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To:

Enron Corp.
1400 Smith Street
Houston, Texas 77025
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May 2, 2000

Project Valhalla

Ladies and Gentlemen,

We have acted as German legal advisers to Enron Corp. ("**Enron**") in connection with the promissory note issued by Deutsche Bank AG ("**Deutsche Bank**") to Enron (the "**Promissory Note**"), the financing of Rheingold GmbH ("**Rheingold**") by Enron and Deutsche Bank and the purchase of preferred shares (the "**Preferred Shares**") in Risk Management & Trading Corp. ("**RMT**") by Rheingold (the "**Transaction**") with effect as of May 2, 2000 (the "**Closing**").

Scope

This opinion is given as to German law (not including unpublished case law) as in effect, enforced and interpreted as of the day hereof only.

In giving this opinion we have examined copies of the documents listed in the annex to this letter (the "**Transaction Documents**"), together with such other documents as we have considered necessary or desirable in order to give this opinion.

Capitalized terms used in this letter and not defined in it are defined in the annex to this letter.

Assumptions

In rendering this opinion, we have relied upon, without independent verification, the following assumptions:

(A) the capacity, power and authority of each party to enter into and perform under the Transaction Documents;

(B) the due execution and delivery of the Transaction Documents by each party thereto;

(C) that those of the Transaction Documents which are not expressed by their terms to be governed by German law, and the rights and obligations created thereby, are valid and binding under the laws by which they are expressed to be governed;

(D) that in such cases where the execution of a document by a natural person acting for and on behalf of a legal person affects the disposition of property, the power to make such disposition is not limited by applicable public or private law other than applicable German public or private law;

(E) the authenticity of all documents submitted to us as originals;

(F) the conformity with their respective original documents of all documents submitted to us as photocopies and the authenticity of the originals of such photocopied documents;

(G) that all filings necessary for the valid and enforceable creation and / or maintenance of rights have been or will be duly made;

(H) that there are no other agreements between the parties to the Transaction which would expand, modify or otherwise affect the respective rights, duties and obligations of all parties set forth in the Transaction Documents which would have an effect on the opinions rendered herewith;

(I) that all Transaction Documents available to us in draft form only have been or will be executed in all material respects in the same form as presented to us;

(J) dividends on the Preferred Shares will qualify for the participation exemption under the Convention Between the United States of America and the Federal Republic of Germany for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital and to Certain Other Taxes (the "**Treaty**");

(K) that the activities of RMT consist of various hedging transactions with other group companies, such as entering into options, futures, financial futures, foreign exchange transactions, etc., as well as inter-company loans in order to use excess cash;

(L) that for U.S. tax purposes, RMT is part of a consolidated group with Enron and other Enron subsidiaries; that in the process of the group consolidation, RMT's income is set-off in part by the elimination of certain inter-company charges within the group, and in part by losses or loss carry-forwards of Enron or other group companies; and that RMT will become a party to a tax allocation agreement (the form of which is used by the Enron consolidated group) which provides for compensation payments for the differences in the tax effects for each group company caused by the consolidation;

(M) that there are no other exemptions or other special tax effects applicable for the U.S. taxation of RMT;

(N) that Rheingold will have no income other than the distributions on the Preferred Shares, potential capital gains from the sale of the Preferred Shares and a small amount of investment income;

(O) that Valhalla will engage in no other activities than those contemplated under the Transaction Documents; and

(P) that the Transaction will be unwound by

- Rheingold exercising a put option over the Preferred Shares (the "**Rheingold Put Option**"), thereby selling the Preferred Shares to Valkyrie for the original U.S. Dollar ("**USD**") issue price or the current USD amount which is equivalent to the original Euro issue price, whichever is higher,
- Rheingold redeeming the Note for the original USD issue price or the current USD amount which is equivalent to the original Euro issue price, whichever is higher,
- Deutsche Bank exercising the put option under the Put Option Agreement, or Valkyrie exercising the call option under the Call Option Agreement,
- Rheingold being merged into Valhalla, and
- Valhalla liquidating at a time after Valkyrie either actually, or, by reason of having a single owner and no longer qualifying as a partnership for U.S. tax purposes, has been dissolved

(the "**Unwind**").

