wholesale energy services, comprised of Emeron North America, is currently Emeron’s largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial, and utility customers in the U.S. and internationally. Emeron’s newest energy business is its retail energy services business, comprised of Emeron Energy Services, which provides retail energy sourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Emeron’s two newest businesses, Emeron Communications and Azurix, are positioned to take advantage of positive business fundamentals outside of Emeron’s energy operations. Emeron Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Emeron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Azurix is a $450 million publicly traded international water company (70% controlled by Emeron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.
Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase $70M of equity in a special purpose vehicle that will allow Enron Corp. to book $125M of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assumed that we will be taken out of our investment within six months. The investment would have a maximum 23.5% return.

Enron will have 3 barges mounted power plants in service by February 2000 in Nigeria. The first 2 years of cash flow is projected to be $379 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $250M. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by Merrill Lynch. The SPE will be capitalized by our $70M investment and a $125M non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $46 M in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Hayly will have a conference call with senior management of Enron confirming this commitment to guaranty the ML taken out within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.
<table>
<thead>
<tr>
<th>Management Unit</th>
<th>CICG</th>
<th>Project Name: Enron Nigerian Barge Equity</th>
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</thead>
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<tr>
<td></td>
<td></td>
<td>Financial Commitment: $7 million</td>
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**SPONSOR:**

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<tr>
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<tr>
<td>Mgmt. Unit Controller:</td>
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<td>Mgmt. Unit Head:</td>
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<td>Group Finance Director:</td>
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<td>Group EVP:</td>
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**Other Reviews**

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<th>Debt Markets Capital Committee:</th>
<th>Group/Date</th>
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<tr>
<td>Peer Project Review:</td>
<td>Date</td>
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<td>Data Approved:</td>
<td>Other</td>
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</tbody>
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**Corporate Approvals**

| Chief Financial Officer: | |
| Executive Committee: | |
| Audit and Finance Committee: | |

MS 24599
Appendix

I. PROPOSED CORPORATE STRUCTURE

Transaction Structure

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Equity Contribution</td>
<td>$7.00 Million</td>
</tr>
<tr>
<td>Acquisition Loan (from Euros to SPV)</td>
<td>$11.00 Million</td>
</tr>
<tr>
<td>Total Purchase Price</td>
<td>$18.00 Million</td>
</tr>
</tbody>
</table>

Basic: 25% Internal Rate of Return on invested equity for Purchaser.
Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed
Loan secured by Purchaser's interest in the Berge Project Only

Shareholder Structure

There will be three classes of stock: two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common “shares. Equity will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

| Common Stock (Equity) | 99.9% of CF after Pref A | 100.00% of CF after Pref A & B |

Before the Trigger Date, the Purchaser is expected to receive approximately 99% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Equity Preferred B Shares receive approximately 99.9% of the Cash Flow and after distribution in the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.

Diagram:

- ENI
- Eneka Nig Ltd
- PPA (II)
- Eneka Nig Berge Holding Ltd
- Loan 12%
- Three Party
- Preferred A
- Preferred B
- Common (I)
- Local O&M Contract
- O&G Niger
- O&G Niger
- ENI
- PPA (I)
- Lugar Rock Niger

MS 24600
TIME LINE

1. PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (bargh activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.

2. Enron Nigerian Barge Ltd. A/B Preferred and Common Shares are issued to Enron Barge Holding Ltd.

3. Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

- Power Barges: $25,000
- Barge Upgrades and Offshore Cost: $15,000
- Total EPC: $40,000
- Mobilization: $1,000
- Development Costs: $1,500
- Working capital and Spares: $2,000
- Contingency: $1,000
- Total Costs: $42,500

Projection of 90% of Net Cash Flow (US $000)

<table>
<thead>
<tr>
<th>Year</th>
<th>$000</th>
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</thead>
<tbody>
<tr>
<td>2000</td>
<td>$8,125</td>
</tr>
<tr>
<td>2001</td>
<td>$15,400</td>
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<tr>
<td>2002</td>
<td>$13,700</td>
</tr>
<tr>
<td>2003</td>
<td>$7,400</td>
</tr>
<tr>
<td>Total</td>
<td>$38,691</td>
</tr>
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</table>

