To: David B. Duncan
CC: Michael C. Odom@ANDERSEN WO; Richard Corgel@ANDERSEN WO; Gary B. Goolsby@ANDERSEN WO
BCC:
Date: 10/16/2001 08:39 PM
From: Nancy A. Temple
Subject: Re: Press Release draft
Attachments: ATT8ICIQ; 3rd qtr press release memo.doc

Dave -- Here are a few suggested comments for consideration.

-I recommend deleting reference to consultation with the legal group and deleting my name on the memo. Reference to the legal group consultation arguably is a waiver of attorney-client privileged advice and if my name is mentioned it increases the chances that I might be a witness, which I prefer to avoid.

-I suggested deleting some language that might suggest we have concluded the release is misleading.

-In light of the "non-recurring" characterization, the lack of any suggestion that this characterization is not in accordance with GAAP, and the lack of income statements in accordance with GAAP, I will consult further within the legal group as to whether we should do anything more to protect ourselves from potential Section 10A issues.

Nancy

To: Michael C. Odom@ANDERSEN WO, Richard Corgel@ANDERSEN WO, Nancy A. Temple@ANDERSEN WO, Gary B. Goolsby@ANDERSEN WO
cc:
Date: 10/16/2001 05:00 PM
From: David B. Duncan (Mailed by: Shannon D. Adlong)
Subject: Press Release draft

First draft of memo regarding press release discussion for your comments.

To: David B. Duncan @ ANDERSEN WO
CC: William E. Swanson @ ANDERSEN WO; Michael C. Odom @ ANDERSEN WO
BCC:
Date: 10/09/2001 02:06 PM
From: Mark B. Zajac
Subject: Re: FIDO Fraud Test Results- Enron Corporation
Attachments: ReferenceGuide.doc, Fido Fraud Tool Guidance Materials April 2001.doc, ENE.xls

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This is a follow-up to the previous communication included below. We were unable to compute a model score because of the lack of SG&A data. However, upon a further analysis, we determined that using a "neutral" value for SG&A would result in a red alert: a heightened risk of financial statement fraud. In other words, the values of the other indices shown in the attachment below are sufficient to generate a red alert. In this case, the particular values with the greatest impact are the Sales Growth Index and the Gross Margin Index.

I am calling this to your attention to ensure that an appropriate evaluation and resolution is made of these results. The guidance we provide with respect to red alerts is as follows:
Red Alert: All Red Alerts should be evaluated and resolved carefully since the risk of financial statement fraud is significantly heightened. A number of red alerts will be false alarms generated by legitimate business activities, so this alert does not necessarily mean that material fraud is present. However, it is imperative that you evaluate the results carefully and objectively before reaching any conclusion, because of the significant adverse impact of failing to detect a material financial statement fraud. Individual indices that are outside the normal ranges are highlighted in the attached Excel spreadsheet, an appropriate evaluation of these indices is required to determine whether the unusual index value is caused by legitimate or potentially fraudulent activities. In deciding whether fraud may be present, consider all the indices together as well as separately and consider fraud risk factors and indicators identified in your other audit work. You should discuss your resolution of Fido's indication of heightened fraud risk with the ABA Head and ABA Practice Director, either during one of the expanded consultation meetings or otherwise if more urgent. Copies of this message are being sent to the ABA Head and ABA Practice Director to facilitate timely communication, as appropriate, regarding this information.

Please advise if you have any questions or if I can be of further assistance.

---------- Forwarded by Mark B. Zajac on 10/09/2001 04:02 PM ----------

To: David B. Duncan @ ANDERSEN WO
cc: (bcc: Mark B. Zajac)
Date: 10/09/2001 03:59 PM
From: Richard W. Kreutzfeldt, Douglas J. Fullerton (Mailed by: Mark B. Zajac)
Subject: FIDO Fraud Test Results- Enron Corporation

Confidential -- For Internal Use Only

In accordance with AOP 2.3.3.6, the above company is required to have its financial statements tested using the "Fido" Financial Statement Fraud Risk Identification Tool. However, we have attempted to test the financial

statements of the above company and have determined that we can not run a Fido model score on your client at this time because your client does not meet the eligibility criteria for the following reason.

