

**ENRON CORPORATION**

**Moderator: Mark Koenig  
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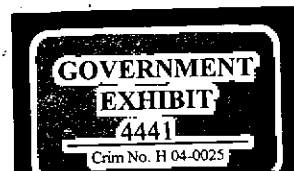
Operator: Good day, everyone. We thank you for your patience, and welcome to the Enron third quarter earnings release conference call. This call is being recorded.

At this time, I would like to turn the conference over to the Chairman and Chief Executive Officer, Mr. Kenneth Lay. Please go ahead, sir.

Kenneth Lay: Uh, Good morning. This is Ken Lay, Chairman and CEO of Enron. I have with me today Mark Frevert, Vice Chairman; Greg Whalley, President and Chief Operating Officer; Mark Koenig, Executive Vice President, Investor Relations; Paula Rieker, Managing Director, Investor Relations; Rick Causey, Executive VP and Chief Accounting Officer; Andy Fastow, Executive VP and Chief Financial Officer; and Steve Kean, the Executive VP and Chief of Staff.

First, thanks for joining us on the call and Web broadcast this morning. Earlier today, of course, we reported our third quarter results. I will provide a brief overview of our quarterly results, and then open the call for a questions.

For the third quarter of 2001, Enron reported strong recurring operating performance, which included a 35 percent increase in recurring net income to \$393 million versus 292 million a year ago, and a 26 percent increase in diluted recurring earnings per share to 43 cents a share compared to 34 cents a share a year ago.



As these numbers show, Enron's core energy business fundamentals are excellent. We are recording nonrecurring charges of slightly over a billion dollars this quarter. The recognition of these charges is the result of a thorough review of each of our businesses. We are committed to making the results of our core energy business more transparent to investors and not clouded by non-core activities. And I will, of course, provide more detail on these charges later in the call.

Today we also reaffirmed that we are on track to meet our previously stated targets for recurring earnings per diluted share. Those targets include 45 cents for the fourth quarter of this year, \$1.80 for the full year 2001, and \$2.15 for the full year 2002.

We have also provided significantly more visibility into our earnings. We've changed our segments to be more reflective of our businesses. Wholesale services is now reported in two new segments - Americas, which consists primarily of our gas and power market-making operations and merchant energy activities in North America, and also includes our merchant activities in South America. Europe and other commodity markets, which includes our European gas and power operations and our other commodity businesses such as metals, coal, crude and liquids, weather, LNG, forest products, and steel.

Of course, and then, retail services continues to be reported separately. Transportation and distribution is reported in three segments. Our natural gas pipelines, Portland General - of course, the large electric utility in Oregon - and global assets, which include primarily international utility operations. And then broadband services and Corporate and Other also each continue to be reported separately.

In addition to expanded segment disclosure, we have added significant additional financial and operating data in the tables of the release, including income statement data for each operating segment and volume data on all our businesses.

Let me start with wholesale services. Wholesale services, our largest operation, has led the company's growth for the past decade. Total income, before interest, minority interest, and taxes, or IBIT, for the quarter for the wholesale group, increased 28 percent to \$754 million from 589 million a year ago. Total volumes increased 65 percent to 88.2 billion cubic feet equivalents per day versus 53.5 billion cubic feet equivalents per day a year ago.

Let's just go to Americas next. Our Americas business uses its broad scale and scope to package and reliably deliver energy commodities and provide risk management services at the lowest available cost. Third quarter IBIT for the Americas increased 31 percent to \$701 million from \$536 million a year ago, driven by strong results from North American natural gas and power businesses. Total physical volumes in the Americas increased 35 percent to 58 billion cubic feet equivalents a day versus 43 billion cubic feet equivalents a day a year ago.

Power volumes increased 77 percent, to 290 million megawatt hours versus 164 million megawatt hours a year ago. Both our East and West regions were strong contributors to profitability this quarter. We have become the leading power merchant in the Eastern U.S., which makes up about two-thirds of our total power volumes. Our unmatched market-making capabilities and structuring expertise allow us to provide the customers higher value transactions. We structure commodity transactions custom-tailored to customer-specific load requirements, which may include peaking services and load shaping. We also leverage our market knowledge and our plant development expertise to site, permit, and selectively develop generation projects, which we may retain or we may sell to independent power producers and generators.

Natural gas volumes increased six percent to 27 BCF a day in the quarter versus 25 BCF a day a year ago. Our U.S. natural gas business was a significant contributor to profitability in the third quarter. Enron's physical volume activity, which is almost three times the size of our nearest

competitor, allows us to understand supply and demand across the entire U.S. on a real-time basis. As a result, we are best positioned to provide the entire - best to provide structured transactions to meet our customers' specific needs.

Some of examples of structured transactions that we have offered to date include utility outsourcing arrangements where we manage all aspects of our customers' gas needs, operational outsourcing services, where we manage the commodity as well as the entire back office for our customers, and term capacity products for customers desiring the transport of natural gas.

Turning to Europe and other commodity markets, physical volumes increased dramatically for each commodity in the segment. European gas and power volumes more than tripled to 21 BCF equivalents a day from a little less than - or a little over five BCF equivalents a day last year. Metal volumes increased 144 percent, to 2,362,000 tons from 969,000 tons last year. Coal volumes increased 150 percent to 25 million tons from 10 million tons last year. Crude oil liquids volumes increased 50 percent to 157 million barrels from 105 million last year. Forest products volumes increased eightfold to 899,000 tons from 101,000 last year. And finally, steel volumes were 648,000 tons in our first year of operation.

In Europe, we expect Enron's most profitable opportunities to come from our unique ability to package customized products from our broad slate of skills - commodity risk management, asset expertise, cross-commodity and weather products, and renewable energy products.

Although recent deal flow continues to be very strong in Europe, volatility in the European energy markets has been relatively low. Our new businesses in other commodity markets are experiencing rapid growth and are contributing positively to our growth. For the third quarter of 2001, IBIT for the segment remains unchanged at \$53 million as compared to last year.

