

# ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

**DEAL NAME:** Nigeria Power Holding Ltd.  
**divestiture**  
**Counterparty:** The AES Corporation  
**Business Unit:** APACHI  
**Business Unit Originator:** Sean Long/Keith Sparks  
☐Public ☒Private  
☐Merchant ☒Strategic  
☒Conforming ☐Nonconforming

**Date DASH Completed:** November 1, 2000  
**RAC Analyst/Underwriter:** N/A / Michael Tribolet  
**Investment Type:** Divestiture  
**Capital Funding Source(s):**  
**Expected Closing Date:** October 4, 2000  
**Expected Funding Date:** October 4, 2000  
**Board Approval:** ☐Pending ☐Received ☐Denied ☐N/A

**RAC Recommendation:** ☒Proceed with Transaction ☐Returns below Capital Price ☐Do not Proceed

## APPROVAL AMOUNT REQUESTED

Divestiture of projects up to \$127,230,000\*

\*Total cash

## EXPOSURE SUMMARY

This transaction, cancel existing exposure (\$ 142,160,000)  
Existing exposure approved \$ 142,160,000  
Total \$ 0

**GOVERNMENT  
EXHIBIT**  
**24606**  
Crim No. H 04-0025

## TRANSACTION SUMMARY

This DASH proposes approval of: 1) a staged sale of all of Enron APACHI's interests in Nigeria to AES and 2) a related guaranty (up to \$180 million) to the seller to secure our subsidiary's obligations under the Purchase and Sale Agreement.

The following APACHI assets will be sold contingent upon satisfaction of conditions precedent:

- 1) 95% Interest in Enron Nigeria Barge Ltd. which owns rights to a 270 MW barge mounted IPP project in the State of Lagos. This sale would occur in two stages. At closing, AES will own 30% of Nigeria Barge Ltd. AES will then have the option to purchase Enron's remaining 65% interest in this entity upon completion of their further due diligence and subject to certain conditions, Enron has the right to put the interest to AES.
- 2) Enron's 60% share in a 548 MW gas fired, simple cycle, combustion turbine Power Plant development project.
- 3) Enron's 70% share in an option to build a 240 km pipeline to supply the gas fired power plant, described above.

Event	Expected Date	Net Cash to Enron	Enron's Current Basis	Gain on Sale
<u>Divestiture:</u>				
Divestiture of 30% of Enron Nigeria Barge Ltd.	10/4/00	\$8,785,000	\$6,802,147	\$1,982,853
<u>Contingent Divestitures:</u>				
Sale of Remaining 65% of Enron Nigeria Barge Ltd.	Q4, 2000	\$81,013,566	\$64,069,823	\$16,943,743
Amended PPA Signing for 548 MW project	2001	\$7,500,000	\$2,000,000	\$5,500,000
Earlier of Financial Close and start of Construction of 548 MW project	2001	\$28,875,094	\$0	\$28,875,094
<b>TOTALS FOR ALL SALES (including all Contingent Divestitures):</b>		<b>\$126,173,660</b>	<b>\$72,871,970</b>	<b>\$53,301,690</b>

EC004403419

## DEAL DESCRIPTION

Enron APACHI has entered into an amended and restated Barge Power Purchase Agreement ("Barge PPA") between Enron Nigeria Power Holding Ltd. ("Enron Nigeria"), Enron Nigeria Barge Ltd. and various Nigerian federal and state governments and the national power company (see Nigeria Barge II Dash). The capital committed by Enron for this Barge PPA, including a value of \$49.7 million for seven power barges and \$7.0 million for two gas fired combustion turbines currently owned by

## RAC Deal Approval Sheet

**Deal Name: Nigeria Power Holding Ltd. sale**

Enron, is \$142.2 million. The original PPA, that was amended, was for 90MW with a term of three years and was signed on December 6<sup>th</sup>, 1999. The Barge PPA (approved by Enron's Board of Directors) covers the construction and operation of 270 MW of barge-mounted, gas-fired generation facilities for a term of 13 years, 3 months ("Barge Project"). The Barge Project is supported by a letter of credit of \$60 million. Enron Engineering and Construction Company ("EE&CC") has entered into an Engineering, Procurement and Construction Contract ("EPC Contract") with Enron Nigeria Barge Ltd. which includes the construction of onshore facilities, the refurbishment, reconditioning and conversion (frequency and fuel) of 7 existing liquid fuel fired barge mounted, combustion turbines, the construction of two power barges using combustion turbines purchased from Enron North America and associated performance guarantees (290MW).