The $45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is $42.1 million, and 90% of the three year cash flow is $35.7 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Enron Corp. (the "Company" or "Enron") has developed significantly over the past year as Enron will generate more than $10 million in investment banking fees in 1999. The following points outline current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead-managed Aruba's, Enron's international water utility subsidiary, IPO ($700 million)
- Advised on subsequent $235 million acquisition of A.M.K. Aruba Management Inc.
- Currently working on several buy side advisory assignments
- Co-lead for $500-750 million high yield issuance (currently on hold)
- Co-managed a New Issues Common Equity offering for Enron Corp. ($653 million)

MS 24601
Currently working with the CFO to raise a $500 million private equity fund (LME).

Currently pitching to become Enron’s financial advisor for private equity in its telecommunications subsidiary (Enron Communications).

The Company is actively exploring power opportunities in continental Europe.

**Company Overview**

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest integrated developers, operators, and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company’s long-haul fiber optic network will be the world’s largest Internet Protocol backbone in the U.S. Additionally, through its international power company, Enron owns and/or operates power systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron’s total assets were $108.7 billion and its equity market capitalization was approximately $22 billion. For the year ended December 31, 1998, Enron generated revenue of $13.3 billion, up 52% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 50% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Fortune for the past four years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) and a telecommunications subsidiary (Enron Communications) and an international power company (Astor). Enron’s regulated business includes two operations: a natural gas pipeline, comprised of Enron Gas Pipelines, which owns and operates all of Enron’s federally regulated interstate natural gas pipelines, and Portland General, which recently announced the sale of Portland General (where should these in the year), to Elanco Disbursement, an operating company serving the Oregons market. Wholesale energy services, comprised of Enron Energy Services, is currently Enron’s largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial, and utility customers in the U.S. and internationally. Enron’s newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides local energy contracting services to major tenants in the U.S. These services include infrastructure management, packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron’s two newest businesses, Enron Communications and Astoria, are positioned to take advantage of positive business fundamentals outside of Enron’s energy operations. Enron Communications is constructing an over 10,000 mile transcontinental long haul fiber optic network that will offer broadband applications services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Astoria’s is a $150 million publicly traded international water company (VWC) comprised by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.
APPROPRIATION REQUEST COVER PAGE
($ in Thousands)

<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>OICG</th>
<th>Project Name:</th>
<th>Enron Nigerian Barge Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group:</td>
<td>IBK</td>
<td>Needs to close by 12/31/99 - Takeout by 6/30/00</td>
<td></td>
</tr>
<tr>
<td>Financial Commitment:</td>
<td>$7 Million</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

EXECUTIVE SUMMARY

Initial: Special Purpose Vehicle

Facility: $7 Million Equity

Expected Ratings (Moody's/S&P):

AAA

Maturity: Less than six months

Use of Proceeds: To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing: Closing by year end 1999.

Independent Auditors: NA

Company Counsel: Vincent & Elkins

Underwriter Counsel: NA

Fees: Proposed $250,000 plus 15% per annum or a flat 22.5% return per annum.

M. L. Research Coverage: Leo J. Keeler

Jeff McMahon, EVP and Treasurer of Enron Corp., has asked ML to purchase $7 million of equity in a special purpose vehicle that will allow Enron Corp. to book $123 million of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investments within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $223 million. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by Merrill Lynch. The SPE will be capitalized by our $7 million investment and a $21 million non-recourse loan from Enron Corp., which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $46 million in the project.

Enron is in active negotiations with several equity investors, including Mabahi. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Rely will have a conference call with senior management of Enron confirming this commitment to guarantee the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.

