A series of internal documents show that Enron Corp. knew at least a year ago and long before it filed for bankruptcy protection in December that its portfolio of foreign assets had lost as much as half the $6.15 billion (6.81 billion euros) value shown on Enron's books at the time.

The valuations raise questions about the proposed value of an Enron successor company that aims to include many of the foreign projects in question. The plan for the new company, dubbed "OpCo" and designed to be a fraction of the size and far simpler than the sprawling Enron, was formally unveiled to creditors on Friday.

Some of the documents, dated May 2001, also indicate that Enron's accounting irregularities may have gone beyond those tied to the off-balance-sheet investment vehicles that are now under investigation by the U.S. Department of Justice and the Securities and Exchange Commission.

Typically, a company would be compelled to account for such a big drop in the value of assets by taking write-downs. Company filings with the SEC in 2001 don't show that such write-downs occurred.

Many of those assets were pledged to the controversial off-balance-sheet partnerships that the Houston-based energy company used to manage debt, fluff up earnings and raise cash to reinvest.

According to one valuation document, the book value of a portfolio of international assets, as of May 2001, was $6.15 billion, not including the company's biggest white elephant, its Dabhol Power Co. power project in India. The analysis showed the book value overstated the market value, which it estimated at $3 billion to $4.63 billion.

Enron spokesman Mark Palmer declined to comment on the analysis. Mr. Palmer said that some of the change in valuation likely was included in a $14 billion asset write-off that the company announced last week in a filing with the SEC.

The company didn't provide details of the write-offs in its SEC filing. Such information normally would be included in quarterly earnings reports, but Enron no longer has an auditor, hasn't released financial results for 2001 and has said its financial reports can't be relied upon after 1997, creating a great deal of confusion among creditors and investors.
By the time of the May 2001 analysis, Enron had pledged many of its international assets to a myriad of off-balance-sheet investment vehicles.

Some of the assets are now among those that Enron is proposing to roll into the reorganized company its new managers call OpCo, given approvals of creditors and a federal bankruptcy court.

During the past year, many of the assets in question have continued to slump in value, setting off speculation about the value, if any, of many of the investment partnerships.

In many cases, Enron used the vehicles to borrow huge sums of money from investors and promised they would get their money out when the partnerships were liquidated or assets sold. If proceeds didn't prove sufficient to make investors a lucrative return, the company promised millions of shares of its own stock as a sweetener.

But that stock now is worthless, leaving investors panicked about the value of hard assets in the vehicles.

For example, Enron issued $2.4 billion in debt, beginning in 1999, through an off-balance-sheet vehicle called Osprey via an offshoot called Whitewing.

But an internal Enron spreadsheet, dated this March, showed that Enron analysts estimated the total value of assets held by the entities at between $900 million and $1.29 billion.

That could come as a shock to some investors who bought that debt. They had been led to believe the value of the committed Enron assets was much higher. For example, Enron has been carrying its investment in Elektro, a Brazilian electric utility, on its books with a value of $2 billion.

It bought a 46% stake in Elektro, Brazil's sixth-largest electric utility, in 1998 for $1.3 billion.

Its May 2001 analysis showed the estimated value of the holding at far less -- $650 million to $1.1 billion. At the time, Brazil's energy sector was experiencing profound turmoil as the government sought to control electricity prices amid shortages.

By March of this year, a separate internal analysis indicated the situation had only worsened, pegging Elektro's fair market value at "$0 to $250" million.

In fact, that analysis, which looks at the assets and asset valuations of several SPE's, or special purpose entities, like Whitewing, found that assets often are valued at far less than the partnership's total debt.

Whitewing contains many assets in North and South America that Enron would like to transfer to its new OpCo. A basket of Whitewing assets it wants OpCo to get is given a
fair market value of $220 million to $510 million. "Noncore" assets contained in Whitewing that Enron doesn't want to move to OpCo are given a value of $680 million to $784 million.

Combined, in other words, the assets are estimated at $900 million to $1.29 billion in value -- far less than the $2.4 billion of Whitewing debt.

"Whitewing is the owner of a very dubious pool of assets," said Robert McCullough, an energy consultant in Portland, Oregon, who said it is a "soap opera" to try to figure out which assets are in which partnership and what they may be worth.

A former Enron vice president, Michael L. Miller, who worked in the international division, said it was "fairly widely suspected that Enron had assets on its balance sheet that didn't reflect their underlying value."

Mr. Miller said there were "huge incentives to inflate the value of the assets, because any positive revaluation could be booked as a gain or revenue" when it was sold to a partnership. And conversely, he said, there were "huge disincentives to write things down because it would be more difficult to meet your quarterly and annual budget numbers. If you didn't hit your numbers, you didn't get paid."

David Zion, an accounting analyst with Bear Stearns Cos., said companies typically conduct a review of assets when they believe the market values have dropped.

Once the value of the asset is determined, Mr. Zion said, companies must decide whether it is "impaired," meaning that the projected cash flow is insufficient. If the cash flow is inadequate, Mr. Zion said, the company may have to take a write-down.

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Alexei Barrionuevo contributed to this article.
Enron's leadership fooled regulators with fake holdings and off-the-books accounting practices. Enron used special purpose vehicles (SPVs), or special purposes entities (SPEs), to hide its mountains of debt and toxic assets from investors and creditors. The price of Enron's shares went from $90.75 at its peak to $0.26 at bankruptcy. When the recession hit in 2000, Enron had significant exposure to the most volatile parts of the market. As a result, many trusting investors and creditors found themselves on the losing end of a vanishing market cap. The Wall Street Darling Crumbles. Eventually, Enron's stock declined. The values of the SPVs also fell, forcing Enron's guarantees to take effect. Arthur Andersen and Enron. So what Enron had to do was to engage in energy speculation, but show on its financial statement that it was acting as an energy broker. So, what it did was it created a number of limited partnerships which actually entered into the speculative energy contracts (ones that it bought on its own account). Enron would be the general partner with 99% of the ownership interest, and the other 1% would be assigned to a ‑limited partner, usually an Enron insider. Since Enron itself didn't enter into any of the contracts, they didn't show up on the balance sheet. If Enron made a profit on a contract, it had fallen to around sixty cents a share, victim to two more Enron superlatives — history's biggest financial fraud and its biggest audit failure. At first the nation's financial system took the crack up in stride, adjusting the share prices of Enron's biggest lenders a notch downwards. Growing worries about other firms' financial reports finally caused a major market correction two months later. The market price of Enron's stock declined, the SPEs' assets were insufficient to cover its debt. As a result, Enron had to assume the debt. Enron to avoid showing losses when the investments declined in value, because the losses were set by the put-option obligations of the SPEs. However, Enron provided almost all of the funds for the SPEs that, presumably, were available to pay Enron should the investments decline in value. Consequently, Enron's shareholders could not avoid absorbing losses on the investments, but. Enron could avoid showing those losses.