We have reviewed the Transaction Documents for Enron. In rendering the opinions expressed herein, we have relied solely upon our review of these Documents and have made no independent verification of the factual matters set forth in such Documents. Accordingly, save as expressly provided in this opinion, no opinion is given as to matters of fact and it is assumed that there are no facts which would affect the conclusions in this opinion.

Opinion

Based upon and subject to the foregoing, and subject to our reservations and qualifications stated below, we are of the opinion that:

1. The profit share of Rheingold from the distributions of RMT on the Preferred Shares should not be subject to German taxation based on the German foreign controlled corporation rules in the German Foreign Transactions Tax Act (*Aussensteuergesetz* – "**AStG**").

2. Rheingold should have no income subject to German trade tax other than income from the investment of its equity before the Closing or of dividends received on the Preferred Shares and not distributed as dividends on the Participation Rights ("**Investment Income**"). However, it cannot be entirely excluded that trade tax may be assessed on 50 % of the interest paid on the Note minus any other deductible expenses incurred by Rheingold.

3. The Unwind will not cause any German income tax to be imposed on Rheingold or Valhalla other than withholding tax on retained Investment Income. In the case that the Euro depreciates against the USD between the Closing and the Unwind, withholding tax of 5 % will be incurred on any cash distributed to Enron in excess of the Euro amount of Valhalla's registered share capital.

4. Rheingold will be a German resident for German tax purposes as long as it maintains its seat or principal place of management in Germany.

5. The Preferred Shares should be treated as equity for German tax purposes.

Reservations and qualifications

1. German controlled foreign corporation rules

1.1 Foreign controlled corporation

For German tax purposes, the profits of a foreign corporation are attributed to a German shareholder irrespective of whether such profits are distributed or retained if:

- (a) German shareholders hold more than 50 % of the share capital or the voting rights of a foreign corporation which earns passive income, or

  (b) one German shareholder holds 10 % or more of the share capital or the voting rights in a foreign corporation which earns passive investment income, and

- the passive income or passive investment income, respectively, exceeds certain *de minimis* thresholds and

- such passive income or passive investment income, respectively, is subject to a low tax burden in the country of the foreign corporation.

A German shareholder is protected by the Treaty against German taxation if the foreign corporation is located in the United States, if the German shareholder holds 10 % or more of the shares in the foreign corporation and if the distributions of the foreign corporation are treated as dividends in the United States as the country of residence of such foreign corporation. However, this protection does not apply with regard to

- passive investment income,

- which is more than 10 % of the total passive revenues of the foreign corporation or more than DM 120,000 and,

- subject to a low tax burden in the country of the foreign corporation.

As a consequence, the share of Rheingold in the profits of RMT will be subject to German taxation with no participation exemption available if and to the extent that

- 10 % or more (or more than DM 120,000) of RMT's passive income is passive investment income, and

- such income is subject to a low U.S. tax burden.

1.2 Passive investment income

Passive investment income is income from holding, administration, maintenance or appreciation in value of cash, receivables, securities, share or similar assets, unless the taxpayer proves that such income is

- connected to activities which generate active income, or

- received from a subsidiary in which the foreign corporation holds a share of 10 % or more, or

- remuneration for services rendered by the foreign corporation which is considered an arm's length price under German transfer pricing rules.

According to a public ruling of the German tax administration, passive investment income includes interest and dividend income as well as income from financing leases, factoring, "financial innovations" (structured financial products), futures and financial futures. Although the application of the AStG to some of these activities is disputed in the legal literature, all German tax officers are bound by the ruling. Therefore, although disputable in court, for planning purposes it must be assumed that the tax administration will treat all income from the financing activities listed in the ruling as passive investment income.

As a consequence, most, if not all, of RMT's income may be treated as passive investment income. Based on the information available to us, we are not able to determine the exact amount of such passive investment income.

