
LJM
INVESTMENTS

Annual Partnership Meeting
October 26, 2000

LJM Investments

Introduction: Meeting Agenda

- Introduction
- LJM Rationale
- LJM Strategy
- Activity Summary
- Valuation
- Sample Investments
- Other Issues
- Summary
- Guest Speakers: Jeff Skilling, Enron
Gene Lockhart, The New Power Company
Bill Jacobs, The New Power Company
Will Byers, The New Power Company

Introduction

LJM Investments

Introduction: Meeting Attendees

1.) LJM Investments

- Andrew Fastow
- Michael Kopper
- Kathy Lynn
- Michael Hinds
- Anne Yaeger
- Joyce Tang
- Chris Loehr
- Ace Roman

2.) LJM Consultants

Kirkland & Ellis

- Michael Edsall
- Martha Stuart

Price Waterhouse Coopers

- Ian Schachter

3.) LJM2 Limited Partners

- Chase Capital
- World Air Lease
- GE Capital
- J.P. Morgan Capital
- Merrill Lynch
- C&I Partners
- Dresdner
- AON
- Rho Management
- CSFB
- Ulysses Partners
- Fort Wash. Private Equity
- Morgan Stanley
- First Union Investors

4.) Guests

Enron

- Jeff Skilling

TNPC

- Gene Lockhart
- Bill Jacobs
- Will Byers

LJM Rationale

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LJM Rationale

- Fund created and managed by the CFO of Enron – Andrew S. Fastow
- Focused on acquiring energy and communications assets primarily owned by Enron

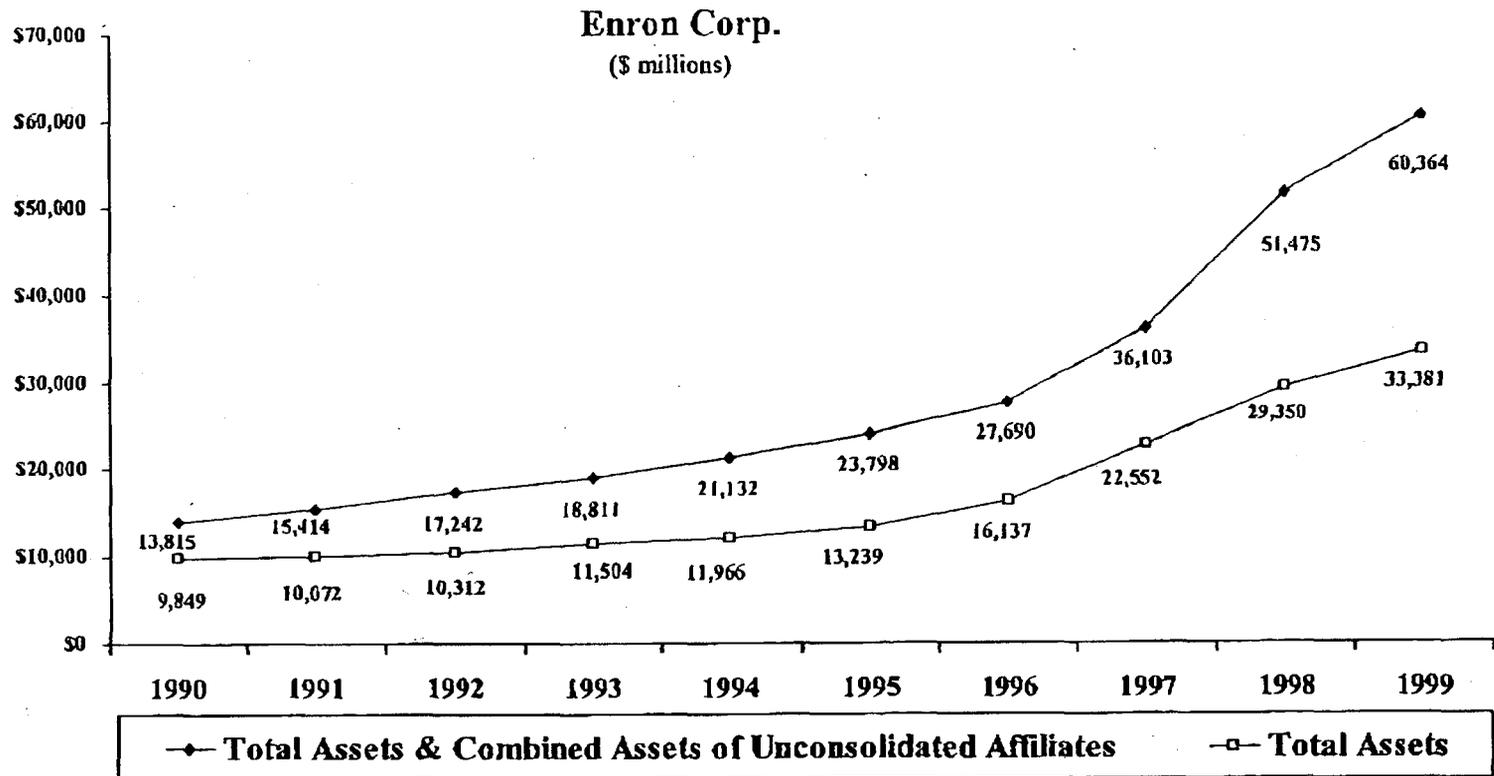
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LJM Rationale: Why does Enron need private equity?

