
Enron

Professors Douglas G. Baird and Randal C. Picker

Spring, 2002

Class 2: Enron Before the Fall

- A. Selection from selected articles on Enron in *Fortune* before October 1, 2001:
 - 1. Edward C. Baig, America's Most Admired Corporations, January 19, 1987
 - 2. Anne B. Fisher, Where Companies Rank In Their Own Industries, March 4, 1996
 - 3. Harry Hurt III, Power Players; Enron Has Shaken Up The Sleepy Gas Pipeline And Power Businesses By Aggressively Embracing Risk And Continually Remaking Itself. So What's Not To Like?, August 5, 1996
 - 4. Brian O'Reilly, The Secrets Of America's Most Admired Corporations: New Ideas New Products Companies That Know How To Innovate Don't Necessarily Throw Money Into R&D. Instead They Cultivate A New Style Of Corporate Behavior That's Comfortable With New Ideas, Change, Risk, And Even Failure, March 3, 1997
 - 5. Gary Hamel, Turning Your Business Upside Down: Management Expert Gary Hamel Talks With Anheuser-Busch's August Busch III And Enron's Ken Lay About What It's Like To Launch A New Strategy In The Real World, June 23, 1997
 - 6. David Kirkpatrick, Enron Takes Its Pipeline to the Net, January 24, 2000
 - 7. Thomas A. Stewart, Taking Risk To the Marketplace, March 6, 2000
 - 8. Nicholas Stein, The World's Most Admired Companies, October 2, 2000
 - 9. Geoffrey Colvin, The Envelope, Please, November 27, 2000
 - 10. Where Companies Rank in Their Industries, February 19, 2001
 - 11. Bethany McLean, Is Enron Overpriced?, March 5, 2001
 - 12. Bethany McLean, Enron's Power Crisis, September 17, 2001
- B. Enron Annual Report for 2000
- C. Enron, 1986-2001, Darden Case Study (CD)

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 Fortune

January 19, 1987, Domestic Edition

SECTION: CORPORATE PERFORMANCE; Cover Stories; Pg. 18

LENGTH: 6888 words

HEADLINE: AMERICA'S MOST ADMIRED CORPORATIONS

BYLINE: by Edward C. Baig; REPORTER ASSOCIATE Barbara Hetzer

BODY:

*** Diversified service

LAST

RANK	YEAR	COMPANY	SCORE
1	1	Salomon n2	7.09
2	2	Super Valu Stores	6.48
3	-	Hospital Corp. of America n1	6.32
4	4	McKesson	6.27
5	3	Fleming	6.11
6	-	Union Pacific n3	5.96
7	8	Enron n4	5.74
8	7	Halliburton	5.71
9	9	Fluor	5.55
10	6	CBS	5.20

n1 Not ranked last year.

n2 Formerly Phibro-Salomon.

n3 Ranked No. 5 last year in the transportation category.

n4 Formerly HNG/InterNorth.

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March 4, 1996

SECTION: COVER STORIES; Pg. F-1

LENGTH: 6095 words

HEADLINE: WHERE COMPANIES RANK IN THEIR OWN INDUSTRIES;

ON THE PREMISE THAT NO ONE KNOWS YOU BETTER THAN YOUR COMPETITOR, FORTUNE ASKED EXECUTIVES TO RATE COMPANIES IN THEIR OWN INDUSTRIES ON MEASURES LIKE QUALITY OF MANAGEMENT, FINANCIAL SOUNDNESS, AND INNOVATION. HERE ARE THIS YEAR'S SURPRISING RESULTS.

BYLINE: ANNE B. FISHER

BODY:

PIPELINES

Rank LAST Company Score

YEAR

1 1	Enron	7.78
2 2	Williams	7.06
3 3	Panhandle Eastern	6.80
4 --	Sonat	6.60
5 6	Tejas Gas	6.51
6 --	Equitable Resources	6.26
7 9	Enserch	5.65
8 10	Transco Energy	5.04
9 --	NorAm Energy	4.97

[FOOTNOTES]

Page F-5

-- Not ranked last year.

Name changed from Commonwealth Edison.

Williams acquired Transco Energy, May 1, 1995.

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August 5, 1996

SECTION: THE FORTUNE GLOBAL 500; Pg. 94

LENGTH: 2680 words

HEADLINE: POWER PLAYERS;

ENRON HAS SHAKEN UP THE SLEEPY GAS PIPELINE AND POWER BUSINESSES BY AGGRESSIVELY EMBRACING RISK AND CONTINUALLY REMAKING ITSELF. SO WHAT'S NOT TO LIKE?

BYLINE: HARRY HURT III, REPORTER ASSOCIATES JOYCE E. DAVIS, JOE MCCOWAN

BODY:

Kenneth Lay skied down Ajax Mountain in Aspen, Colorado, on a cold dark afternoon last December, blissfully unaware that the stock of his Houston-based energy conglomerate was taking an even steeper plunge. The Enron chairman returned to his vacation home on Roaring Fork River to find an urgent message from President and Chief Operating Officer Richard Kinder: "We've got a major problem, and we've got to talk."