Selling, General and Administrative Expenses are not disclosed for period 6/00 - 6/01

Nonetheless, we are providing the results for each of the eight indices within the Fido tool that can be computed in the attached Excel file. Indices with values that were out of line from normal results, if any, have been highlighted in the Excel spreadsheet to assist you in ensuring that the underlying issue is understood and sufficiently addressed in our audit. These indices and other fraud risk indicators identified during your other work should not be disregarded merely because we could not generate a Fido model score.

You are welcome to provide the missing data needed to run a FIDO model score in the shaded cells of the spreadsheet file containing the FIDO index results. You can then forward the spreadsheet including the previously missing data to Mark B. Zajac. If you have any questions regarding the classification of input data (or any other issues), feel free to give Mark a call at (312) 931-3149. Please note if the missing data is D&A, COGS or SGA that as well as inputting the missing data you must correct the values for related accounts. For example, if D&A is the missing data, then the COGS and SGA accounts must be adjusted to reflect the D&A being removed from the amounts previously reported.

Every reasonable effort should be made to provide the missing data in order to generate a Fido model score. However, it is not required if it is not practical to prepare the missing data.

RUNNING FIDO ON CURRENT PERIOD DATA (OPTIONAL)
You may also wish to run a FIDO model score or indices on the preliminary data for the quarter ending 9/30/01 before completing your third quarter review. The spreadsheet file containing the FIDO results as of the end of the last quarter includes a column allowing you to input the more current quarter's data. You can then forward the spreadsheet including current quarter data to Mark B. Zajac. If you have any questions regarding the classification of input data (or any other issues), feel free to give Mark a call at (312) 931-3149. The FIDO model will be run based on the current quarter data and the results will be returned to you within two business days.

In addition to the Excel file containing the above company's detailed Fido results, we are attaching a copy of the Fido Guidance Material located in AOP 2.3.3.6 and a new Reference Guide. This Reference Guide identifies possible legitimate as well as fraudulent causes for variations identified by Fido and set out some possible procedures to determine the actual causes.

If you have questions about the model results or resolution procedures, contact Richard Kreutzfeldt, Doug Fullerton or Mark Zajac at the Risk Management Support Group in Chicago.

Project FIDO Historicals and Input Template fo ENRON CORP

ENE

ENRON CORP

Symbol: ENE | SIC Code: [illegible] | Latest Fiscal Year End: 12/00

Exchange: NYST | Industry: PETROLEUM/NATURAL GAS/WHSL | Latest Fiscal Year Reported Quarter: [illegible]