MS 24603
Appendix

I. PROPOSED CORPORATE STRUCTURE

Transaction Structure

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Equity Contribution</td>
<td>$ 7.00 Million</td>
</tr>
<tr>
<td>Acquisition Loan (from Euro to SPV)</td>
<td>$11.00 Million</td>
</tr>
<tr>
<td>Total Purchase Price</td>
<td>$18.00 Million</td>
</tr>
</tbody>
</table>

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed
Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock: two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common Shares. Euro will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the cash flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Pre-Trigger Date</th>
<th>Post-Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purchaser)</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B, Euro</td>
<td>9.9% of CF After Pref A</td>
<td>99.0% of CF After Pref A</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
<td>100.0% of CF After Pref A&amp;B</td>
<td>100.0% of CF After Pref A&amp;B</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Euro Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.
TIME LINE

(1) PPA is between Enron Nigeria Power Holding Ltd. and the Lagos State of Nigeria. Subsequently, the rights to the PPA (Barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.

(2) Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge-Holding Ltd.

(3) Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. to a third party who assumes full equity risk involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Barges</td>
<td>$25,000</td>
</tr>
<tr>
<td>Barge Upgrades and Onshore Cost</td>
<td>15,800</td>
</tr>
<tr>
<td>Total EPC</td>
<td>40,800</td>
</tr>
<tr>
<td>Mobilization</td>
<td>1,014</td>
</tr>
<tr>
<td>Development Costs</td>
<td>1,500</td>
</tr>
<tr>
<td>Working capital and Spares</td>
<td>2,119</td>
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<tr>
<td>Contingency</td>
<td>181</td>
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<tr>
<td>Total Costs</td>
<td>$45,614</td>
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Projection of 90% of Net Cash Flow (US $000)

<table>
<thead>
<tr>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
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<tr>
<td>$9,123</td>
<td>$13,362</td>
<td>$15,706</td>
<td>$5,410</td>
<td>$59,691</td>
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</table>

The $45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is $44.1 million, and 90% of the three year cash flow is $59.7 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of the equity capital. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Enron Corp. (i.e., “Company” or “Enron”) has developed significantly over the past year as Enron will generate more than $40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead managed Andersen’s, Enron’s international water utility subsidiary, IPO (5700 million)
  - Advised on subsequent $235 million acquisition of Alex Acqua Management Inc.
  - Currently working on several buy side advisory assignments
  - Co-lead for $500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. ($85 million)
Currently working with the CFO to raise a $300 million private equity fund (LIMZ).

Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications).

The Company is actively exploring power opportunities in continental Europe.

**Company Overview**

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 22,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were $34 billion and its equity market capitalization was approximately $72 billion. For the year ended December 31, 1998, Enron generated revenue of $11.3 billion, up 52% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1993 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) a telecommunications subsidiary (Enron Communications) and an international water company (Azurix). Enron's regulated business includes two operations—natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's federally regulated interstate natural gas pipelines, and Portland General (Enron recently announced the sale of Portland General which should close in the near year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy sourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Azurix, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Azurix is an $820 million publicly traded international water company (70% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatization, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.
APPROPRIATION REQUEST COVER PAGE
($ in Thousands)

<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>CICG</th>
<th>Project Name:</th>
<th>Enron Nigerian Barge Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group:</td>
<td>IBK</td>
<td>Needs to Close by 12/31/99 – Takeover by SOOOL</td>
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</tr>
<tr>
<td>Project Start / Finish:</td>
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<tr>
<td>Financial Commitment:</td>
<td>$7 Million</td>
<td></td>
<td></td>
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</tbody>
</table>

**EXECUTIVE SUMMARY**
- **Entity:** Special Purpose Vehicle
- **Facility:** $7.3 Million Equity
- **Request:** $7.3 Million
- **Expected Ratings (Moody's & S&P):** B3, B3
- **Maturity:** Less than six months
- **Use of Proceeds:** To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.
- **Timing:** Coming by yearend 1999.
- **Independent Auditors:** NA
- **Company Counsel:** Vincent & Elkins
- **Underwriter Counsel:** NA
- **Fee:** Proposed $150,000 plus 1% per annum or a low 12.5% per annum
- **ML Research Coverage:** Leo J. Kaiser

Jeff McAdams, EVP and Treasurer of Enron Corp., has asked ML to purchase $7MM of equity in a special purpose vehicle that will allow Enron Corp. to book $12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $57 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $285MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by Merrill Lynch. The SPE will be capitalized by our $7MM investment and a $215MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $64M4 in the project. Enron is in active negotiations with several equity investors, including Marshalls. However, they are not able to close the transaction with a long-term holder by yearend. Enron will facilitate our exit from the transaction with third party investors. Dan Beley will have a conference call with senior management of Enron confirming this commitment to guarantee the ML takeover within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.

