All Employee Mtg.

August 16, 2001

Let me say Sept. 11 has changed ~~the~~ our world forever / tragic events / needless loss of lives / America is under attack / not going to say more about that; going to talk primarily about Enron under attack

- Good morning
- Linda, Lit

- As I said, we have a lot to talk about today

- Reading your questions, you particularly want to hear more about LTM, The related party transaction previously headed up by Andy Fastow, our CFO

- I'm prepared to give you as much information in this matter as I can ~~particularly~~ but at the same time may not be able to answer all your questions because we have a voluntary, informal SEC request for information ~~inquiry~~, as well as as some derivative lawsuits.

- But before I discuss this, I think it important that you hear an abbreviated presentation on our ~~the~~ 3rd Quarter results from Greg — our President + COO. These results for the 3rd quarter were ~~in fact~~ very strong, as the company continues to perform very well.

- After Greg concludes in 10-15 minutes or so, I will address the other issues, including LTM + obviously answer your questions as best I can;

- Greg

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- As you can see the underlying fundamentals of our businesses are very strong - indeed stronger than they have ever been and we expect this strong performance to continue.

- But that's not what Wall St. is focused on right now + probably not what you're focused on

- Let me say right up front, I am heart broken about what's happened this year, + particularly over the last week or so,

A little history

I helped found the modern day Enron with the Merger of Internorth and Houston Natural Gas in 1985

Difficulties along the way
1985 - Paul
1986 - Talcahuano
1987 - Rogue Oil Trader
1997 - Jay Block

And each time ~~I am~~ the intervening years, you + I have transformed a traditional regulated natural gas pipeline company with some significant E+P, gas liquids and other ~~traditional~~ energy ~~assets~~ businesses ~~company~~ into the largest provider of electricity + natural gas in the world.

More overall though we are convinced that every thing that was done with respect to sitting up and operating these financial structures was legal + appropriate - approved by inside + outside accountants, auditors + lawyers, approved by the board appropriately disclosed. They have turned out to be way too difficult to explain, + we would not set up such structures today + will not set any such structures in the future

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- And as sad as the current market price is — & certainly I've lost a substantial portion of my personal & my family's net worth because of it — we've still seen the market value of the company increase from $2 b/in the mid 1980's to about $17-18 billion last night

- But I also know that many of you who were a lot wealthier 6-9 months ago, are now concerned about the college education for your kids, the house you wanted to build or your retirement, and for that I am incredibly sorry.

- Let me get into the LJM ~~stuff~~ issue and then I'll share with you some ways we can reduce the pain — & ~~hope~~ hopefully restore Enron to its greatness — which I am fully committed to do

- LIM
  - First what was it.
    - It was primarily a private equity fund formed by Andy Fastow with Enron's approval

  - It was formed in order to provide Enron an additional source of equity funding for projects that would not otherwise be available & with a management structure that could provide reasonably quick approval of projects. Because of Andy's familiarity with these projects and with the company.
  - But you should know:
    1) Enron did not have to offer any projects to LIM
    2) Transactions were offered to LIM only when it was in Enron's, its shareholders best interest
    3) Because, it was fully recognized by Enron's management and board from the very beginning that there was an

an inherent conflict of interest in Andy investing in LJM (along with a number of significant other investors) + being General Manager of LJM, at the same time he was CFO of Enron, the Enron Bd proposed very specific controls + ~~processes~~ procedures to protect ~~the~~ Enron and its shareholders ~~company's~~ interests. I have reconfirmed over the past few days that those controls + ~~processes~~ procedure have been adhered to.

- Both the structure of LJM as well as the controls + ~~processes~~ procedures were ~~we~~ approved by ~~our~~ Enron's accountants, ~~[illegible]~~ lawyers and our outside auditors + counsel, and of course approved by our board, and subsequently disclosed in our SEC filings, including our annual + quarterly reports + our proxy statements.

- I know there is a lot of speculation about Andy's involvement

- As I've said, management + the Board recognized there was a potential conflict of interest

- IT was because of this that some very strict governance + control ~~procedure~~ procedures were put in place to make sure the best interests of Enron + its shareholders were always protected. Despite what you have read in the WSJ + elsewhere, I am sure they ~~have been~~ these interest have been protected

- I + the board ~~am~~ also sure that Andy has operated in the most ethical + appropriate manner ~~[illegible]~~ possible. But I will say here today in Andy's presence that if any thing comes up indicating to the contrary, then ~~at~~ a totally different decision would be made, just like it would for any other senior officer at Enron

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- Let me make a few comments about the SEC investigation

  - This is what is referred to as an informal inquiry ~~[illegible]~~

  - It is a voluntary request for information

  - It is ~~[illegible]~~ not a consider material event and thus not necessarily disclosable

  - Approx. 80% of the companies that receive these do not issue a disclosure statement

  - But given the white hot spot light on Enron, we decided we should disclose it to the board agreed.

  - This inquiry will take a lot of time for our accounting ~~[illegible]~~ + legal staff, but it will finally put to rest all of these issues ~~to rest~~ - Thus we ~~[illegible]~~ welcome the inquiry & we will cooperate fully.

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~~Where~~

What does all these mean for the future

- First, al thought the financial structures were approved by the inside & outside auditors & lawyers & the Bd. of Directors & ~~approv~~ approprately disclosed, they were too complicated too hard to explain & created the perception they just weren't right.

- I personally am sorry for this & incredibly sorry for the consequences to our image & the value of our shares

?

- But more than being sorry, going forward we will be much more ~~concentrated~~ interested in simplicity, as I have said on numerous occasions over the past week, vanilla is just fine.

- Also, as you know, Andy disposed of his management & economic interest in June; this is no longer a related party vehicle.

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- In our third quarter report just one week ago - seems like a life time - we terminated a number of arrangements we had in other vehicles related to LJM. ~~with LJM~~. These made sense at the time they were entered into, but do not make sense now so we terminated them.

- We also need to realize that ~~although~~ these vehicles ~~made~~ may have made a lot of sense when they were set up. Many of the investments did not work out well, such as ~~Azurix~~, New Power Company, some of our Broadband Technology & ~~New Power Co.~~ investments

1.2 billion equity reduction

- 62mm shares

Let me conclude by saying:

- Of some interest

- Bonuses

Acknowledged load that's been carried by wholesale, retail

- ~~These~~ If we make the targets ~~goals~~ we have set on a ~~including~~ recurring income basis, bonuses will be paid / Greg & I have address with Comp Com. & Board

- We will do what is necessary to retain our talent, particularly in these turbulent times

I will stay as long as it takes to regain our preeminent position.

- Our talent is our franchise

~~Finally, I am not sunting or leaving unless the board wants me to.~~

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Closing

- Very Turbulent & very tough Times
- Expect we still have more To come
- I will do every thing I can To ~~compact~~ turn it around it.
  - I'm Mad
  - I'm Frustrated
  - It's Not fair
- But company doing well / strong operating & financial performance / strong liquidity strong balance sheet
- Now its our Testing time; These are tough Times; ~~Do~~ will we measure up to the challenge or will we not.
- True character is born in Times of crisis
- Need to show our character
- I am here until Board Throws me out or until we restore Enron to its greatness most of us have experienced
- Hope you are to, I really ~~Need your recom~~ it meant to Enron & to making it great again Thanks

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