- Energy and communications assets typically do not generate earnings or cash flow within the first 1-3 years
 - Investments are dilutive to Enron's current EPS
 - Investments are dilutive to credit rating ratios
 - Solutions
 - Enron must deconsolidate assets
 - Enron must create structures which accelerate projected earnings and cash flows
- This leads to opportunities for LJM

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LJM Rationale: Why does Enron need private equity?



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LJM Rationale: Why does Enron need private equity?

- Additional applications of private equity have been developed
 - Risk management
 - Nature of earnings
 - Earnings generation

LJM Strategy

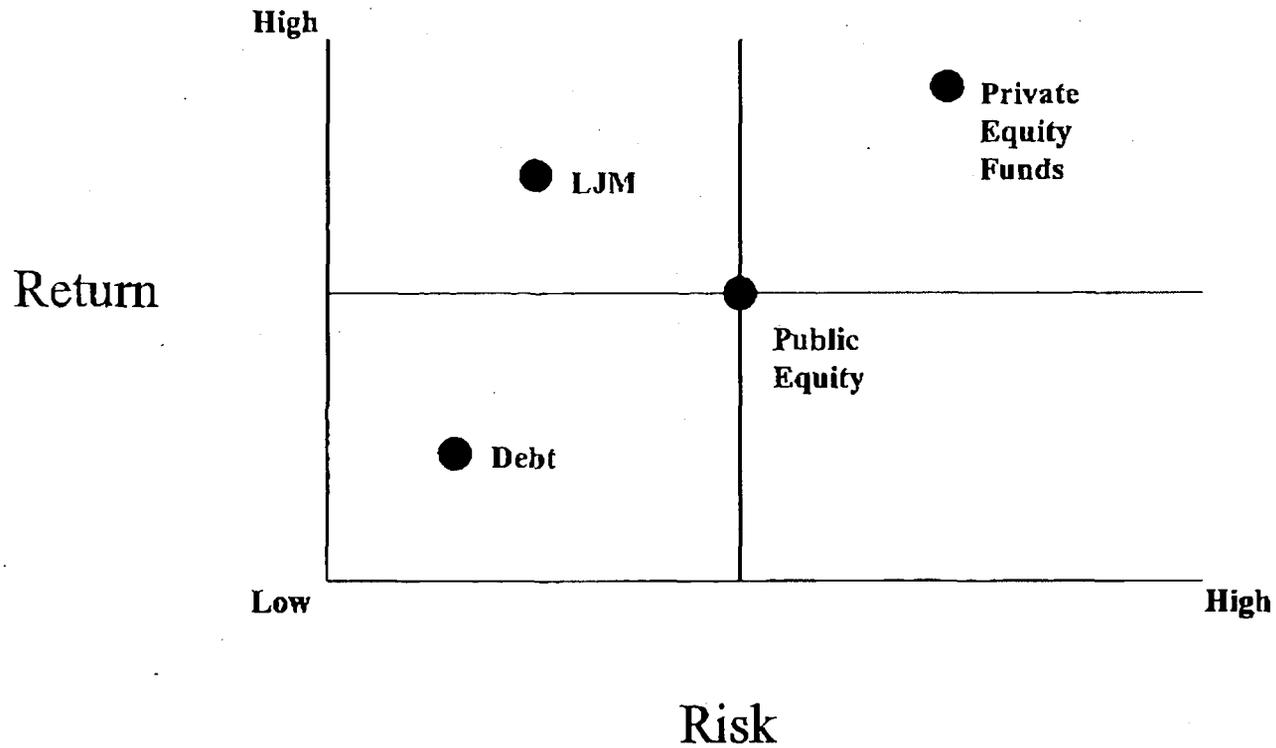
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LJM Strategy: Overview

- Maximize risk-adjusted spread over nominal return
- Provide services in addition to capital
- Create proper incentives for sponsor
- Ensure multiple exits

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LJM Strategy: Maximize risk-adjusted spread



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LJM Strategy: Provide services in addition to capital

- LJM offers a different product than traditional equity providers
 - Speed
 - Certainty of execution
 - Structured equity capability
 - Confidentiality
 - Knowledge of company's objectives and reliability
 - Ability to play GP role

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LJM Strategy: Create proper incentives for sponsor

- Sponsor typically retains an ongoing economic interest in investment
- Sponsor typically benefits by assisting LJM in liquidation of investment

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LJM Strategy: Multiple exit routes

- Self – liquidating
- “Effective” put
- Sale
- Securitization

Activity Summary

LJM2 Co-Investment, L.P.

Activity Summary: Closing

- First close on December 22, 1999
- Final close on April 5, 2000
- Total capital commitments of \$394 million
 - 42% financial institutions and insurance companies (Rated A- or higher)
 - 36% individual investors and private equity funds
 - 22% pension funds

LJM2 Co-Investment, L.P.