MS 24607
<table>
<thead>
<tr>
<th>SPONSOR:</th>
<th></th>
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<tr>
<td>Originator:</td>
<td>Rob First</td>
</tr>
<tr>
<td>Mgmt. Unit Controller:</td>
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<td>Mgmt. Unit Head:</td>
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<tr>
<td>Group Finance Director:</td>
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<td>Group EVP:</td>
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<td>Date</td>
</tr>
<tr>
<td>Date Approved:</td>
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</tbody>
</table>
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1. PROPOSED CORPORATE STRUCTURE

Transaction Structure

<table>
<thead>
<tr>
<th>Equity Contribution</th>
<th>$3.00 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition Costs</td>
<td>$22.80 Million</td>
</tr>
<tr>
<td>Total Purchase Price</td>
<td>$25.80 Million</td>
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</tbody>
</table>

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Shareholder Structure

There will be three classes of stock: two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common Shares. Excess will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Pre-Trigger Date</th>
<th>Post-Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purchaser)</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B (Excess)</td>
<td>0.9% of CF After Pref A</td>
<td>99.9% of CF After Pref A</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
<td>100.00% of CF After Pref A</td>
<td>100.00% of CF After Pref A</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Excess Preferred B Shares receive approximately 99.9% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.

Diagram:

- Excess Nigeria Power Holding Ltd.
- Excess Nigeria Barge Ltd.
- CEC Nigeria
- Standard O&M Contract
- Preferred A & B
- Cash
- Third Party
- Preferred A
- Preferred B
- Common
- Excess
- Cash

MS 24609
TIME LINE

1. PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.

2. Enron Nigerian Barge Ltd. A & B Preferred and Common Shares are issued to Enron Barge Holding Ltd.

3. Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary ($US 5000)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Barges</td>
<td>$9,125</td>
</tr>
<tr>
<td>Barge Upgrades and Oshore Cost</td>
<td>$2,440</td>
</tr>
<tr>
<td>Total EPC</td>
<td>$11,565</td>
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<tr>
<td>Mobilization</td>
<td>1,814</td>
</tr>
<tr>
<td>Development Costs</td>
<td>1,500</td>
</tr>
<tr>
<td>Working capital and Spares</td>
<td>2,119</td>
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<tr>
<td>Contingency</td>
<td>181</td>
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<tr>
<td>Total Costs</td>
<td>$14,614</td>
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</table>

Results of 90% of Net Cash Flow ($US 5000)

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<tr>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
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<tr>
<td>$9,125</td>
<td>$12,342</td>
<td>$15,795</td>
<td>$5,410</td>
<td>$57,651</td>
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</table>

The $43.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is $44.1 million, and 90% of the three year cash flow is $57.65 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have its Enron affiliates provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Enron Corp. (the "Company" or "Enron") has developed significantly over the past year as Enron will generate more than $40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead managed Arizona's Enron's international water utility subsidiary, IPO ($700 million)
- Advised on subsequent $2.5 million acquisition of ADOX Aquas Management Inc.
- Currently working on several buy side advisory assignments
- Co-lead for $200-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. ($383 million)
Currently working with the CFO to raise a $500 million private equity fund (LIMG).

Currently pitching to become Energy’s financial advisor for private equity in its telecommunications subsidiary (Ercor Communications).

The Company is actively exploring power opportunities in continental Europe.