In addition to the Barge PPA, Enron Nigeria is scheduled to sign an amended IPP Power Purchase Agreement ("IPP PPA"), within the month, with the same counterparties. The IPP PPA covers the construction and operation of a gas fired, simple cycle, combustion turbine Power Plant, with a nominal capacity of 548MW for a term of 20 years ("IPP Project"). The IPP Project will be supported by an additional letter of credit. In addition to the Barge Project and IPP Project, the PPA dated December 6, 1999, includes the right for Enron Nigeria to build a 240 km Pipeline to supply gas to the power plant ("Pipeline Project").

On December 29, 1999, Enron Nigeria Barge Holding Ltd., a wholly owned subsidiary of Enron Nigeria Power Holding Ltd., sold approximately 35% of the cash flows (value at time of transaction) in Enron Nigeria Barge Ltd. to Ebarge, a wholly owned subsidiary of Merrill Lynch, for \$28.0 Million. This purchase price, which entitled Ebarge to a tranche of Preferred Shares and Common Shares, was funded with 25% equity (Merrill Lynch) and 75% seller-financed debt (Enron Nigeria Power Holding Ltd.). Enron APACHI recognized \$12.5 million of pre-tax earnings in 1999 with this transaction. In June of 2000, LJM2 purchased the shares of Ebarge from Merrill Lynch. To this date, the loan between Ebarge and Enron Nigeria Power Holding Ltd. (\$21.0 million principal) has accrued \$2.0 million in interest due to Enron Nigeria Power Holding Ltd..

On October 4, 2000, Enron APACHI, Enron Nigeria Barge Holding Ltd., Ebarge, Yinka Folawiyo Power (YFP) and AES Corp. (AES), entered into a transaction for the purchase and sale to AES of 100% of the shares owned by Ebarge (now the cash flows are valued at approximately 19% of Enron Nigeria Barge Ltd.), and enter into a second Share Purchase Agreement with Enron APACHI for 100% of Enron Nigeria Power Holding Ltd. (holder of interests in Barge, IPP and Pipeline Projects) ("Transaction"). This transaction: 1) eliminated LJM2 Ebarge as the shareholder of Enron Nigeria Barge Ltd, 2) significantly reduced Enron Corp.'s exposure in Nigeria by way of equity syndication, and 3) generated cash flow and earnings in the 3<sup>rd</sup> quarter of 2000 through 2001. Exhibit II outlines the current and "new" ownership structures.

As stipulated in the Share Purchase agreement between Enron APACHI, Enron Nigeria Power Holding Ltd., and AES, two transactions will occur:

- 1- Purchase of 95% interest in Enron Nigeria Barge Ltd. and
- 2- Purchase of 100% interest in Enron Nigeria Power Holding Ltd.

The sale of equity encompasses a portion of YF Power's interest in the Project Companies.

### 1- Purchase of 95% Interest in Enron Nigeria Barge Ltd.

The purchase of a 95% interest in Enron Nigeria Barge Ltd., will be consummated with two payments. The first installment will take place October 4, 2000. A payment of \$41.0 million was charged to AES in exchange for a 30% ownership in Enron Nigeria Barge Ltd. To achieve this, AES will enter into a Share Purchase Agreement with Ebarge (through LJM) which initiates the sale and purchase of 100% of Ebarge's shares in Enron Nigeria Barge Ltd. (Preferred A shares and Common) at a price of \$31.6 million. \$8.6 million of this acquisition price returns to LJM (through Ebarge). The remaining \$23.0 million is transferred to Enron Nigeria Power Holding Ltd., on behalf of Ebarge, for repayment of interest and principal for the seller finance loan. Subsequently, as agreed upon in the second Share Purchase Agreement between AES, Enron Nigeria Barge Holding Ltd. and Enron APACHI, the Preferred A shares newly acquired by AES from Ebarge, and the Preferred B Shares of Enron will be retired. The ordinary shares will be re-classified and new ordinary common shares issued to Enron, as agreed in the Enron Nigeria Barge Ltd.'s shareholders agreement. AES will own 30% of the ordinary shares after the restructuring and paying Enron Nigeria Barge Holding Ltd. a promote fee of \$9.785 million (of which \$1 million is paid to YFP) to purchase the additional 11% interest in Nigeria Barge Ltd..