Activity Summary: Overview

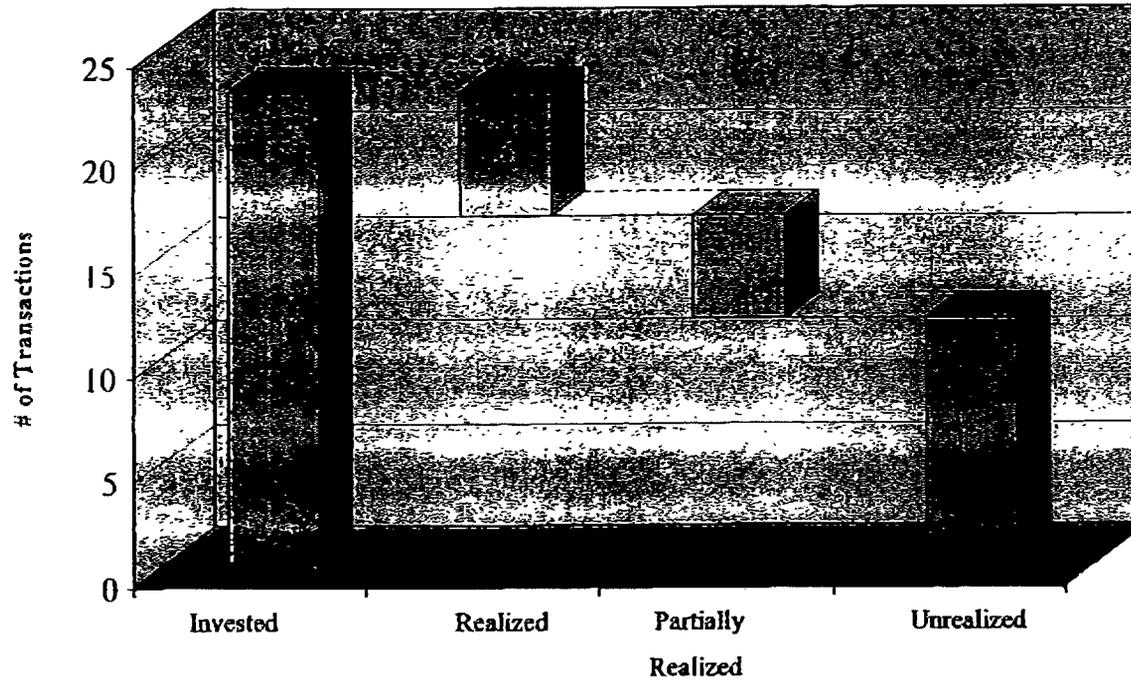
- 23 investments have been made
- \$511 million committed to investments / \$438 million invested
- 6 investments liquidated on schedule at target returns (\$108 million)
- 5 investments partially realized (\$123 million)
- \$245 million of Partners' capital has been funded
- \$135 million of debt used for investments
- Projected Net Limited Partner IRR* – 69% Cash multiple – 2.3X

*See Valuation: Key model assumptions slide

LJM2 Co-Investment, L.P.

Activity Summary: Investments

Investment Activity



LJM2 Co-Investment, L.P.