1.3 Low tax burden

A foreign company's income is subject to a low tax burden if it is subject to income tax in the country of its seat or management at an overall rate of less than 30 %.

The relevant tax burden is not necessarily the actual tax paid. In principle, the tax administration considers first the general corporate income tax rate applicable in the

particular country, state and local community, and any tax exemption or rate reduction for any relevant kind of income or corporation. The current U.S. corporate income tax rate of 35 % (plus state tax and local tax, if any) is principally sufficient to provide for a tax burden which is not a low tax burden for this purpose.

Even if the general corporate income tax burden is 30 % or higher and no specific exemption applies, but there is an indication that under the relevant foreign tax laws the amount of income included in the tax base is significantly smaller than it would be under the equivalent German tax laws, then an individual calculation of the tax base according to German corporate income tax laws is made. For this determination it is disregarded if the tax base is decreased by losses from other sources or by a loss carry-forward or loss carry-back. It is also disregarded if the foreign tax burden was decreased by a third country foreign tax credit or the deduction of a third country foreign tax imposed on the relevant foreign corporation. On the other hand, dividend income which is tax exempt based on a participation exemption or for which the foreign corporation can claim a tax credit for taxes imposed on the entity making the distribution (indirect tax credit) is automatically considered to be subject to a low tax burden. In the case that the foreign corporation receives different classes of income, only some of which are eligible for an exemption or tax reduction, the tax burden must be determined for each class of income separately.

There is no specific statutory rule nor administrative guidance regarding the effects of the consolidation within a group of companies. To our knowledge, there is also no case law regarding this question. However, it is the tax burden which is principally applicable to the relevant kind of income in the country of the foreign corporation, which is decisive for the application of the AStG. The set-off between income and losses from different sources is to be ignored. Although the statute does not provide explicitly whether this applies also to income and losses within a group of companies, consolidation is a concept which is also used in German tax law in the case of a so-called "*Organschaft*" which is different in detail from the U.S. consolidated group but which still uses similar concepts. One difference is that of the treatment of minority shareholders which, under U.S. consolidation rules, can participate in the tax benefits provided by losses with regard to losses which they do not have to bear. However, these potential benefits are normally, and specifically in the case of the Enron group, excluded by the compensation under the tax allocation arrangements within the group. Therefore, economically, each group company bears the tax burden attributable to its own income. In particular, in cases where income and losses are set off between group

companies within the same country which are subject to the same general level of tax burden, there should be no basis for the application of the AStG in these circumstances.

The same reasoning applies for the reduction of the tax base for U.S. tax purposes caused by the elimination of certain inter-company income. As the German consolidation within an *Organschaft* follows similar rules, it can be expected that the German tax administration will accept these corrections as resulting from consolidation procedures sufficiently similar to German rules that they will not decrease the tax burden.

Therefore, we consider it unlikely that the German tax administration will consider the income of RMT as subject to a low tax burden based on the effects of the group consolidation. However, as there is no explicit guidance by the statute, the tax administration or the tax courts, it cannot be entirely excluded that the German tax administration will treat the effects of the consolidation as a reduction in the tax burden. However, in view of the compensation under the tax allocation arrangements within the Enron group, we consider this unlikely and believe that there is a very good chance to win any potential argument about this issue.

2. German trade tax

2.1 General rules on exempt dividends and interest deduction

As a German corporation, Rheingold is subject to German trade tax, a local income tax which is administered by the same authorities as the corporate income tax, but the tax rate of which is set by the municipality in which the business premises are located. The tax base is in principle the net income of each fiscal year as determined for corporate income tax purposes but with some additional items to be deducted from or added to the tax base.

One of the items added to the tax base is 50 % of any interest paid on long term loans and previously deducted from the tax base. If an interest payment is non-deductible as expense directly connected to exempt dividends, then the add-back of 50 % of such interest does not apply. This is expressly stated in the German trade tax regulations (*Gewerbesteuer-richtlinien*). Although German tax regulations do not have the force of law and do, therefore, not bind the courts, they are official guidelines for the tax administration and must be followed by all tax officers.