**Company Overview**

Energi is a global diversified energy company. Energi is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company’s long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Energi owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Energi’s total assets were $12 billion and its equity market capitalization was approximately $52 billion. For the year ended December 31, 1998, Energi generated revenue of $12.3 billion, up 52% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 10% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Energi is organized as a holding company with four energy-related operating subsidiaries (Energi North America, Energi Gas Pipelines, Energi Energy Services and Portland General) a telecommunications subsidiary (Ercor Communications) and an international water company (Azuria). Energi’s regulated business includes two operations - natural gas pipelines, comprised of Energi Gas Pipelines, which owns and operates all of Energi’s federally regulated interstate natural gas pipelines, and Portland Natural (Energi recently announced the sale of Portland Natural which should close in the next year); in electric transmission, transmission and generation company serving the Chicago market. Wholesale energy services, comprised of Energi North America, is currently Energi’s largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) in large industrial, commercial, and utility customers in the U.S. and internationally. Energi’s newest energy business is its retail energy services business, comprised of Energi Energy Services, which provides retail energy sourcing solutions to major corporations in the U.S. These solutions include infrastructure management services with new equipment consultations and commodity purchases on behalf of the large corporate customers.

Energi’s two newest businesses, Ercor Communications and Azuria, are positioned to take advantage of positive business fundamentals outside of Energi’s energy operations. Ercor Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Ercor Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Azuria is an 8050 million publicly traded international water company (72% controlled by Energi) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems, via privatizations, providing water and wastewater related services to municipalities and industrial water markets and developing and managing water resources.
To: Gary Dolan

APPROPRIATION REQUEST COVER PAGE
($ in Thousands)

Management Unit: CICG
Group: IBK
Project Start / Finish: Needs to Close by 12/31/99 - Takeout by 6/30/00

Project Name: Enron Nigerian Barge Equity
Financial Commitment: $7 Million

EXECUTIVE SUMMARY

Equity: Special Purpose Vehicle

Facility: $7.0 Million Equity

Request: $7.0 Million

Expected Ratings
O'Connor/USA/Put: B-, B3

Maturity: Less than six months

Use of Proceeds: To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Takings: Closing by year end 1999.

Independent Auditors: NA

Company Counsel: Vincent & Elkins

Underwriter Counsel: NA

Fee: Proposed $250,000 plus 1% per annum or a flat $22,500 return per annum.

ML Research Coverage: Lee J. Koiber

Jeff McMahon, EVP and Treasurer of Enron Corp., has asked ML to purchase $7M of equity in a special purpose vehicle that will allow Enron Corp. to book $12B of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $12MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by Merrill Lynch. The SPE will be capitalized by our $12MM investment and a $12MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $46 MM in the project.

Enron is in active negotiations with several equity investors, including Marshalls. However, they are not able to obtain the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment to guarantee the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.

MS 24612
<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>CICG</th>
<th>Project Name:</th>
<th>Enron Nigerian Barge Equity</th>
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<tbody>
<tr>
<td>Financial Commitment:</td>
<td>$7 million</td>
<td></td>
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</tbody>
</table>

**Sponsor:**

Originator: Rob Furst

Mgmt. Unit Controller: 

Mgmt. Unit Head: 

Group Finance Director: 

Group EVP: 

<table>
<thead>
<tr>
<th>Other Reviews</th>
<th>Corporate Approvals</th>
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<tr>
<td>Debt Markets Capital Committee:</td>
<td>Corporate Approvals</td>
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<td>Group/Date</td>
<td>Chief Financial Officer:</td>
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<td>Peer Project Review:</td>
<td>Executive Committee:</td>
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<td>Date</td>
<td>Audit and Finance Committee:</td>
</tr>
<tr>
<td>Date Approved:</td>
<td>Other:</td>
</tr>
</tbody>
</table>
Appendix

I. PROPOSED CORPORATE STRUCTURE

Transaction Structure

<table>
<thead>
<tr>
<th>Purchase Equity Contribution</th>
<th>$ 7.00 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition Loan (from Euro to SPV)</td>
<td>$21.00 Million</td>
</tr>
<tr>
<td>Total Purchase Price</td>
<td>$28.00 Million</td>
</tr>
</tbody>
</table>

Basic: 6% Internal Rate of Return on invested equity for Purchaser.
Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed
Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock: two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common Shares. Euron will own the Preferred B Shares. The summary below indicates the economic interest before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

<table>
<thead>
<tr>
<th>Stock Class</th>
<th>Pre-Triger Date</th>
<th>Post Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purchaser)</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B, (Euron)</td>
<td>9.9% of CF After Pref A</td>
<td>0.1% of CF After Pref A</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
<td>100.00% of CF After Pref A&amp;B</td>
<td>100.00% of CF After Pref A&amp;B</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 50% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Euron Preferred B Shares receive approximately 99.5% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distributions of the Cash Flow.
TIME LINE

(1) PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (large activities only) are assigned to Enron Nigeria Barge Holding Ltd, which in turn assigns the rights to Enron Nigeria Barge Ltd.