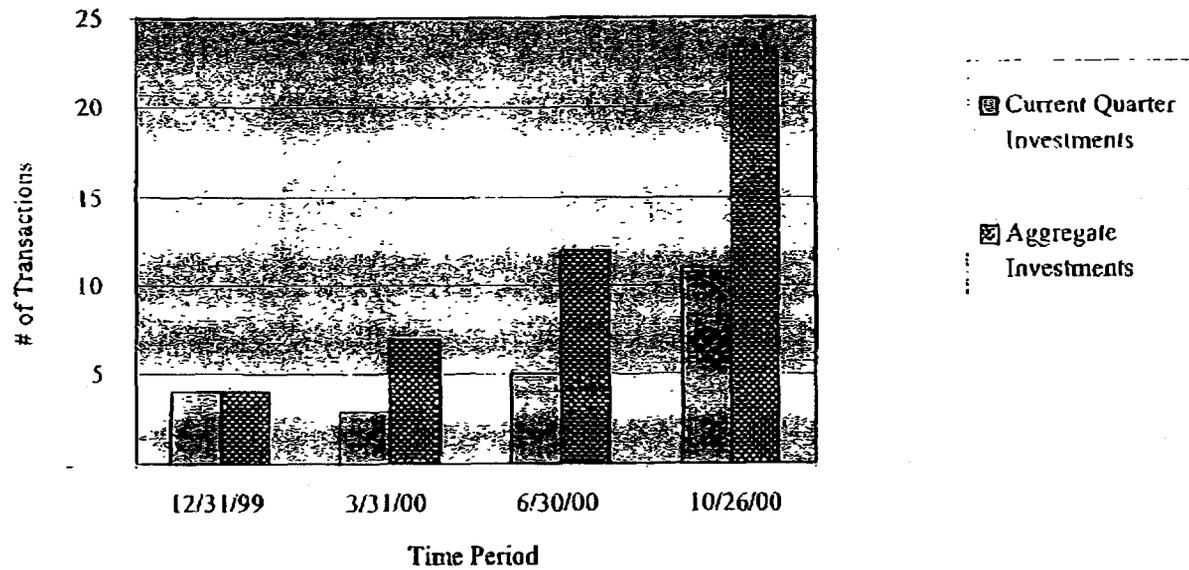
Activity Summary: Investments

Asset	Investment Date	Amount Invested	Asset Outlook (+/0/-)	Cash Received to Date	Current IRR	Projected Cash Multiple	Current Projected IRR
Unrealized Investments							
Subordinated Debt							
ENA CLO Trust I - Debt	22-Dec-99	19,600,000	0		-100%	1.85	14%
Total Debt		19,600,000					
Equity							
Backbone	30-Jun-00	29,990,763	0		-100%	1.18	18%
ENA CLO Trust I - Equity	22-Dec-99	12,900,000	0		-100%	3.10	32%
First Union CLO	29-Sep-00	25,200,000	0		-100%	2.42	24%
Marquax	12-Jul-00	10,000,000	0		-100%	1.84	16%
Osprey	12-Jul-00	26,000,000	0		-100%	1.53	20%
Osprey 2	11-Sep-00	6,500,000	0		-100%	3.10	75%
Raptor I-A	19-Sep-00	6,000,000	0		-100%	1.42	12.5%
Raptor II-A	13-Oct-00	1,100,000	0		-100%	1.41	12.5%
Raptor IV	21-Sep-00	30,000,000	0		-100%	2.37	125%
Resco	6-Jan-00	673,200	0		-100%	1.32	25%
TNPC	12-Jul-00	38,000,000	0		-100%	1.89	133%
Zenith	8-Aug-00	21,000,000	0		-100%	1.85	21%
Total Equity		207,363,963					
Total Unrealized Investments		226,963,963					
Partially Realized Investments							
GE 7EA Turbines	12-May-00	8,226,975	0	846,378	-100%	1.09	40%
Raptor	4-May-00	29,500,000	0	40,366,667	156%	2.37	193%
Raptor II	6-Jul-00	30,000,000	0	41,050,000	248%	2.37	278%
Raptor III	28-Sep-00	30,000,000	0	39,550,000	2500%	2.32	2500%
Rawhide	28-Mar-00	12,500,000	0	830,730	-100%	1.52	18%
Total Partially Realized Investments		110,226,975		122,643,775			
Realized Investments							
Bargeco	29-Jun-00	7,525,000		8,235,000	30%	1.09	
Bob West Treasure	29-Dec-99	2,953,125	n/a	3,246,649	21%	1.10	
Coyote Springs	7-Jul-00	-	n/a	3,557,000	-	-	
Pluto	29-Dec-99	26,313,610	n/a	26,794,115	8%	1.02	
Poland	22-Dec-99	30,000,000	n/a	32,641,500	41%	1.09	
Yosemite****	28-Feb-00	33,750,000	n/a	33,850,000	194%	1.003	
Total Realized		100,541,735		108,324,264			
Total Invested		437,732,673					
Total Portfolio IRR							51%

LJM2 Co-Investment, L.P.

Activity Summary: Investments

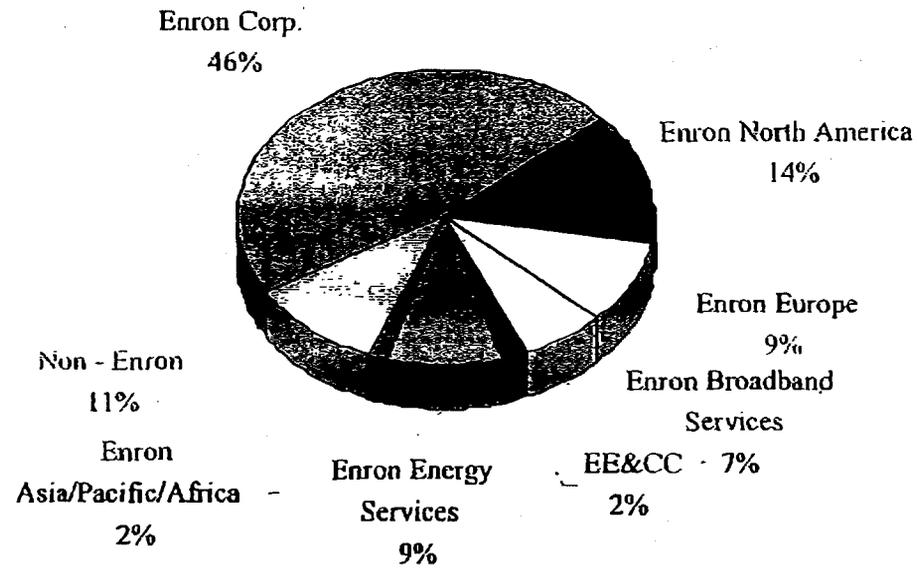
LJM2 Deal Flow



LJM2 Co-Investment, L.P.