2.2 Deemed non-deductible expenses

As it has been disputed for some time in which circumstances expenses can be considered as directly connected to exempt dividends, a new provision was added to the German corporate income tax act last year, which stipulates that for all exempt foreign source dividends an amount equivalent to 5 % of the dividends received is deemed to be the amount of expenses directly connected to the exempt dividends (Sec. 8b para. 7). The German Federal Ministry of Finance has recently issued a public ruling which outlines its interpretation of this new section (the "**Ruling**"). The Ruling, like tax regulations, does not have the force of law but must be followed by all officers of the tax administration.

According to the Ruling, Sec. 8b para. 7 is to be applied not only for corporate income tax purposes but also for trade tax purposes if a dividend is exempt based on a tax treaty. In all circumstances, 5 %, and only 5 %, of the exempt dividends received in any year is to be added back to the tax base as non-deductible expense after the gross amount of the dividends has been deducted from the net income shown in the financial statements. This means that, on the one hand, 5 % is added back even if the total amount of all expenses is less than this amount and, on the other hand, that any expenses exceeding the amount of 5 % of the dividends are deductible even if directly connected to the exempt dividends. For corporate income tax purposes, this has the effect that for a German corporation which has no other income than exempt dividends, there is no taxable income nor loss if the actual expenses are exactly 5 % of the amount of dividends received in any given year. If the expenses are lower, then the German tax administration will assess taxable income in the amount of the difference. If the expenses are higher, there will be a loss which can be carried back to a limited degree or forward indefinitely.

As the interest expenses Rheingold will incur match 5 % of the dividend income it is expected to have each year, there should be a small amount of tax loss each year based on any other expenses that Rheingold will incur, such as rent, management fees etc.

With regard to the exact effects of Sec. 8b para. 7 on the trade tax assessment at the present time, there is no clear guidance from the German tax administration or the tax courts. According to the trade tax regulations mentioned above, the 5 % deemed non-deductible expense should decrease the amount deductible as exempt dividend and, to the extent that the non-deductible expense is interest, the 50 % add-back should not apply. However, the

trade tax regulations are older than Sec. 8b para. 7 and, therefore, do not necessarily reflect the view of the tax administration on the new deemed non-deductible expense. Systematically there should be no add-back of any interest for which the taxpayer has not received an effective deduction. Therefore, it is reasonable to take the position on Rheingold's tax return that there is no income (other than Investment Income) for Trade Tax purposes. However, it cannot be entirely excluded that the tax administration may consider the deemed non-deductible expense as a separate item totally unrelated to actual expenses. Only in that case, it could be argued that the interest expense is deductible and, therefore, 50 % of the interest must be added back to the tax base. For Rheingold this would result in additional taxable income for trade tax purposes in the amount of 50 % of the interest paid on the Note.

3. Foreign exchange gains or losses

3.1 Euro depreciated against USD between Closing and Unwind

If the Euro depreciates against the USD, the price received for the Preferred Shares when the Rheingold Put Option is exercised as well as the principal to be paid back upon redemption of the Note will still be the same USD amounts as paid initially, but those will each represent a higher amount in Euro. Rheingold must use Euro for its financial statements and for the calculation of its income tax base. Therefore, it will show a profit in the amount of the difference in the original Euro price paid for the Preferred Shares and the Euro price received upon putting the Preferred Shares to Valkyrie, and a loss in the amount of the difference between the original Euro amount received for the Note and the Euro amount paid upon its redemption. However, since this profit will be considered as capital gain realized upon the sale of shares which qualifies for the participation exemption under the Treaty, the resulting income is exempt from corporate income tax as well as from trade tax.

When the Participation Rights are put to Valhalla by Deutsche Bank, Valhalla pays the initial USD price and, therefore, in Euro more than the amount of equity initially contributed to Rheingold. In the merger between Rheingold and Valhalla, Valhalla will incur a corresponding merger loss which will set-off most of the profit in Rheingold in the financial statements. For tax purposes, however, the tax exempt income of Rheingold is carried over to Valhalla and the merger loss is deducted from any capital reserve (paid in capital in

addition to the registered share capital, so-called "EK 04"). If there is no or not a sufficient capital reserve, a negative capital reserve is created.