QUARTERLY INCOME STATEMENT ($Millions)	9/01	6/01	3/01	12/00	9/00	6/00	3/00	12/99	9/99
Total Revenues (Sales)		$50,080.0	$50,129.0	$40,[illegible]	[illegible]	$16,856.0	$13,149.0	$13,973.0	$11,835.0
Cost of Goods Sold (not incl. D&A)		$49,[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gross Margin		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SG&A Expenses (not incl. D&A)									
Depreciation & Amortization		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Operating Income		$342.0	$476.0	[illegible]	$342.0	$415.0	[illegible]	$220.0	$401.0
Interest Expense - Gross		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nonoperating Income (Expense)		[illegible]	$134.0	[illegible]	[illegible]	$203.0	$368.0	$262.0	$118.0
Special Items (non recurring)		$0.0	$0.0	$121.0	$0.0	$0.0	$0.0	$0.0	$1.0
Pretax Income		[illegible]	$496.0	$368.0	$419.0	$411.0	$463.0	$334.0	$333.0
Income Taxes - Total		$126.0	$170.0	$226.0	[illegible]	$64.0	[illegible]	$35.0	($14.0)
Net Income before Extraordinary Items		$406.0	$406.0	$601.0	[illegible]	$346.0	[illegible]	$299.0	$347.0
Extraordinary Items & Discontinued Operations		$0.0	$19.0	$[illegible]	$0.0	$0.0	$0.0	$0.0	$0.0
Net Income Post Extraordinary		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BALANCE SHEET ($Millions)	9/01	6/01	3/01	12/00	9/00	6/00	3/00	12/99	9/99
ASSETS									
Cash & Short Term Investments		[illegible]	$1,066.0	$1,174.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Receivables - Total		$12,581.0	$11,210.0	$12,270.0	$7,675.0	$6,269.0	$4,332.0	$3,248.0	$3,871.0
Inventories - Total		$793.0	$650.0	$953.0	$1,942.0	$571.0	$437.0	$598.0	$613.0
Current Assets - Other		$11,983.0	$10,321.0	$12,[illegible]	$8,492.0	$6,812.0	$4,0[illegible]	$2,621.0	$2,[illegible]
Total Current Assets		$26,324.0	$23,167.0	$30,341.0	$18,836.0	$14,370.0	$9,333.0	$7,255.0	$7,267.0
Property, Plant, and Equipment - Net		$10,[illegible]	$11,[illegible]	$11,[illegible]	$11,[illegible]	$11,211.0	$10,[illegible]	$13,681.0	$9,[illegible]
Assets - Other		$28,327.0	$26,218.0	$23,379.0	$22,737.0	$19,985.0	$17,454.0	$15,945.0	$16,234.0
Total Assets		$63,[illegible]	$60,[illegible]	$65,[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
LIABILITIES AND STOCKHOLDERS' EQUITY									
Short Term Debt - Total		$3,[illegible]	$2,[illegible]	$1,679.0	[illegible]	[illegible]	$1,864.0	$1,301.0	$0.0
Accounts Payable		$9,[illegible]	$8,[illegible]	[illegible]	[illegible]	$4,[illegible]	$2,914.0	[illegible]	$2,781.0
Current Liabilities - Other		$11,[illegible]	$10,[illegible]	$10,[illegible]	[illegible]	$6,[illegible]	$4,392.0	$3,804.0	$4,368.0
Income Taxes Payable		$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total Current Liabilities		$24,[illegible]	$22,[illegible]	$28,406.0	$17,102.0	$12,[illegible]	$9,190.0	$6,759.0	$6,049.0
Long-Term Debt - Total		$9,355.0	$9,763.0	$4,590.0	$10,[illegible]	$10,211.0	$8,268.0	$7,251.0	$8,592.0
Liabilities - Other Non Current		$12,928.0	$13,253.0	$12,[illegible]	$9,[illegible]	[illegible]	[illegible]	$4,[illegible]	$4,297.0
Deferred Income Taxes & Investment Tax Credit		$1,[illegible]	$1,642.0	$1,644.0	$1,565.0	$1,678.0	$1,791.0	$1,894.0	$1,998.0
Minority Interest		$3,[illegible]	$3,322.0	$3,318.0	[illegible]	[illegible]	$2,971.0	$3,433.0	$1,822.0
Total Liabilities		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Stockholders' Equity		[illegible]	$11,[illegible]	$11,470.0	$11,[illegible]	$10,[illegible]	$10,140.0	[illegible]	$10,[illegible]