Activity Summary: Portfolio

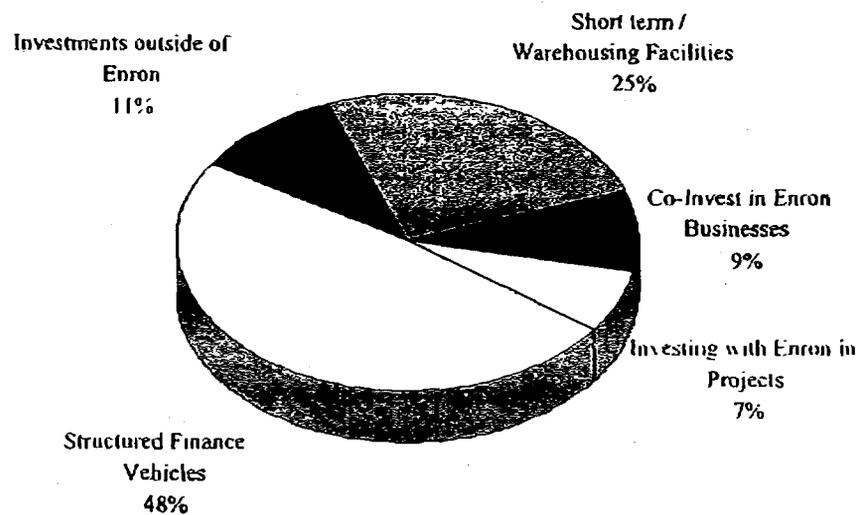
Transaction Counterparty



LJM2 Co-Investment, L.P.

Activity Summary: Portfolio

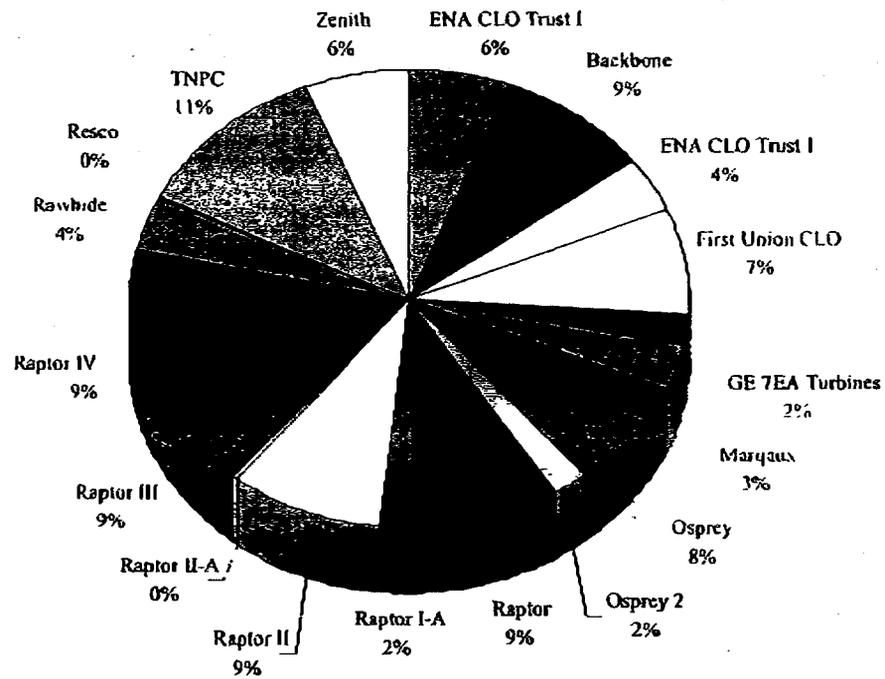
Investment Portfolio (by Type)



LJM2 Co-Investment, L.P.

Activity Summary: Portfolio

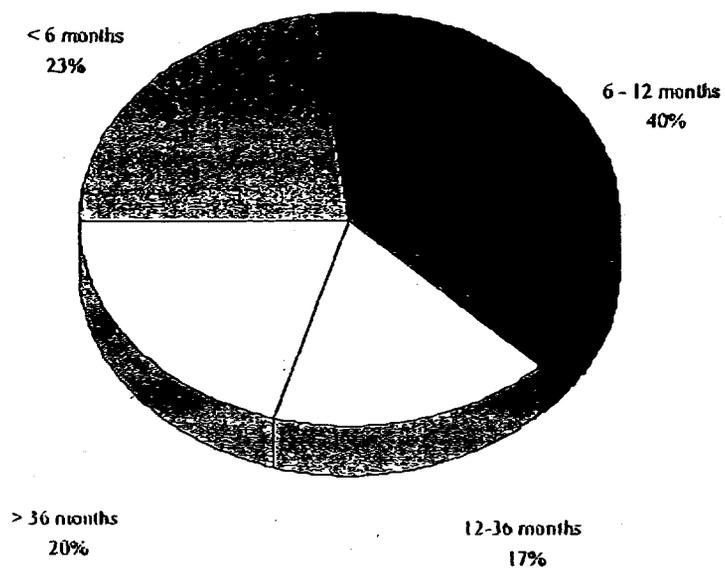
Investment Portfolio (by asset)



LJM2 Co-Investment, L.P.

Activity Summary: Cash flows

Transaction Length



63% of LJM's investments are projected to pay out in less than one year

LJM2 Co-Investment, L.P.