That afternoon, Enron's stock had lost 2 7/8 points, or roughly \$ 750 million in market capital, amid rumors that the company's natural gas marketing arm, Enron Capital & Trade Resources, was shorting the market even as the January futures contracts expired and a pre-Christmas cold snap was sending prices up the chimney. The crisis of confidence was compounded by rumors that Jeffrey Skilling, the 42-year-old wunderkind chairman of Enron Capital & Trade, had been led off the company trading floor in handcuffs.

"I knew we couldn't have had the exposure we were rumored to have," Lay recalls. "Our trading controls are such that we're never out of balance more than

plus or minus 1%." Lay also knew that the rumors about Skilling's arrest were false. At Enron, where "speed and danger count," in the words of one executive, most top brass spend their spare time on the ski slopes. Skilling was at Beaver Creek, while Kinder happened to be at Crested Butte.

Lay immediately organized damage control: The next morning, he put out a press release announcing that Enron would start buying back its own shares. Then he convened a conference call with 170 Wall Street analysts during which Kinder and Skilling explained Enron Capital's system of computerized trading controls, noting that to the extent its positions were even slightly out of balance, the company was actually making money. The strategy worked: Enron's stock recovered all but half a point of the previous day's losses. Skilling later claimed that he was unable to trace the source of the rumors that had caused the market frenzy, but he did offer a two-word explanation of the possible motive behind them: "Enron envy."

Today Enron has even more to covet, and it's not exactly hiding its light under a bushel. It recently reported 15% earnings growth for the fifth year in a row, and Lay predicts that Enron's profit will double from the 1995 level of \$ 519.7 million to more than \$ 1 billion by the year 2000. The company's stock has bounced back from its December lows and is currently trading in the \$ 41 range, thanks to rising oil and gas prices. Though its gross sales of \$ 9.2 billion last year put it near the bottom of FORTUNE's Global 500, Enron has grand ambitions. Lay already has twice remade what used to be a sleepy, regional pipeline company, creating what he describes as "the first natural gas major, sort of like the Seven Sisters in the oil business." Next, he plans to morph Enron into a global energy supermarket with a retail brand name as recognizable as Coca-Cola.

"Over 40% of our earnings in 1995 came from businesses that did not exist ten years ago," Lay says. "We expect that five years from now, over 40% of our earnings will come from businesses that did not exist five years ago. It's a matter of re-creating the company and the businesses we're in. That's not unusual for a company like a Rubbermaid. They create a new business about every other year. But it's unique in a capital-intensive, long-lead-time industry like the energy industry." Outsiders tend to agree. Competitors voted Enron the most innovative company in the U.S. in Fortune's poll of "America's Most Admired Corporations" this year, ahead of high-tech highfliers like Intel and Microsoft. And Wall Street analysts heap praise on everything from earnings strategy to the quality and depth of the management team.

To be sure, Enron has made some highly publicized stumbles. Construction of a multi-billion-dollar power plant in India--the largest foreign investment ever in that country--was suspended last year when a nationalist Hindu party won local elections. Enron is still struggling to renegotiate a take-or-pay North Sea natural gas contract with Phillips Petroleum, which could be costly to unwind. But Enron officials say they have these problems under control. The Indian plant has been revived and increased in size. Any settlement with Phillips, according to Enron, "will not have a materially adverse effect on its financial position."

So aside from envy, what's not to like about Enron? According to some critics, the very things that have made the company a success: management's penchant

for risk taking and innovation; the parent corporation's aggressive accounting practices and allegedly byzantine methods of "managing earnings" via no fewer than six separately traded subsidiaries; an alleged overemphasis on short-term performance, symbolized by the daily posting of stock prices in the headquarters building; and the unusually complex intracompany transactions needed to drive profit growth. "Enron's just got too much hype in it for us," says a member of a multibillion-dollar Houston-based investment firm that specializes in blue-chip stocks. "A few years ago, they were promoting natural gas-powered automobiles. Then they dropped that idea like a hot potato, and started building power plants and spinning them off. It's hard to figure out what the fresh feed for the month is going to be."

When Enron was created as a debt-laden stepchild of the merger of Houston Natural Gas and Internorth, Lay was recruited from a competitor to ward off corporate raiders such as Irwin Jacobs. He set out to make Enron the leading integrated pipeline company in North America, shedding layers of bureaucracy and expanding the company's pipeline network. Enron now derives most of its profit from operating 37,000 miles of interstate pipeline that transports nearly 20% of the nation's natural gas, and from its in-house oil-and-gas exploration division.