The second installment which will increase AES' ownership in Enron Nigeria Barge Ltd. to 95% will occur upon satisfaction of the condition precedent related to the barge company transaction in the Share Purchase Agreement. There must be a reasonable likelihood of AES being well received by all parties related to the Power Purchase Agreements in Nigeria. When such an event takes place AES will pay to Enron Nigeria Barge Holding Ltd. the promote balance due and all of Enron's costs up to the transfer of shares. At this point Enron Nigeria Barge Holding Ltd. will have no interest in Enron Nigeria Barge Ltd.

**RAC Deal Approval Sheet****Deal Name: Nigeria Power Holding Ltd. sale**

and AES and YFP will be the sole shareholders (95%/5% respectively). For Enron Nigeria Barge Holding Ltd. to sell 95% of the interest in Enron Nigeria Barge Company it must pay YFP for the option rights to 35% of a total 40% interest. This option expires December 15, 2000. This DASH grants approval to extend this option until June 30, 2001.

<u>September 29, 2000</u>	
AES Payment for 30% Ownership	\$41,000,000
Less: Purchase Price to Ebarge	(\$31,600,000)
Less: Payment to YFP	(\$1,000,000)
Proceeds to Enron Nigeria Barge Holding Ltd.	\$8,400,000
Plus: Loan and Interest Paid to Enron Nigeria Power Holding Ltd.	\$23,000,000
<b>Cash to Enron at Sept. 29, 2000:</b>	<b>\$31,400,000</b>
Conclusion of Satisfactory Due Diligence by AES	\$43,794,684
Less: Payment to YFP	(\$22,912,257)
<b>Proceeds to Enron Nigeria Barge Holding Ltd. at Milestone</b>	<b>\$20,882,427</b>
<b>65% of Barge Turbine and capital cost</b>	<b>\$63,571,775</b>
<b>Cash to Enron for its Sale of 100% Interest in Enron Nigeria Barge Ltd.</b>	<b>\$115,854,202</b>

2- Purchase of 100% interest in Enron Nigeria Power Holding Ltd.

On October 4, 2000, in addition to acquiring up to 95% of Enron Nigeria Barge Ltd. through Ebarge and Enron Nigeria Barge Holding Ltd., AES has entered into a put-call option agreement with Enron APACHI (Share Purchase Agreement). This put-call expires December 15, 2000. This DASH grants approval to extend this put-call until June 30, 2001. Upon the occurrence of certain conditions outlined below, AES has the option to call 100% of Enron APACHI's shares in Enron Nigeria Power Holding Ltd. at a promote price plus the pro-rated share of costs, less payment to YFP. Similarly, Enron APACHI has the option to put the same shares to AES at the same promote price subject to certain conditions as outlined below. When the conditions precedent are met and payment is made, AES is left with full ownership of Enron Nigeria Power Holding Ltd. and interest in its subsidiaries. These interests include ownership in the following Nigerian Project Companies; 80% (20% from YFP Equity through Enron) of the IPP Company, and 70% of Pipeline Project. YFP and Enron Nigeria Power Holding Ltd. have entered into a Project Development Contract (PDC) with which gives YFP the option to a call 40% interest in Enron Nigeria Barge Ltd., a 40% equity stake in Enron Nigeria IPP Ltd., and a 30% equity stake in Enron Nigeria Pipeline Ltd..

AES will be required to pay the remaining proceeds (as designated as the strike price) for 100% of Enron Nigeria Power Holding Ltd. upon reaching certain milestones as specified in the Share Purchase Agreement. For each milestone a designated monetary amount will be transferred from AES to Enron APACHI. Share will be exchanged when the first payment from AES is made. A success fee will also be paid to Enron at the earlier of Financial Close and Start of Construction. The following schedule illustrates the sale of 100% of Enron Nigeria Power Holding Ltd.:

<u>Milestone / Condition Precedent</u>	<u>Estimated Timing</u>	<u>Payment to Enron</u>
<b>to Sale</b>		
Amended IPP PPA Signing	October 1, 2000	\$7,500,000
Earlier of Financial Close and Start of Construction of IPP	2001	\$26,875,094
<b>Cash to Enron (not including capitalized costs)</b>		<b>\$34,375,094</b>

**RAC Deal Approval Sheet**

Deal Name: Nigeria Power Holding Ltd. sale

**Strategic Rationale**

This transaction allows Enron to achieve many of its immediate goals including cash in-flow, earnings recognition and asset divestment. This structure permits either a partial or full divestiture of the Nigerian barge project at a profit, as well as a sale of the Enron's interest in the 548 MW IPP development project and related pipeline at a gain upon satisfaction of conditions precedent.