Activity Summary: Cash flows

	CLO-Debt	Backbone	CLO-Eq.	First Union	GE-Turb.	Marqaux	Osprey	Osprey 2
12/31/99	(19,600,000)	-	(12,900,000)	-	-	-	-	-
3/31/00	-	-	-	-	-	-	-	-
6/30/00	-	(29,990,763)	-	-	(3,006,422)	-	-	-
9/30/00	-	-	-	-	(4,400,475)	(10,000,000)	(26,000,000)	-
12/31/00	-	-	1,296,603	(25,200,000)	8,326,975	450,000	-	(6,500,000)
3/31/01	2,861,466	-	1,233,307	552,832	-	-	1,657,500	414,375
6/30/01	-	35,389,100	-	1,335,990	-	600,000	-	-
9/30/01	1,392,580	-	1,260,668	1,381,846	-	-	1,657,500	828,750
12/31/01	-	-	-	1,640,130	-	600,000	-	-
3/31/02	1,392,580	-	2,599,150	1,591,359	-	-	1,657,500	828,750
6/30/02	-	-	-	1,611,779	-	1,066,667	-	-
9/30/02	1,392,580	-	2,254,686	1,633,661	-	-	1,657,500	828,750
12/31/02	-	-	-	1,632,259	-	1,066,667	-	-
3/31/03	1,392,580	-	2,431,131	1,586,804	-	-	33,099,273	16,398,372
6/30/03	-	-	-	1,607,756	-	766,667	-	-
9/30/03	1,392,580	-	2,296,841	1,628,742	-	-	-	-
12/31/03	-	-	-	1,627,715	-	766,667	-	-
3/31/04	1,392,580	-	2,420,769	1,604,704	-	-	-	-
6/30/04	-	-	-	1,604,406	-	766,667	-	-
9/30/04	1,392,580	-	2,011,623	1,626,117	-	-	-	-
12/31/04	-	-	-	1,625,718	-	766,667	-	-
3/31/05	1,392,580	-	1,837,535	1,550,860	-	-	-	-
6/30/05	-	-	-	1,561,573	-	766,667	-	-
9/30/05	1,392,580	-	1,345,985	1,586,127	-	-	-	-
12/31/05	20,767,478	-	19,026,735	24,659,058	-	10,782,456	-	-
Total Profits	16,562,164	5,398,337	27,115,033	28,449,435	920,078	8,399,122	13,729,273	12,798,997
IRR	14%	18%	32%	24%	40%	16%	21%	72%
Cash X*	1.85	1.18	3.10	2.13	1.09	1.84	1.53	2.97

*Equals (profit+invested capital)/invested capital

Bold cash flows have been realized

LJM2 Co-Investment, L.P.

Activity Summary: Cash flows

	Raptor	Raptor I-A	Raptor II	Raptor II-A	Raptor III	Raptor IV	Rawhide	Resco	TNPCC	Zenith
12/31/99	-	-	-	-	-	-	-	-	-	-
3/31/00	-	-	-	-	-	-	(12,883,717)	(673,200)	-	-
6/30/00	(29,450,000)	-	-	-	-	-	410,803	-	-	-
9/30/00	40,316,667	(6,000,000)	(29,950,000)	-	(29,950,000)	(29,950,000)	419,927	-	(38,000,000)	(21,000,000)
12/31/00	-	-	41,000,000	(1,100,000)	39,500,000	-	421,875	-	-	1,700,000
3/31/01	-	-	-	-	-	41,000,000	421,875	-	-	-
6/30/01	-	-	-	-	-	-	421,875	889,098	71,649,000	-
9/30/01	-	-	-	-	-	-	421,875	-	-	-
12/31/01	-	-	-	-	-	-	421,875	-	-	3,400,000
3/31/02	-	-	-	-	-	-	421,875	-	-	-
6/30/02	-	-	-	-	-	-	421,875	-	-	-
9/30/02	-	-	-	-	-	-	421,875	-	-	-
12/31/02	-	-	-	-	-	-	421,875	-	-	3,400,000
3/31/03	-	-	-	-	-	-	14,927,467	-	-	-
6/30/03	29,500,000	-	30,000,000	-	-	-	-	-	-	-
9/30/03	-	8,542,969	-	1,550,621	30,000,000	30,000,000	-	-	-	-
12/31/03	-	-	-	-	-	-	-	-	-	3,400,000
3/31/04	-	-	-	-	-	-	-	-	-	-
6/30/04	-	-	-	-	-	-	-	-	-	26,914,286
9/30/04	-	-	-	-	-	-	-	-	-	-
12/31/04	-	-	-	-	-	-	-	-	-	-
3/31/05	-	-	-	-	-	-	-	-	-	-
6/30/05	-	-	-	-	-	-	-	-	-	-
9/30/05	-	-	-	-	-	-	-	-	-	-
12/31/05	-	-	-	-	-	-	-	-	-	-
Total Profits	40,366,667	2,542,969	41,050,000	450,621	39,550,000	41,050,000	6,671,355	215,898	33,649,000	17,814,286
IRR	193%	12%	278%	12%	2503%	125%	18%	25%	133%	21%
Cash X*	2.37	1.42	2.37	1.41	2.32	2.37	1.52	1.32	1.89	1.85

*Equals (profit+invested capital)/invested capital

Bold cash flows have been realized

LJM2 Co-Investment, L.P.

