

From: Stephanie McGinnis
To: Tim DeSpain
Subject: October Finance Committee LJM3 Materials

Tim,

Here is the revised file with Mr. Skilling's changes:

3-9283

I will forward this file to Rebecca Carter as well with all of our other files.

Thanks,
Stephanie

----- Forwarded by Stephanie McGinnis/HOU/ECT on 09/28/2000 10:19 AM -----

Enron Global Finance

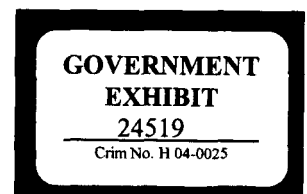
From: Tim DeSpain 09/28/2000 09:50 AM

To: Rebecca Carter/Corp/Enron@ENRON, Stephanie McGinnis/HOU/ECT@ECT
cc: Andrew S Fastow/HOU/ECT@ECT, Scott Sefton/HOU/ECT@ECT
Subject: October Finance Committee LJM3 Materials

Attached please find two files pertaining to the upcoming October Finance Committee and Board meetings. Andy would like for these files to be placed on the Finance Committee Agenda (as part of his Chief Financial Officer Report) and on the Full Board Agenda in the same format as was done for the LJM 2 approval at the October 11, 1999 Meeting. The first attached file is the LJM 3 overview and the second file contains a proposed resolution.

Please let me know if you have any questions.

Tim



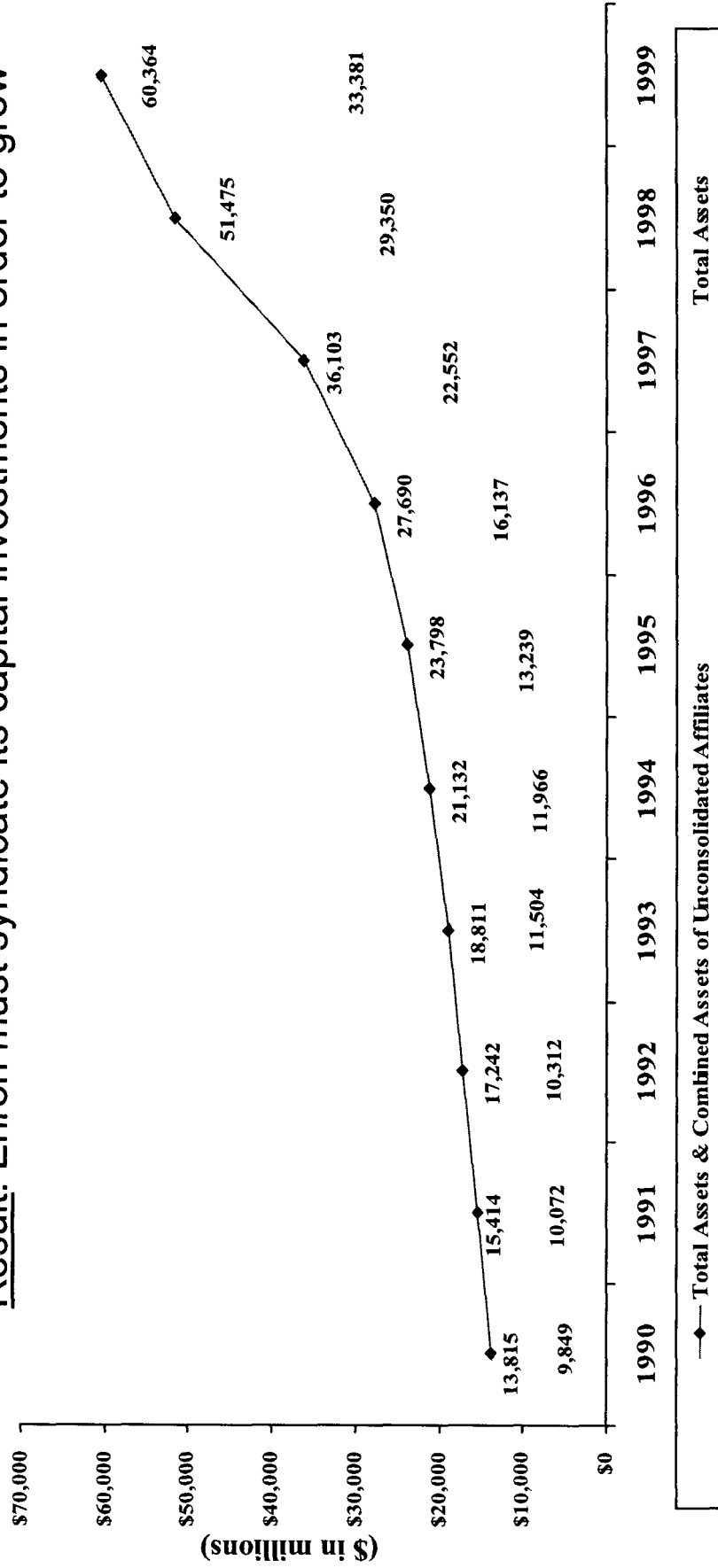
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LJM 3



Private Equity Strategy

- Continued significant capital investment by Enron
- Energy and communications investments typically do not generate significant cashflow and earnings for 1-3 years
- Limited cash flow to service additional debt
- Limited earnings to cover dilution of additional equity
- Result: Enron must syndicate its capital investments in order to grow



Rationale for LJM Structure

- New FASB consolidation rules
- Better ability to manage risk positions (non-affiliate status)
- Better ability to manage financial flexibility



LJM1 and LJM2 Summary

- **LJM1**
 - Formed in June, 1999, with \$16 million of equity.
 - Hedged Enron investment in Rhythms NetConnections resulting in a gain of approximately \$175 million for Enron.
 - Purchased minority interest in Cuiaba so that Enron could deconsolidate the project.

- **LJM2**
 - Formed in December, 1999, with \$394 million of equity.
 - Invested \$403 million in 21 transactions.



Conflicts of Interest

- **LJM creates a conflict of interest for EVP/CFO of Enron**
 - Negotiates investments in Enron transactions/business for LJM.
 - Receives value from LJM if fund performs well.
 - Allocates time to LJM matters.
- **Conflict largely mitigated**
 - Board resolution does not relieve A. Fastow of fiduciary responsibility to Enron.
 - OOC or Board can ask A. Fastow to resign from LJM at any time.
 - R. Causey/R. Buy/J. Skilling approve all Enron-LJM transactions.
 - Annual audit committee review of LJM (February).
 - Legal department responsible for maintaining audit trails/files on all transactions.
 - Review of A. Fastow economic interest in Enron and LJM presented to J. Skilling.
 - No obligation for Enron to transact with LJM.