(2) Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd.

(3) Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
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<td></td>
<td>Power Barges</td>
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<td>$3,000</td>
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<td>Barge Upgrades</td>
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<td></td>
<td>and Onshore Cost</td>
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<td></td>
<td>15,800</td>
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<td>Mobilization</td>
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<td>1,014</td>
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<td>Development Costs</td>
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<td></td>
<td>1,500</td>
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<td></td>
<td>Working capital</td>
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<td></td>
<td>and Spares</td>
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<td>2,119</td>
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<td></td>
<td>Contingency</td>
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<td></td>
<td>-181</td>
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<tr>
<td></td>
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<tr>
<td></td>
<td>Total Costs</td>
</tr>
<tr>
<td></td>
<td>$54,714</td>
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Projection of 95% of Net Cash Flow (US $000)

<table>
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<tr>
<th>Year</th>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>$9,123</td>
<td>$11,282</td>
<td>$13,706</td>
<td>$15,110</td>
<td>$59,291</td>
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</tbody>
</table>

The $54.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is $44.1 million, and 95% of the three year cash flow is $39.7 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch’s relationship with Enron Corp. (the “Company” or “Enron”) has developed significantly over the past year as Enron will generate more than $40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead managed Azurix’s, Enron’s international water utility subsidiary, IPO ($700 million)
  - Advised on subsequent $235 million acquisition of AMX Aqua Management Inc.
  - Currently working on several buy side advisory assignments
  - Co-led for $500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. ($845 million)

MS 24615
Currently working with the CFO to raise a $500 million private equity fund (LMZ)

Currently pitching to become Enron's financial advisor for private equity in telecommunications subsidiary (Enron Communications)

The company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were $34 billion and its equity market capitalization was approximately $32 billion. For the year ended December 31, 1998, Enron generated revenue of $51.3 billion, up 25% over the year ended December 31, 1997. The company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) and an international water company (Amrica). Enron's regulated business includes two operations - natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's federally regulated interstate natural gas pipelines, and Portland General (Enron recently announced the sale of Portland General which should close in the next year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility consumers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchase on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Amrica, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Amrica is an $150 million publicly traded international water company (75% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.
APPROPRIATION REQUEST COVER PAGE

Management Unit: CICG
Group: IBK
Project Start/Finish: Needs to Close by 12/31/99 – Takeout by 6/30/00

EXECUTIVE SUMMARY

Category: Special Purpose Vehicle
Facility: $7.0 Million Equity
Request: $7.0 Million
Expected Rating: B-, B3
Maturity: Less than six months
Use of Proceeds: To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.
Timing: Closing by year end 1999.
Independent Auditors: NA
Company Counsel: Vincent & Ellis
Underwriter Counsel: NA
Fees: Proposed $250,000 plus 1% per annum or a flat 22.5% return per annum.
ML Research Coverage: Leo J. Richter

Jeff McDade, EVP and Treasurer of Enron Corp., has asked ML to purchase $70M of equity in a special purpose vehicle that will allow Enron Corp. to book $120M of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $59M from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $215M. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by Merrill Lynch. The SPE will be capitalized by our $76M investment and a $215M non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $46M in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will utilize our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment to guarantee the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.
<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>CICG</th>
<th>Project Name:</th>
<th>Enron Nigerian Barge Equity</th>
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<tr>
<td>Originator:</td>
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<td>Other:</td>
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MS 24618
Appendix

1. PROPOSED CORPORATE STRUCTURE

Transaction Structure

<table>
<thead>
<tr>
<th>Purchase Equity Contribution</th>
<th>$7.00 Million</th>
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</thead>
<tbody>
<tr>
<td>Acquisition Loan (from Euro to SPV)</td>
<td>$21.00 Million</td>
</tr>
<tr>
<td>Total Purchase Price</td>
<td>$28.00 Million</td>
</tr>
</tbody>
</table>