Activity Summary: Cash flows

	Divested	Bargeco	Bob West	Coyote	Pluto	Poland	Yosemite	Total
12/31/99		-	(2,953,125)	-	(26,313,610)	(29,250,000)	-	(91,016,735)
3/31/00		-	-	-	26,794,115	31,891,502	100,000	45,228,700
6/30/00		(7,525,000)	3,246,649	-	-	-	-	(66,314,733)
9/30/00		-	-	3,557,000	-	-	-	(150,956,881)
12/31/00		8,205,000	-	-	-	-	-	68,100,453
3/31/01		-	-	-	-	-	-	48,141,354
6/30/01		-	-	-	-	-	-	110,285,064
9/30/01		-	-	-	-	-	-	6,943,219
12/31/01		-	-	-	-	-	-	6,062,005
3/31/02		-	-	-	-	-	-	8,491,214
6/30/02		-	-	-	-	-	-	3,100,320
9/30/02		-	-	-	-	-	-	8,189,052
12/31/02		-	-	-	-	-	-	6,520,801
3/31/03		-	-	-	-	-	-	69,835,627
6/30/03		-	-	-	-	-	-	61,874,422
9/30/03		-	-	-	-	-	-	75,411,753
12/31/03		-	-	-	-	-	-	5,794,381
3/31/04		-	-	-	-	-	-	5,418,053
6/30/04		-	-	-	-	-	-	29,285,358
9/30/04		-	-	-	-	-	-	5,030,320
12/31/04		-	-	-	-	-	-	2,392,384
3/31/05		-	-	-	-	-	-	4,780,975
6/30/05		-	-	-	-	-	-	2,328,240
9/30/05		-	-	-	-	-	-	4,324,692
12/31/05		-	-	-	-	-	-	75,235,727
Total Profits	680,000	293,524	3,557,000	480,505	2,641,502	100,000	344,485,767	
IRR	29%	21%	INF	8%	41%	INF	51%	
Cash X*	1.09	1.10	INF	1.02	1.09	INF		

*Equals (profit+invested capital)/invested capital

Bold cash flows have been realized

LJM2 Co-Investment, L.P.

Activity Summary: LP Capital Calls and Disbursements

	<u>Capital Calls</u>	<u>Distributions</u>
Drawn Capital by Final Close	\$ 19,027,446	
June 26 Capital Call	\$ 92,565,093	
June 29 Capital Call	\$ 72,835,848	
Sept. 19 Capital Call	\$ 37,620,037	
Oct. 11 Capital Call	\$ 21,285,021	
<hr/>		
Oct. 26 Drawn Level	\$243,333,445	
Oct. 31 Scheduled Distribution		\$ 97,376,617

Valuation

LJM2 Co-Investment, L.P.

Valuation: Overview

- Current portfolio of investments projected to yield IRR = 51%
- Leverage at LJM2 projected to increase yield to IRR = 69%
- Projected average life of investments = 2.25 years
- Cash multiple projected = 2.3X

LJM2 Co-Investment, L.P.

Valuation: Projected Profits

LJM2 Valuations

(as of 10/22/00)

	# Transactions	Invested (\$)	Realized Proceeds (\$)	Remaining Value** (\$)	Total Value (\$)	Total Profits (\$)
Realized	6	100,541,735	108,324,264	-	108,324,264	7,782,529
Partially Realized	5	110,226,975	122,643,775	117,660,042	240,303,817	122,643,775
Unrealized	12	226,963,963	-	441,023,426	441,023,426	214,059,463
Total	23	437,732,673	230,968,039	558,683,468	789,651,507	344,485,767

*Raptor I,II,III, Rawhide, GE/EE&CC Turbines

**Expected Future Cash Flows

LJM2 Co-Investment, L.P.