Total Liabilities And Stockholders' Equity		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STATEMENT OF CASH FLOWS ($Millions)	9/01	6/01	3/01	12/00	9/00	6/00	3/00	12/99	9/99
	9 months ended	6 months ended	3 months ended	9 months ended	6 months ended	3 months ended	9 months ended	6 months ended	3 months ended
OPERATING									
Net Income before Extraordinary Items		[illegible]	$406.0	$601.0	$[illegible]	$346.0	[illegible]	$299.0	$347.0
Depreciation & Amortization Expense		$[illegible]	$213.0	$[illegible]	$236.0	$192.0	$172.0	$164.0	$225.0
Extraord Items & Discontinued Operations		$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Deferred Income Taxes & Invest Tax Credit		$[illegible]	$113.0	$[illegible]	($5.0)	$1.0	$30.0	$39.0	($27.0)
Equity in Loss (Earnings) - Unremitted					($66.0)	($54.0)	$264.0		
Property, Plant & Equipment & Investments - Loss (Gain)		($108.0)	($6.0)	($3.0)	($45.0)	($41.0)	($49.0)	($80.0)	($23.0)
Funds from Operations - Other		$1,[illegible]	($54.0)	$1,[illegible]	$1,[illegible]	($265.0)	$371.0	$747.0	($91.0)
Receivables - Decrease (Increase)		$1,[illegible]	$6,[illegible]	($6,[illegible])	($1,[illegible])	($1,[illegible])	$824.0	$392.0	($150.0)
Inventory - Decrease (Increase)		($28.0)	$109.0	$99.0	$923.0	($120.0)	$36.0	($21.0)	($72.0)
Accts Payable & Accrued Liabilities - Increase (Decrease)		$921.0	($1,062.0)	$4,086.0	$762.0	$1,[illegible]	$732.0	($201.0)	($165.0)
Income Taxes Accrued - Increase (Decrease)		$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Assets & Liabilities - Other - Net Changes		$[illegible]	($325.0)	$1,822.0	$3,[illegible]	$112.0	($[illegible])	($38.0)	$427.0
Cash Flow from Operations - Net		($[illegible])	($464.0)	$4,[illegible]	$[illegible]	($90.0)	$457.0	$1,271.0	($5.0)
Investments - Increase		$[illegible]	$716.0	$63.0	$480.0	$74.0	$316.0	$4.0	$70.0
Investments - Sale		$1,084.0	$339.0						
Investments - Short Term - Changes		$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Capital Expenditures		$[illegible]	$382.0	$[illegible]	$540.0	$312.0	$[illegible]	$341.0	$1,033.0
Property, Plant & Equipment - Sale		$0.0	$0.0						
Acquisitions		$1.0	$39.0	($48.0)	$415.0	$214.0	$429.0	$98.0	$175.0
Funds from Investment - Other		$[illegible]	($432.0)	($248.0)	$87.0	$40.0	($21.0)	$91.0	$0.0
Cash Flow from Investment - Net		($[illegible])	($1,124.0)	($682.0)	($1,348.0)	($761.0)	($1,097.0)	($352.0)	($1,296.0)
Common & Preferred Stock - Sale		$60.0	$119.0	$98.0	$272.0	$13.0	$2.0	($121.0)	$42.0
Common & Preferred Stock - Repurchase		($[illegible])	$236.0						
Dividends - Common & Preferred - Cash Paid		$[illegible]	$143.0	$127.0	$131.0	$106.0	$136.0	$121.0	$119.0
Long-Term Debt - Issuance		$[illegible]	$[illegible]	$1,[illegible]	$240.0	$1,218.0	$1,361.0	$200.0	$200.0
Long-Term Debt - Reduction		$[illegible]	$[illegible]	$1,[illegible]	$114.0	$74.0	$391.0	$120.0	$772.0
Short-Term Debt - Changes		$[illegible]	$[illegible]	$1,[illegible]	$[illegible]	$336.0	$962.0	($472.0)	$1,900.0
Funds from Financing - Other		$0.0	$0.0	$[illegible]	($213.0)	$2.0	$[illegible]	($2.0)	$1.0
Cash Flow from Financing - Net		$[illegible]	$1,[illegible]	($3,[illegible])	$[illegible]	$[illegible]	$2,128.0	($91.0)	$1,331.0
Exchange Rate Effect		$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Cash & Equivalents - Increase (Decrease)		($[illegible])	($[illegible])	$[illegible]	($21.0)	$[illegible]	$[illegible]	($28.0)	$[illegible]

