I. Executive Summary

- This technique (the "Transaction") utilizes the rules of FAS 109 which ignore the time value of money concept and require the recording of deferred tax assets based on gross, undiscounted amounts. In the Transaction, Enron Corp. ("Enron") is able to record deferred tax assets at gross amounts well in excess of their present value. A portion of the deferred tax asset is recorded upon execution of the Transaction and effectively creates a bargain purchase for Enron. Moreover, the purchase accounting rules of APB 16 cause Enron to reduce the book basis of other assets acquired by Enron. The Transaction is structured in a manner which allows the benefit of the bargain purchase to be recognized into pre-tax income over a relatively short time frame. The remaining deferred tax asset is recorded over the next several years with a corresponding benefit directly to Enron's income tax provision.

- Specifically, the effect of the Transaction is to create pre-tax accounting income of approximately $75 million through the reduction of book basis of acquired assets and the amortization of a deferred credit, as well as approximately $79 million of earnings in the tax provision of the income statement, for a total of approximately $154 million of after-tax earnings. The net result is the generation of annual pre-tax accounting earnings of between $2-18 million per year from 1999-2003 and after-tax accounting earnings of between $15-36 million per year from 1999-2003.

- The Transaction will create tax losses of approximately $400 million during years 2006-2025. After allowance for fees and expenses, the Transaction will generate cash flows with a net present value at 7% of $100.7 million pre-tax and $63.5 million after-tax and a net present value at 10% of $59.9 million pre-tax and $37.7 million after-tax. The internal rate of return of the Transaction is 25.72% pre-tax and 16.20% after-tax.

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