Basis: 25% Internal Rate of Return on Invested equity for Purchaser.
Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed
Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Euro will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

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<th>Post Trigger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred A (Purchaser)</td>
<td>0.1% of CF</td>
<td>0.1% of CF</td>
</tr>
<tr>
<td>Preferred B, (Euro)</td>
<td>9.5% of CF After Pref A</td>
<td>99.5% of CF After Pref A</td>
</tr>
<tr>
<td>Common Stock (Purchaser)</td>
<td>100.0% of CF After Pref A &amp; B</td>
<td>100.0% of CF After Pref A &amp; B</td>
</tr>
</tbody>
</table>

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Euro Preferred B Shares receive approximately 99.5% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.
TIME LINE

(1) PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights in the PPA (large activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.

(2) Enron Nigerian Barge Ltd. A/B Preferred and Common Shares are issued to Enron Barge Holding Ltd.

(3) Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Barges</td>
<td>$21,000</td>
</tr>
<tr>
<td>Barge Upgrades and Onshore Cost</td>
<td>13,000</td>
</tr>
<tr>
<td>Total EPC</td>
<td>40,000</td>
</tr>
<tr>
<td>Mobilization</td>
<td>1,014</td>
</tr>
<tr>
<td>Development Costs</td>
<td>1,150</td>
</tr>
<tr>
<td>Working capital and Spares</td>
<td>2,119</td>
</tr>
<tr>
<td>Contingency</td>
<td>111</td>
</tr>
<tr>
<td>Total Costs</td>
<td>$45,614</td>
</tr>
</tbody>
</table>

Projection of 20% of Net Cash Flow (US $000)

<table>
<thead>
<tr>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$9,123</td>
<td>$13,062</td>
<td>$12,706</td>
<td>$2,470</td>
<td>$35,051</td>
</tr>
</tbody>
</table>

The $45.6 million project cost is to be paid by Enron. The net cash flow projected over the three year Phase I project life is $64.1 million, and 60% of the three year cash flow is $19.7 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of other financed debt. The proposed term period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch’s relationship with Enron Corp. (the “Company” or “Enron”) has developed significantly over the past year as Enron will generate more than $40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead managed Amuli’s, Enron’s international water utility subsidiary, IPO ($700 million)
- Advised on subsequent $35 million acquisition of AMX Acqua Management Inc.
- Currently working on several buy side advisory assignments
- Co-lead for $300-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. ($865 million)
• Currently working with the CFO to raise a $500 million private equity fund (LJMZ)

• Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications)

• The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 30,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were $34 billion and its equity market capitalization was approximately $32 billion. For the year ended December 31, 1998, Enron generated revenue of $31.3 billion, up 52% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) a telecommunications subsidiary (Enron Communications) and an international water company (Aquasa). Enron's regulated business includes two operations - natural gas pipelines, comprised of Enron Gas Pipelines, which own and operate all of Enron's federally regulated interstate natural gas pipelines, and Portland General (Enron recently announced the sale of Portland General which should close in the next year), electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Aquasa, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Aquasa is an $1.5 billion publicly traded international water company (70% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.
EXECUTIVE SUMMARY

Equity: Special Purpose Vehicle
Facility: $7.0 Million Equity
Request: $7.0 Million
Expected Ratings (Moody’s/S&P): B-, B3
Maturity: Less than six months
Use of Proceeds: To purchase common and preferred equity in a Nigerian Barge Co. Indirectly owned by Enron Corp.
Timing: Closing by year end 1999.
Independent Auditors: NA
Company Counsel: Vincent & Elkins
Underwriter Counsel: NA
Fee: Proposed $250,000 plus 15% per annum or a flat 22.5% return per annum.
ML Research Coverage: Len J. Kelter