Enron will not be required to invest any additional capital to achieve the goals of this transaction. Due to the timing of the payments there is some Nigeria risk exposure, however it is lower, and potentially significantly lower than at present. All capital costs incurred before sell down will be recovered in full as the payments under the Share Purchase Agreement represent promote fees.

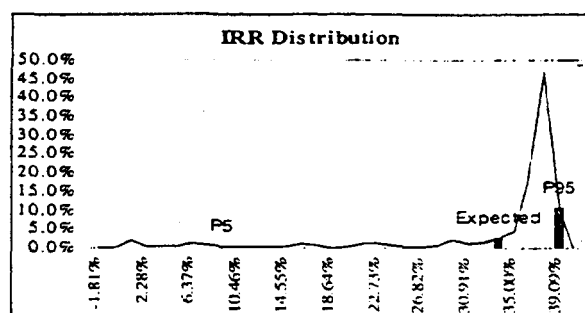
**TRANSACTION SOURCES AND USES OF FUNDS (000) (Assumes closure of all contingent transactions)**

	<u>Sources</u>		<u>Uses</u>
Sale of shares	\$127,230	Enron Corp advances	\$127,230
Total	\$127,230		\$127,230

**RETURN SUMMARY (existing 270 MW barge IPP)**

Probabilistic DCF by Component	Cumulative IRR	PV @ 29.5% Capital Price
Cash Outflows + Outstanding	NA	\$ (80,800)
Fees	-100.00%	\$ -
Ongoing Cash Flows	34.38%	\$ 94,247
Terminal Value	34.62%	\$ 917
Total	34.62%	\$ 14,365

Semivariance - +/- 0.358



Given the time frame for closing this transaction, RAC has not been given the time to rerun the probabilistic model on the existing 270 MW. RAC has not been presented models on the new 548 MW IPP, or a model on the pipeline.

The barges have been valued at their capitalized cost to Enron. The discount rate of 29.05% was based on a blending of Nigerian sovereign risk with partial benefit for the LC covered portion of the investment. The Nigerian sovereign spread over equivalent Treasuries was 32.55%, equivalent to a weak CCC- rated bond.

A CCC bond has an implied 44% likelihood of default exists over the contract life. Given the CCC- credit profile of the sovereign risk, the default risk is greater than 44%. The model assumes that upon default the LC is drawn and the barges are recovered and sold within a five-year time frame at 50% of book value.

Not including the time value of money, and if the two-step sale of the barge IPP project is completed, the 270 MW barge IPP will yield an accounting gain of \$25.42 million exceeds the \$14.37 million in NPV from the June, 2000 DASH. This assumes the option which AES holds for the second stage 65% total purchases is executed.

This return summary does not reflect any gain on sale of the 548 MW powerplant and related pipeline project. Upon satisfaction of conditions precedent, the gain on these sales is expected to be approximately \$10.9 million.

**TRANSACTION UPSIDES/OPTIONALITY**

N/A - Divestiture

**EXIT STRATEGY**

N/A

December 15, 2000 - Purchase of remaining 65% and execution of new PPA  
December 31, 2001 - Financial Close and start of Construction of 548 MW IPP

**RISK MATRIX (Maximum 5)**

DESCRIPTION	MITIGATION/COMMENTS
Credit Risk of Counterparty - payment of the on-going obligations from the AES Project Company	The AES Corporation will issue a corporate guaranty. They are rated BB/Bal.
Non-signing of amended IPP PPA	Negotiations have been completed and there are no outstanding issues. The signing is scheduled when Chairman of Nigeria Technical Board, Livel Imoke returns to Abuja.
Neither Financial Close or Start of Construction of IPP Project is met	ENE has sold down 30% of the Barge Project and a portion of the IPP. This covers most of ENE's exposure irrespective of final payment

**KEY SUCCESS FACTORS**


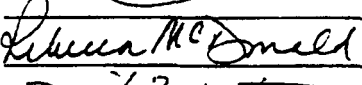
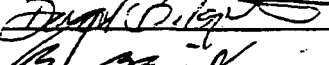

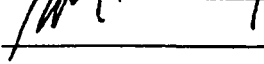
	NA	Poor	Fair	Good	Very Good	Excellent
Core Business				X		
Strategic Fit				X		
Upside Potential				X		
Management	X					
Risk Mitigation						X

**OTHER RAC COMMENTS:**

RAC has not been presented sufficient time to rerun the model on the 270 MW barge IPP project, nor were models presented on the 548 MW IPP and 240 km pipeline project. Thus, RAC's analysis is limited to an accounting analysis of undiscounted cash flows. The first transaction at closing, the sale of 30% of the barge IPP and recasting of the YFP option, yields a cash profit of \$1.98 million. Should AES complete its due diligence and gain additional commercial comfort, thereby executing their option to purchase the remaining 65%, APACHI would realize a \$16.94 million profit. While not taking into account the time value of consideration, completion of these two transactions could total \$18.92 million versus the \$14.37 million value RAC derived in June. This comparison does not take into account the offsetting value of the option AES will hold for the second-round 65% purchase.