When the excess cash is distributed to Enron, there is no corporate income tax but a 5 % withholding tax will be applied since all distributions are deemed to be made out of distributable income first before any (even a negative) capital reserve is considered, unless the distribution is made in liquidation. Upon liquidation, the registered share capital can be paid out first and will, therefore, be protected.

3.2 Euro appreciated against USD between Closing and Unwind

If the Euro appreciates against the USD between the Closing and the Unwind, the amounts paid for the Preferred Shares and the redemption of the Note will be the USD amounts representing the original Euro prices. As Rheingold must account for its income or loss in Euro, no income or loss will be incurred.

When the put is exercised, Valhalla will acquire the Participation Rights for an amount which in Euro is lower than the equity originally contributed for the Participation Rights. In the merger between Rheingold and Valhalla, Valhalla will, therefore, show a merger gain which is shown in the financial statements as profit, but which for tax purposes will be added to the capital reserve.

When the excess cash is distributed to Enron, any amount paid out of the capital reserve will be considered repayment of paid-in equity and will, therefore, not trigger any withholding tax.

4. German tax residence

In principle, in order to remain a German tax resident, it is sufficient for Rheingold to maintain its seat or principal place of management in Germany.

For German tax purposes, the seat of a GmbH is in principle the place specified as seat in the corporate documents (*Gesellschaftsvertrag*). However, if this specification is only fictitious, i.e. if the relevant GmbH does not plan to have an active office in the specified location, then the choice of the seat is disregarded as a sham and the principal place of management is then considered to be the actual seat of the company instead. Furthermore, under German conflict-of-law rules, the principal place of management is considered to be determinative

for the law applicable to the relevant entity. Therefore, if a GmbH formed and registered in Germany has its principal place of management outside of Germany, it may lose its qualification as a legal entity and, therefore, as a corporation. The details of this theory and its consequences are largely disputed and, therefore, unclear. As the participation exemption under the Treaty applies only to corporations, Rheingold should not rely on the specification of its seat in its corporate documents, but should maintain its principal place of management in Germany in order to ensure that the participation exemption is applied. Furthermore, to minimize the trade tax risk (discussed above at 2.), Rheingold's business activities generally must be carried out in the office in Eschborn.

The principal place of management is in the location where the majority of the decisions are made that are important for the management of the company. This is in principle the place where the management is physically present when it receives relevant information and prepares and carries out any response. The kind of activities this includes in detail depends on the business of each individual company. In the case of Rheingold and Valhalla, all correspondence should be sent to the Eschborn office. The managing director should be present in the Eschborn office on a regular basis, i.e. at least once or better several times each year to take care of the day-to-day business, i.e. mostly controlling functions such as monitoring the cash-flows, supervising the accountants' work, reviewing of financial statements and bank statements. All activities should be documented, i.e. by itemized telephone bills, travel expenses, minutes of meetings with accountants, Deutsche Bank representatives, etc. The managing director must also be prepared to come to the Eschborn office whenever there is a problem or crisis, or at least to send a representative. Generally, it is not necessary (or sufficient) to hold shareholder meetings in the relevant location. However, in the case of Valhalla the shareholder meetings for Rheingold should be held in Eschborn, as this will be the principal business activity of Valhalla until the Unwind.

5. Preferred Shares

Under German tax law, preferred shares are treated as equity if the profit distributions on such shares qualify for dividend treatment pursuant to Sec. 20 para.1 no.1 of the German Income Tax Act (*Einkommensteuergesetz* – "**EStG**"). Pursuant to the definition in Sec. 20 para.1 no.1 EStG, this is the case for dividends and other income from shares or profit participation rights which carry the right to the profits and liquidation proceeds of a corporation.

