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Cooper, Cynthia

From: Woods, Lucy
Sent: Wednesday, June 26, 2002 1:51 PM
To: Cooper, Cynthia
Subject: In Confidence

Cynthia

You need to see this. I asked all the EMEA financial accountants to tell me if they knew of any postings in EMEA which they considered irregular over the past few years. This resulted in the attached mail. I have copied it to Ed Tagg.

regards

Lucy

-----Original Message-----

From: Brabbs, Steven
Sent: 26 June 2002 15:44
To: Woods, Lucy
Subject: related issue

Lucy,

As per our conversation, please find my note attached below.

Regards, Steven

<<Note to Lucy re Line cost entry in 2000.doc>>

06/26/2002

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Lucy:

In light of the most serious news that broke yesterday in the US, I would like to bring the following matter to your attention.

The amount involved is much lower, although certainly sufficiently large to warrant this note, and appears directly related in nature to the accounting irregularities disclosed in the media today.

In March of 2000, I was Director, International Finance & Control. My responsibilities at the time included the provision of information to management on the consolidated management accounting numbers for Europe and Asia.

After we had closed our books and reported our Q1 2000 numbers to the US, a journal entry was made by persons in the US at the consolidated level which favourably impacted our reported figures. We had no control over that entry, the effect of which was to reduce our line costs by \$33,600,000.

We were not informed about the journal adjustment, we only discovered it when we retrieved our figures from one day to the next and could not understand why the gross margin had moved. After phone calls and emails to the US, we were told that the entry had been made on the basis of a directive from Scott Sullivan. Despite repeated requests, we were given no support or explanation for the entry.

During April 2000, I reviewed at a high level the International Q1 results with the UK audit partner and senior manager. The increase in our margin trend due to the above entry was obvious and I explained that this was an entry made in the US, and that the auditors should request follow through in the US to ensure appropriate accounting treatment was in place at the global consolidated level. A relevant paragraph was included in their report that was sent to both Andersens and senior WorldCom finance management in the US.

Shortly after, I received an email from David Myers indicating he was not pleased this matter had been raised with Andersens without his knowledge. I responded indicating that I had not said the entry was incorrect, only that we had no support for it in International, and that it was appropriate therefore to request justification (or alternatively a corresponding and reversing entry) from the US.

During Q2 US senior finance mgmt indicated they would like to "push down" the above consolidation entry and we were asked to book a journal in our own accounting records in International. Since I had no supporting documentation for the journal, I initially refused to record it.

However, pressure was exerted and we were *instructed* to make the entry (this pressure we understood was from Scott's office specifically). Still uncomfortable, I said that I would not under any circumstances book the journal into one of our legal accounting company books and records. What we agreed to do was to create a "management company" (NOT a legal entity) and post it there. This had the effect of maintaining the management accounting reported figures, but I was making it clear that I did not see it as a journal that I could support from a legal or US or local accounting perspective. This entry was made on 10 July 2000. The narrative reads "late adj as instructed by Scott Sullivan". It remains there today.

As we moved through 2000, I continued to raise the subject by phone and I believe on at least two occasions by email. However the US senior finance mgmt were reluctant to discuss it, and simply continued to refer back to the fact that the entry had been made at Scott Sullivan's direct instruction. My concern remained, but felt my only option was to make it absolutely clear that we did not see it as a stand-alone, supportable transaction in our International books. It remains outside of any legal entity and I repeatedly indicated that the US team needed to ensure that at a global consolidated level, they were comfortable that appropriate accounting treatment had been observed. I still do not know how this has been handled in the US.

If the US cannot justify this journal, and if they do not have any corresponding reversal in their consolidation journals, then I believe it is possible that our current consolidated global balance sheet has an unsupported debit amount of \$33.6m in respect of this item.

I hope this lays out clearly the sequence of events. If you need further information or clarification, obviously I remain available to provide that.

Regards, Steven Brabbs
26 June 2002

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