ENRON

Interoffice Memorandum

To: Dave Maxey

From: AnnMarie Tiller

Department: Corporate Tax Planning

Subject: Enron Credit Linked Notes Due August 2005

Date: January 12, 2001

On August 25, 2000, at the direction of the Enron Corp. Global Finance group, Enron North America ("ENA") borrowed $475M from Citibank N.A. in a transaction that took the form of a prepaid swap (the "Swap"). Since Citibank's internal credit policy did not allow the extension of any further credit to ENA, Enron Corp. (hereafter referred to in the aggregate along with ENA as "Enron") and Citibank simultaneously entered into a transaction in which the exposure to default by Enron under the prepaid swap will be ultimately borne by investors purchasing securities of a special purpose trust established on August 11, 2000 by Citibank as initial depositor called the Enron Credit Linked Notes Trust (the "Trust").

Trust Notes and Certificates.

At the same time that ENA and Citibank entered into the prepaid swap, the Trust issued $500M in notes (the "Notes") in a 144A offering and $50M in trust certificates (the "Certificates") to one entity, the Royal Bank of Canada ("RBC"). Since the Trust has only one owner, the Trust is disregarded for federal income tax purposes and is treated as a branch of RBC. See Reg. 301.7701-3(b)(1)(ii). The Notes issued by the Trust will be treated as debt for federal income tax purposes. (See tax opinion from Milbank, Tweed, Hadley & McCloy, LLP in the Offering Memorandum dated August 17, 2000.)

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 to the extent the Notes have not been redeemed, accelerated, or repaid prior to that date. Interest accrues on the principal amount of the Notes at a rate of 8.0% and is payable semi-annually in arrears on February 15 and August 15 of each year starting on February 15, 2001.

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. At least initially, approximately __% of the Notes were sold to domestic holders and approximately ___% of the Notes were sold to non-US holders. The Reg. S Notes bearer bonds meet the requirements of Reg. Section 1.163-5(c)(2)(i)(D), including legending, certification of non-U.S. status before interest can be paid or the delivery of definitive notes to holders.

The certificates in the Trust represent beneficial interests in the Trust and are subordinate in right of repayment to the Notes.

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Trust Investments.

The proceeds from the sale of the Notes and the Certificates may be used by the Trust to make any one or more investments from a list of permitted interest-paying obligations of domestic money center banks, insurance companies, or direct obligations of the United States government (the "Trust Investments") as long as the obligations mature on or before the maturity date of the Notes. At least initially, the Trust used the entire $550M in funds received from the issuance of the Notes and Certificates to acquire a [note/guaranteed investment contract] issued by Citibank carrying an interest rate of 6%.

The Trust granted a security interest to the

Credit Swap.
The Trust and Citibank entered into a credit swap (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. Upon an Enron Credit Event (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. The principal amount of the Notes would then be repaid from any proceeds recovered from any of these Enron Deliverable Obligations received by the Trust and any remaining Trust Investments then held by the Trust.

On a periodic basis in the absense of an Enron Credit Event, the Trust will obtain 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. In return, the Trust is obligated to pay Citibank all of the interest received by the Trust on the Trust Investments on dates concurrent with the interest payments dates on the Notes. To the extent the amount payable by Citibank under the Credit Swap exceeds the amount Citibank receives under the Credit Swap, Enron is contractually obligated to reimburse Citibank for this difference. [See the Enron-Citi Agreement.] In the absence of an Enron Credit Event, the principal amount of the Notes and the Certificate holder's investment will be repaid from the principal proceeds of the Trust Investments.

U.S. Withholding Taxes
The interest paid on the Notes to foreign holders

Tax Reporting and Filing Requirements.
Since it was critical that the Trust report the transaction for tax and accounting purposes in a correct and timely manner, Wilmington Trust Company ("WTC") as Trustee entered into agreement with Enron under which Enron agreed to perform

Discuss side letter

Transaction Expenses.

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State Tax Considerations.