There is no clear guidance on the interpretation of what exactly constitutes a participation in the liquidation proceeds. The Federal Tax Court has held that an actual participation in the liquidation proceeds is necessary. However, the German tax administration does not apply this case law other than to the individual cases actually decided by the tax courts and considers it sufficient that the shares or profit participation rights are not redeemable before the liquidation of the corporation. Therefore, the tax administration may in some cases treat participation rights as equity for tax purposes, which would be classified as debt by the tax courts. However, the Preferred Shares include the right to participate to a limited extent in the liquidation proceeds of RMT.

Furthermore, there is no published case law or other guidance as to any required minimum participation either in amount or as a percentage of the funds invested. Although this means in principle that even the smallest participation should be sufficient, the tax administration could still disregard the participation as economically insubstantial under general anti-abuse rules. However, this would only be likely in extreme cases. We consider the participation in the liquidation proceeds under the Preferred Shares as too substantial to constitute such an extreme case and, therefore, the preferred shares should be treated as equity for German tax purposes.

6. Further qualifications

- This opinion is based on the facts existing on the date hereof of which we are aware and the opinions set forth herein shall not be deemed to relate to facts and conditions prevailing, or laws and regulations in effect, at any time after the date hereof.

- We do not purport to be experts on any laws other than the laws (not including unpublished case law) of the Federal Republic of Germany as in effect, enforced and interpreted on the date hereof.

- This opinion is limited by the effect of any applicable bankruptcy, reorganization, insolvency, moratorium and other similar laws including, without limitation, court decisions of general application, statutory or other laws regarding fraudulent or preferential transfers, relating to, limiting or affecting the enforcement of creditors' rights generally, save as expressly set out otherwise herein.

- We express no opinion on the commercial value of the Transaction including without limitation whether any alternative structure or investment to those referenced herein may provide for a higher value or more beneficial tax treatment to any party in any jurisdiction.

- This opinion does not include any statement on the validity or enforceability of any agreement or legal relationship with regard to the Transaction.

Reliance

This opinion is addressed only to the addressee set out above in connection with the Transaction, and may not be communicated or delivered to any other person other than the addressee (and its U.S. legal advisers) or used for any other purpose without our prior written consent.

This letter and the opinions expressed herein are issued under and shall be interpreted and applied solely in accordance with the laws of the Federal Republic of Germany. The courts in Frankfurt am Main, Federal Republic of Germany, shall have exclusive jurisdiction regarding any disputes arising under or in accordance with this letter or the opinions expressed herein.

Very truly yours,

(Jutta Schneider)
Clifford Chance Pünder

CLIFFORD
CHANCE
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Opinion Project Valhalla
ANNEX

Transaction Documents

1. **Series 1 Non-voting Preferred Stock Certificate of Designations, Preferences and Rights of Risk Management & Trading Corp.** dated May 2, 2000 issued by RMT. *Delaware Law.*

2. **Series 2 Voting Preferred Stock Certificate of Designations, Preferences and Rights of Risk Management & Trading Corp.** dated May 2, 2000 issued by RMT. *Delaware Law.*

3. **Agreement on Participation Rights** (*Genussrechtsvertrag*) dated as of May 2, 2000 between Rheingold as issuer, Valhalla GmbH ("**Valhalla**") as holding and DBOFD as investor. *German Law.*

4. **Subscription and Procurement Agreement** dated as of May 2, 2000 between Valhalla as holding and Rheingold is issuer. *German Law.*

5. **Call Option Agreement** dated as of May 2, 2000 between Enron Valkyrie, LLC ("**Valkyrie**") and Deutsche Bank as Investor. *German Law.*

6. **Put Option Agreement** dated as of May 2, 2000 between Deutsche Bank as Investor and Valhalla. *German Law.*

7. **Promissory Note** dated May 2, 2000 issued by Deutsche Bank as maker to Enron as payee and accepted by Valkyrie, Valhalla and Rheingold. *New York Law.*

8. **Enron Guarantee** dated as of May 2, 2000 between Enron as guarantor, Deutsche Bank as counterparty, Valkyrie, Valhalla and Rheingold. *New York Law.*

9. **Note** dated May 2, 2000 issued by Rheingold to Enron. *New York Law.*