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase $7MM of equity in a special purpose vehicle that will allow Enron Corp. to book $123MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be $39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for $28MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE), owned by Merrill Lynch. The SPE will be capitalized by our $7MM investment and a $21MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of $24 MM in the project. Enron is in active negotiations with several equity investors, including Moelis. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Skelly will have a conference call with senior management of Enron confirming this commitment to guarantee the ML investment within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately $40 million in fees in 1999 and is expected to do so again in 2000.
<table>
<thead>
<tr>
<th>Management Unit:</th>
<th>CICG</th>
<th>Project Name:</th>
<th>Enron Nigerian Barge Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Commitment:</td>
<td>$7 million</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**SPONSOR:**

**Orihgtor:** Rob First

**Mgmt. Unit Controller:**

**Mgmt. Unit Head:**

**Group Finance Director:**

**Group EVP:**

<table>
<thead>
<tr>
<th>Other Reviews</th>
<th>Corporate Approvals</th>
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</thead>
<tbody>
<tr>
<td>Debt Markets Capital Committee:</td>
<td>Group/Date</td>
</tr>
<tr>
<td>Peer Project Review:</td>
<td>Date</td>
</tr>
<tr>
<td>Date Approved:</td>
<td></td>
</tr>
</tbody>
</table>

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TIME LINE

(1) PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (Barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.

(2) Enron Nigerian Barge Ltd. All Preferred and Common Shares are issued to Enron Barge Holding Ltd.

(3) Preferred Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes all equity risk involved with the Enron Nigeria Barge Ltd.

II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US $000)

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Barges</td>
<td>$25,000</td>
</tr>
<tr>
<td>Barge Upgrades and Onshore Cost</td>
<td>15,800</td>
</tr>
<tr>
<td>Total EPC</td>
<td>40,800</td>
</tr>
<tr>
<td>Mobilization</td>
<td>1,084</td>
</tr>
<tr>
<td>Development Costs</td>
<td>1,500</td>
</tr>
<tr>
<td>Working capital and Spares</td>
<td>2,119</td>
</tr>
<tr>
<td>Contingency</td>
<td>121</td>
</tr>
<tr>
<td>Total Costs</td>
<td>$45,614</td>
</tr>
</tbody>
</table>

Projection of 90% of Net Cash Flow (US $000)

<table>
<thead>
<tr>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$9,123</td>
<td>$13,362</td>
<td>$13,705</td>
<td>$3,410</td>
<td>$59,691</td>
</tr>
</tbody>
</table>

The $45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is $44.1 million, and 90% of the three year cash flow is $39.7 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of its equity needed with Enron original 25%. The present debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch’s relationship with Enron Corp. (the “Company” or “Enron”) has developed significantly over the past year as Enron will generate more than $40 million in investment banking fees in 1999. The following facts identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead managed Amura’s, Enron’s International water utility subsidiary, IPO ($700 million)
- Advised on subsequent $225 million acquisition of AMX Aqua Management Inc.
- Currently working on several buy/sell advisory assignments
- Co-led for $500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. ($465 million)

MS 24624
Currently working with the CFO to raise a $500 million private equity fund (LJMG)

Currently pitching to become Enron’s financial advisor for private equity in its telecommunications subsidiary (Enron Communications)

The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 33,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company’s long-haul fiber optic network will be the first dedicated Protocol backbone in the U.S. Additionally, through its international power company, Enron owns and operates power plants in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron’s total assets were $24 billion and its equity market capitalization was approximately $33 billion. For the year ended December 31, 1998, Enron generated revenues of $11.3 billion, up 25% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 204% over the period from 1993 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) a telecommunications subsidiary (Enron Communications) and an international water company (Atria). Enron’s regulated business includes two operations - natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron’s federally regulated interstate natural gas pipelines, and Portland General (Enron recently acquired the assets of Portland General which should close in the next few years), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron’s largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron’s newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides retail energy sourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchasing on behalf of the large corporate customers.

Enron’s two newest businesses, Enron Communications and Atria, are positioned to take advantage of positive business fundamentals outside of Enron’s energy operations. Enron Communications is constructing an over 10,000 mile nationwide long-haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Atria is an $850 million publicly traded international water company (70% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.

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** TOTAL PAGE: 05 **