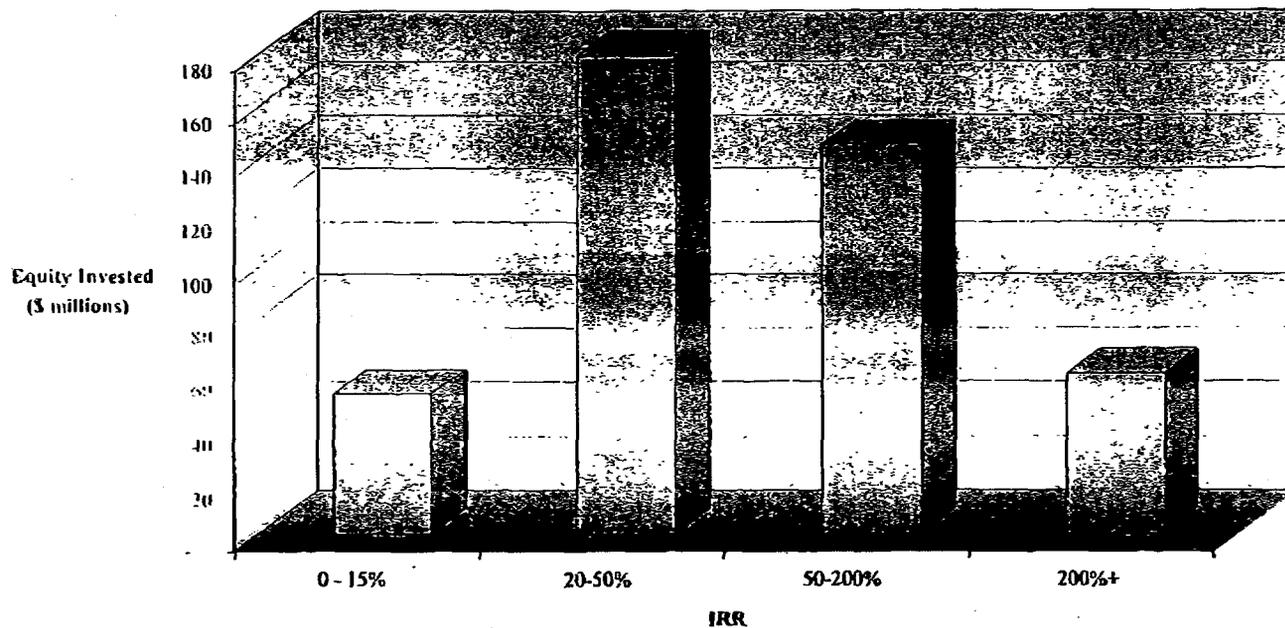
Valuation: Key model assumptions

- Key investment assumptions impacting LJM2 projected return:
 - Osprey structure assumes a 15% growth in Enron stock to 1/15/03
 - The model assumes a full recovery of the capital invested in all Raptor structures based on the overcollateralization displayed in Raptor Daily Position Reports
 - TNPC assumes liquidation 6 months after IPO at \$21 per share
- Debt level of \$120 million
- Available debt invested (\$50 million) at expected portfolio return for the length of the commitment period

LJM2 Co-Investment, L.P.

Valuation: Return distribution

LJM Projected Investment Performance



Overall projected asset IRR of 51%

LJM2 Co-Investment, L.P.

Valuation: Leverage facilities

- LJM2 currently has two credit facilities
 - \$65 million revolver from Chase
 - \$14.1 million from SE Acquisition, L.P. (Enron affiliate)
- The Chase revolver is fully drawn
- All outstanding debt will be repaid by the new \$120 million credit facility expected to close November, 2000
- Assuming the \$120 million credit facility is fully drawn and invested at the current projected IRR, then the projected 51% asset IRR translates into a 69% net IRR to the LPs

Sample Investments

LJM2 Co-Investment, L.P.

Sample Investments: Raptor I

- Raptor is a structured finance vehicle, capitalized with an Enron stock derivative and LJM equity, that will enter into derivative transactions with Enron related to investments in Enron's merchant investment portfolio
- Raptor helps Enron manage the impact of the price volatility of its merchant investment portfolio on its income statement
- Major risk to LJM is that Enron stock price drops below \$48.00 per share (43% decline) six months after closing
- LJM's return is projected to be 84%
- LJM used for speed, flexibility, complexity of transaction, and confidentiality

LJM2 Co-Investment, L.P.

Sample Investments: Osprey

- Osprey is a partner in an investment vehicle that purchases merchant assets from Enron; it is capitalized with 50 million shares of Enron stock + assets + equity, including \$26 million from LJM
- This structure created a synthetic multibillion dollar balance sheet for Enron to deconsolidate assets and to generate funds flow
- Major risk to LJM is a decrease in Enron stock price below \$47.00 per share coupled with a deterioration of asset values to zero
- LJM's return is 12.75% on the certificates with limited upside potential LJM anticipates securitizing this asset along with similar portfolio assets in order to enhance Partners' returns
- LJM used for structured finance expertise and speed

LJM2 Co-Investment, L.P.

Sample Investments: Osprey Capitalization

\$ 4.1 billion Enron stock

+ \$ 2.4 billion cash and Enron merchant assets

\$ 6.5 billion total assets

- \$ 2.4 billion debt

\$ 4.1 billion available to cover equity

÷ \$ 220 million of equity

= 19 X coverage

LJM2 Co-Investment, L.P.

Sample Investments: TNPC

\$ 10.75	2nd Round Private Placement (LJM's cost basis per share)
\$ 21.00	IPO price
\$ 28.50	Opening trading price - 10/5/00
\$ 19.31	Current Price - 10/24/00
\$ 21.00	Expected case in model
133%	IRR at expected case when lock-up expires
1.9X	Cash multiple for expected case when lock-up expires

Other Issues

Summary

LJM2 Co-Investment, L.P.

Summary

- As expected
 - Types of transactions
 - Strategic importance to Enron
 - Velocity (quick conversion to cash)
 - Rates of return
 - Use of leverage
- Not as expected
 - Higher level of deal flow
 - Greater ability to manage risk
 - More “permanent” investments