The amended PPA signing is expected in early 2001, which would yield an additional \$5.5 million gain. Should the 548 MW IPP reach the earlier of financial close or start of construction, Enron stands to gain another \$28.88 million.


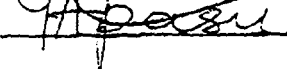
Despite the short period to analyze this transaction, RAC is supportive based on the reduction of the significant Nigerian country risk (which caused RAC to recommend not proceeding with the additional barge investment in June), the positive accounting earnings, and cash generated from this sale.

APPROVALS	Name	Signature	Date
Originator	Sean Long		1 Nov 2000
Legal	Yao Apasu		
Regional Management	Rebecca McDonald/Jim Hughes		11
RAC Management	Rick Buy/Dave Gorte		11 November 2000
Enron Global Finance	Andy Fastow/Ben Glisan		Nov 14, 2000
Office of the Chairman	Jeffrey Skilling/Joe Sutton		11/14/00

RAC Deal Approval Sheet

Deal Name: Nigeria Power Holding Ltd. sale

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## EXHIBIT I

## NIGERIA BARGE COMPANY VALUATION

GAIN CALCULATION

Total Basis (From Balance Sheet at Transaction)	63,955	
LJM Basis (From Balance Sheet at Transaction)	<u>15,324</u>	18.62%
Basis Enron Barge Holding	48,631	
Percent Allocated to Enron Barge Holding Shares		81%
Sold to AES		30.00%
Amount in E Barge		<u>18.62%</u>
Amount Allocated to "New Shares"		11.38%
NEW ENE BARGE HOLDING PERCENT:		70.00%
Percent of Enron Shares:		14.0%
Promote:		8,400
Basis		<u>6,802</u>
Gain:		<u>1,598</u>

**ENRON NIGERIA BARGE LIMITED**

BALANCE SHEET AS AT SEPTEMBER 29, 2000

	ESTIMATED	
	Sept. 29, 2000	Oct. 2000
<b>Assets:</b>	<u>Adj. Bal</u>	<u>Adj. Bal</u>
Fixed Assets - Barges	56,800,000.00	56,800,000.00
Capitalized Work In Place	7,154,757.23	41,002,730.03
Inv. In Subsidiary	0.00	0.00
Other Cur. Assets	0.00	0.00
A/R-Intercompany	0.00	0.00
N/R-Intercompany	0.00	0.00
<b>Liabilities</b>		
A/P-Intercompany	0.00	0.00
N/P-Intercompany	0.00	0.00
Other Cur. Liabilities	0.00	0.00
<b>Net Assets</b>	<b>63,954,757.23</b>	<b>97,802,730.03</b>
<b>Shareholder's Equity</b>		
AES Common	22,126,146.68	32,280,538.52
ENE Barge Hold. Common	41,828,610.55	60,632,055.01
YFP Common	0.00	4,890,136.50
Retained Earnings	0.00	0.00
<b>Total S/E</b>	<b>63,954,757.23</b>	<b>97,802,730.03</b>

33,847,972.80 (Additional CAPEX EQUITY)

## PRE-RESTRUCTURING

Common Stock	0.00
Preferred Stock	80,563.95
Additional PIC	48,550,193.28
Retained Earnings	0.00
Minority Interests	15,324,000.00

TOTAL S/E 63,954,757.23

Gain Calculation (BARGES 65% SALE)

Promote	\$20,882,427	
Proportion of Costs (65%)	<u>\$63,571,775</u>	(Barges/Turbines and Dev. Costs)
<b>Total Proceeds from Sale:</b>	<b>\$84,454,202</b>	
<b>Less: Basis (Enron Barge Holding Ltd.)</b>	<b><u>\$60,632,055</u></b>	
<b>GAIN ON SALE:</b>	<b>\$23,822,147</b>	

NOTE: Barges and Turbines are purchased at NO gain (at cost)



EXHIBIT II