Annualized Summary Financial Data for Model Accounts - Per 6/01

Account ($Millions)	% Change 6/01 - 6/00	Trailing 12 months ending 6/01	Trailing 12 months ending 6/00
Net Sales	[illegible]	[illegible]	[illegible]
Cost of Goods Sold (not incl. D&A)	[illegible]	[illegible]	[illegible]
Gross Margin	[illegible]	[illegible]	[illegible]
SG&A Expenses (not inc. D&A)	NA	$0.0	$0.0
Depreciation & Amortization	[illegible]	[illegible]	[illegible]
Net Income Before Extraordinary Items	[illegible]	[illegible]	[illegible]
Net Receivables	[illegible]	[illegible]	[illegible]
Total Current Assets	[illegible]	[illegible]	[illegible]
Property, Plant and Equipment (Net)	[illegible]	[illegible]	[illegible]
Total Assets	[illegible]	[illegible]	[illegible]
Total Current Liabilities	[illegible]	[illegible]	[illegible]
Long Term Debt	[illegible]	[illegible]	[illegible]
Cash Flow from Operations (Net)	[illegible]	[illegible]	[illegible]

Annualized Summary Financial Data for Model Accounts - Per 9/01

Account ($Millions)	% Change 9/01 - 9/00	Trailing 12 months ending 9/01	Trailing 12 months ending 9/00
Net Sales			[illegible]
Cost of Goods Sold (not incl. D&A)			[illegible]
Gross Margin			[illegible]
SG&A Expenses (not inc. D&A)			$0.0
Depreciation & Amortization			[illegible]
Net Income Before Extraordinary Items			[illegible]
Net Receivables			[illegible]
Total Current Assets			[illegible]
Property, Plant and Equipment (Net)			[illegible]
Total Assets			[illegible]
Total Current Liabilities			[illegible]
Long Term Debt			[illegible]
Cash Flow from Operations (Net)			[illegible]

Project Fido - Engagement Team Report of Results (June 2001)

Ticker: ENE
Client Name: ENRON CORP
Period Ended: 6/01

INDEX	Index Values Outside Normal Range	Company Results: Index Value	Company Results: Underlying Ratios 6/01	Company Results: Underlying Ratios 6/00	Requires Consideration?	Reason?
Days Sales in Receivables Index	>1.204	0.6203	0.074	0.037	No	
Gross Margin Index	1.164 or <0.838	**1.9833**	0.020	0.040	Yes	>1.164
Asset Quality Index	2.251	0.9469	0.415	0.439	No	
Sales Growth Index	>1.510	**3.2352**	--------	--------	Yes	>1.510
Depreciation Index	>1.229	0.8081	0.081	0.065	No	
SG&A Index	1.200 or <0.836		0.000	0.000	Yes	<1.200
Earnings Quality Index	<0.023	-0.0446	-0.045		No	
Leverage Index	>1.395	1.0788	0.531	0.492	No	

Underlying Data

US $Millions

Twelve Months Ended

	(Period t) 6/01	(Period t-1) 6/00	% Change
Net Sales	170,947.0000	52,839.0000	223.524%
Cost of Goods Sold	167,523.0000	50,740.0000	230.160%
Selling, General and Admin Expenses	0.0000	0.0000	NA
Depreciation & Amortization Expense	944.0000	783.0000	20.562%
Net Income before Extraordinaries	1,162.0000	1,176.0000	-1.190%
Net Receivables	12,581.0000	6,269.0000	100.686%
Total Current Assets	26,324.0000	14,370.0000	83.187%
Property, Plant and Equipment (Net)	10,741.0000	11,211.0000	-4.192%
Total Assets	63,392.0000	45,566.0000	39.121%
Total Current Liabilities	24,313.0000	12,222.0000	98.928%
Long-Term Debt	9,355.0000	10,211.0000	-8.383%
Cash Flow from Operations (Net)	3,989.0000	719.0000	454.798%

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