LJM INVESTMENT SUMMARY

DEAL NAME: Margaux
Originated: Enron Europe
Expected Closing Date: June 30, 2000
Expected Funding Date: July 6, 2000

Date Completed: June 28, 2000
Investment Analyst: Chris Loehr
Investment Type: Equity

APPROVAL AMOUNT REQUESTED
Capital Commitment $ 10.0 MM

DEAL DESCRIPTION

Purchase 33% of the equity trust certificates in the Margaux structure for $10 million. Margaux is a monetization of Enron's equity ownership in three European power plant investments: Sarlux, Trakya, and Nowa Sarzyna. A brief description of each of the power plants follows:

Sarlux is a 551 MW integrated combined cycle power plant in Sardinia, Italy. Sarlux will convert heavy oil residual provided by the Saras refinery into synthetic gas, which will be fed into gas turbines to produce electrical power. The power will be sold under a 20 year PPA to ENEL SpA, the Italian state-owned electricity generator and distributor. Sarlux is currently under construction and commercial operations are expected to commence in October 2000.

Trakya is a 478 MW CCGT plant located by the Sea of Marmara, Turkey. Commercial operation commenced in June 1999. There are long term fuel supply and offtake contracts with state-owned entities. All payment and performance obligations are backstopped by Republic of Turkey guaranty.

Nowa Sarzyna is located in southeastern Poland and is a gas-fired heat and power station with a generating capacity of 116 MW and thermal generating capacity of 70 MW. The facility is located within the chemical complex of Organika (state owned chemical producer). There are long term fuel supply and offtake contracts with state-owned entities. Nowa Sarzyna is currently under construction and completion is expected in early June 2000.

Margaux will issue $95 million of equity trust notes, $30 million of Class A equity certificates and $15 million of Class B equity certificates. The trust notes have been rated BB by Duff & Phelps. LJM and Hancock will purchase 33% and 67%, respectively, of the Class A certificates. LJM has agreed to let Hancock have voting control over all issues except those affecting expected return or the required investment amount. Enron will purchase 100% of the Class B certificates.

The Margaux trust will enter into a swap with Enron Corp. on the cashflows from the underlying projects. ENA will take the floating cashflows from the underlying projects, and the Margaux trust will receive fixed payments, subject to certain adjustments, which will be used for debt and equity service. The risk of this deal is that the adjustments to the fixed swap payments made by Enron (due to factors described below) result in cashflows insufficient to provide a return of capital and a return on capital to LJM. The first fixed swap payment due December 15, 2000 is not subject to adjustment.

The swap with ENE involves the discrete transfer of certain risks to Margaux. The amount received by Margaux under the swap will be adjusted for the following:

Sarlux: Certain variances in forced outage rate, methane price, CIP-6
Trakya: Certain variances in forced outage rate, fuel usage, Turkey credit event
Nowa Sarzyna: Certain variances in forced outage rate, fuel usage

(See risks and mitigants section for further details on risks transferred to Margaux.) All other project risks will be borne by Enron Corp. The swap has a 12 year term, while the Margaux structure has a 10 year term. A cash account in the structure grows by the excess, if any, each period of the fixed swap payments (after adjustments, if any) over the debt and equity service. At termination of the structure, the swap's termination value (the present value of the remaining two years of payments) is paid to Margaux and used along with any amounts in the cash account for debt and equity redemption.

TRANSACTION SUMMARY

On June 30, 2000, LJM will purchase 33% of the equity trust certificates in the Margaux structure for $10 million.

CASH FLOW SUMMARY

Cashflow available for distribution from the trust will be distributed according to the following waterfall:

1. Operating expenses of the trust
2. Trust note interest
3. A Certificate yield of 12% (subject to coverage ratios)
4. Debt service reserve (until fully funded to $30 million)
5. A and B Certificate yield accretion (4% ordinary yield for A, 16% yield for B; subject to coverage ratio)
6. Trust note redemption
7. A and B certificate redemption (pari passu)

LJM030349

GOVERNMENT EXHIBIT 7801
Crim No. H-04-0025

Confidential Treatment Requested

The A certificates to be purchased by LJM will be entitled to a cash certificate yield of [illegible]% and a cash ordinary yield of 4% (total 16% yield) subject to the restrictions in the waterfall (see "Subordination of Equity" in risks and mitigants for details of covenants). At the end of the structure (2010), the A certificates will receive a return of capital pari passu with the B certificate redemption, but only after repayment of the Trust Note certificates.

RETURN SUMMARY

LJM's investment under the base case assumptions and if held to maturity would yield 16%. The returns are impacted by swap payment adjustments (see risks and mitigants section as well as sensitivity section for more detail).

EXIT STRATEGY

It is expected that this investment will be pooled with other current cashflow investments and securitized during the next twelve months.

RISKS AND MITIGANTS

Structural risks of Margaux	
Risk	**Description/Mitigant**
Subordination of equity	From an equity standpoint, the trust notes receive preference in distribution to the A and B certificates. The waterfall limits current cashflow distribution to the A certificate holders (certificate yield is subject to 1.75x LTM and 1.75x NTM coverage ratio for trust note interest; ordinary yield is subject to the debt service reserve being fully funded and a 1.75x life of the trust notes coverage ratio being met). In addition, return of principal at the end of the structure is made pari passu with the B certificate redemption. The extreme subordination of the A certificates is mitigated by analysis of the sensitivity cases, most of which result in a 16% return and return of capital.
Bullet repayment	Principal repayment, if any, on the equity certificates occurs at the end of the Margaux structure in December 2010.
Catastrophic events	Forced outage adjustments resulting from any of the plants being substantially or entirely damaged, destroyed or rendered unfit for normal use can be made for only three years. After that point, the swap payment adjusts to the original amount, incentivizing Enron to rebuild or repair the plant.
Risks transferred under swap – Sarlux	
Risk	**Description/Mitigant**
Completion risk	Sarlux is currently under construction with commercial operations expected to commence in October 2000. Margaux does not take completion risk on Sarlux.
Operating risk (Forced outage)	Sarlux will convert heavy oil residual provided by the Saras refinery into synthetic gas, which will be fed into gas turbines to produce electrical power. Even though the creation of the synthetic gas is proven proprietary Texaco technology, it is, by design, a more complicated plant than the other Margaux assets. The EPC contractor is a consortium comprised of Snamprogetti, Turbotecnica and General Electric. GE was chosen on the basis of its considerable syngas experience which is greater than any other manufacturer. The operating risk is further mitigated by setting the forced outage rate higher than the other Margaux assets. To further limit risks related to the synthetic gas, Margaux does not take fuel usage risk.
Indexation risk	The tariff Sarlux receives includes an avoided cost component based on the price of methane in Italy. The Italian gas market is not deregulated, so the price of methane is set by the government and is based on a formula involving the price of oil, Italian CPI, and other factors. A baseline forecast of the avoided cost component of Sarlux's revenues was made by an independent consulting firm using forecasts of the price of oil, Italian CPI, etc. Every 1% deviation from this forecast lowers the swap payment by $351k/year. The independent third party forecasts have been analyzed and appear reasonable for price of oil, Italian CPI, etc. In the event that the gas market is deregulated, the baseline forecast will be reset based on the new market prices for gas.