

ENRON CORPORATION

Moderator: Jeff Skilling
July 12, 2001
9:00 a.m. CT

Operator: Good morning, everyone, and welcome to the Enron second quarter earnings release conference call.

This call is being recorded.

At this time, I would like to turn the call over to the President and Chief Executive Office, Mr. Jeff Skilling. Please go ahead, sir.

Jeff Skilling: Thank you very much. This is Jeff Skilling, President and CEO of Enron Corp. With me here in Houston I have Mark Koenig, who is Executive Vice President of Investor Relations; Paula Reiker, who is Managing Director of Investor of Relations; Rick Causey, who is our Executive VP and Chief Accounting Officer; and Steve Kean, who is our Executive VP and Chief of Staff, and has been very active in the regulatory proceedings that have been going on around the world over the last couple of months.

But thank you very much for joining us on the call and on the Web broadcast this morning. Earlier this - earlier today we reported our second quarter results. What I'll do is provide a brief overview of our quarterly results and then open the call for your questions.

For the second quarter of 2001, Enron reported outstanding results, including a 40 percent increase in net income to \$404 million - that's versus \$289 million a year ago and a 32 percent increase in diluted earnings per share to 45 cents compared to 34 cents a year ago.

As the numbers show, Enron's energy business fundamentals are excellent. Today, we're also announcing our confidence in achieving recurring earnings per diluted share for the full year 2001 of \$1.80 and \$2.15 per diluted share for 2002. So we're expressing our confidence, strong confidence in the remainder of this year and next year, just given the business prospects that we see on the horizon.

Let me go through each of the individual businesses, starting first with our wholesale services business. Wholesale services, which is our largest operation, has lead the company's growth for the past decade. Total income before interest, minority interest, and taxes, which is IBIT, for the quarter increased 93 percent to \$802 million from \$415 million a year ago, marking wholesale services 22nd consecutive period of year over year quarterly earnings growth. These earnings are primarily attributable to Enron's leading role worldwide in our commodity sales and service business where we market and deliver energy and other commodities to customers.

Second quarter IBIT for the commodity business increased 81 percent to \$762 million in the second quarter. Total volumes, which is the key, which is what drives the profitability in this business, increased 58 percent to 74 BCF equivalents per day. And that's versus 47 BCF equivalents a day a year ago.

Natural gas volumes increased 21 percent to 32 BCF per day versus 27 BCF a day a year ago. And power volumes increased 108 percent to 285 million megawatt hours, and that's versus 137 million megawatt hours a year ago.

And in all of our new businesses - leather, metals, lumber, and steel - volumes doubled or more in comparison to a year ago. So very, very strong performance in all sectors of the wholesale business.

Let me go through some of the geographic breakouts. In North America, energy volumes increased 32 percent in the quarter to 48.4 BCF a day equivalent, which is comprised of 52 percent gas now and 48 percent power. So we're getting real close to the point where power overtakes gas in total volumes in the company.

The overall increase is a direct result in our leading role in expanding liquidity at all major physical locations. Enron continues to be the most reliable provider of gas and power-related services to customers all over the continent.

In addition, Enron Online has allowed us to show our price competitiveness more broadly and an increasing number of customers are now able to transact in larger volumes with us more quickly and efficiently. And interestingly, we continue to set new record volumes and transactions on Enron Online. So the Enron Online activity continues to grow significantly.

In terms of volumes, for example, in the northeastern U.S., our physical power deliveries have increased over 150 percent from a year ago. This equates to about 50 million megawatt hours. We are not a large generator. But our insight into the gas and power markets enables us to actively participant - participate in the development of power generation.

In the second quarter, we sold three peaker plants totaling about 1,710 megawatts, which had previously directly supported our commodity sales contracts. In a market with little liquidity, these plants have quite simply been substitutes for contractual supplies because the plants have been integral to our commodity business the plants earnings are recognized within our commodity sales and services segment just as those related to contracts providing similar supply functions are reflected. Earnings for the plants also offset costs associated with unwinding associated contract sales commitments.

With the enormous access to liquidity created by the success of Enron Online, we can support our sales commitments with market-based contracts and free up capital associated with asset ownership. So just a great transaction for us and a continuation in the move toward our strategy of supplying customers with a minimum amount of capital tied up to do that. So North America, just an outstanding quarter, another outstanding quarter.

Let me move to Europe. The European markets continue to show strong, strong growth. Total volumes in Europe increased 205 percent to 15.3 BCF a day equivalent. That's up from five BCF a day equivalent last year. Natural gas volumes were up 103 percent, and our European power volumes were up 463 percent from a year ago. In Europe now we're doing 73 million megawatt hours a quarter. That's up from 13 million megawatt hours a year ago. This continues to show the building of liquidity, and we continue to build liquidity at key hubs on the continent, and we continue to expand the franchise in Europe, and I look for great things from Europe in the future.

I want to give you a little more information on Enron Online. We're seeing increased activity across the company with an almost 200 percent increase in the transaction count in the second quarter relative to a year ago. Enron Online continues