But even as he expanded the pipeline business, Lay foresaw that the biggest returns were to be obtained not in transporting gas but in trading it. That led in 1992 to the creation of Enron Capital shortly after natural gas futures contracts were introduced on the New York Mercantile Exchange. In 1991, Enron had started its first power plant project abroad. The international division now accounts for 12% of gross earnings, while Enron Capital supplies 22%.

Next, Enron plans to take advantage of changes in state legislation that will open up marketing of electric power, turning itself into a highly sophisticated "energy store" capable of providing a full range of natural gas and electrical power services to industrial, commercial, and residential customers worldwide. "It will be just like with the different competing telephone companies who offer a full line of telecommunications services today," says Lay. "You'll be able to call up and order all your energy from Enron."

A politically well-connected former Federal Energy Regulatory Commission official, the 54-year-old Lay plays the role of the classic "Mr. Outside," jetting around the world opening doors for the company and schmoozing his mostly Republican contacts in Washington, D.C. The slim and soft-spoken former Missouri farm boy with a Ph.D. in economics co-chaired the committee that hosted Houston's 1990 economic summit and was a major contributor and fundraiser for former President George Bush, and for the failed presidential campaign of Texas Senator Phil Gramm, whose wife, former Commodity Futures Trading Commission Chairman Wendy Gramm, sits on Enron's board.

Kinder, 51, a no-nonsense attorney with pale blue eyes and silvery hair, also hails from a small town in Missouri that was the birthplace of conservative commentator Rush Limbaugh. He is Enron's "Mr. Inside," a detail man with a head for numbers and a somewhat controversial reputation predicated in part on his demanding performance standards. Regarded as a virtual equal, he and Lay pack

a powerful one-two punch seldom seen at similarly big but less entrepreneurial energy corporations.

The two men also win admiration for their choices of heads of Enron's four major divisions. One veteran energy industry watcher calls Enron Capital's Skilling, a Harvard MBA hired from McKinsey & Co., "the most intellectually brilliant executive in the natural gas business." The co-chairman of Enron Operations Corp., which supervises the company's pipelines and construction projects, is Thomas E. White, a former brigadier general who served as an aide to Colin Powell at the Joint Chiefs of Staff. Enron Development, the unit in charge of international power projects such as the Indian plant, is chaired by hard-charging Rebecca Mark, 41, another Harvard MBA and ski enthusiast who is one of the highest-ranking women in the energy industry (see "Women, Sex & Power"). And Forrest Hoglund, the chairman of Enron's 61%-owned oil and gas unit, more than doubled the company's production in just seven years; he was rewarded with stock options that brought him \$ 19 million in 1994.

"If Forrest creates enormous value for the shareholders and receives enormous compensation for it, then Godspeed to him," says Lay. "I'm not afraid to hire someone who's smarter, more creative, prettier, more handsome, or more highly paid." Indeed, so eager is Lay to foster entrepreneurial risk taking, that he has instituted a universal stock option plan that promises to pay all the company's 6,600-plus employees twice their annual salaries after eight years.

At Enron Capital, arguably Enron's most innovative unit, Skilling is trying to create a whole corps of entrepreneurs. His mostly thirtysomething traders routinely structure deals that have sales or cost values of up to \$ 5 million without having to seek upper-management approval. Decisions on each trader's performance are entrusted to teams of some two dozen people who rank their peers on criteria including "ability to learn," "leadership of self and others," "connecting and leveraging," and, of course, "innovativeness," as well as old-fashioned revenue production. "There's too much conventionality and too little risk taking when people have to answer to one boss," says Skilling. "You and the boss might not get along or you might spend all your time kissing the boss's ass to get ahead. You can't kiss the ass of 24 people. And together, those 24 people are more likely to have the interests of the shareholders at heart than any one person."

Overseas, Enron's rewards-for-risks philosophy has sometimes gotten the company into trouble. The success of its initial overseas power plant in Britain in 1991 convinced Lay that he should give a green light to rising star Rebecca Mark, who shared his opportunistic interest in riding the wave of liberalization and privatization sweeping power-short countries in the developing world. By 1994, Mark had guided the development of a barge-mounted power plant in Guatemala and two oil-fired power plants in the Philippines that were completed in less than 12 months, and acquired a 17% interest in a 4,100-mile pipeline in Argentina.

But in India, Enron faced accusations that it was charging above-market rates for its energy, prompting suspension of the deal. In the end, the prices were reduced but Enron got to increase the plant's capacity. The company's largest current project, a \$ 1.7 billion Bolivia-to-Brazil pipeline, also stirred local complaints.

Enron's critics charge that the company has managed to win such rich concessions, in the form of Bolivian oil and gas transportation rights, in return for building the pipeline, that the government will have a hard time privatizing the remainder of its domestic energy industry. Mark retorts that Enron is merely being rewarded for taking risks; Enron deserves contract protections "designed to make us feel safe about investing our money well ahead of anyone else."

Back in Houston, Chairman Lay is refining his third and most ambitious vision for Enron: to make it "the world's leading energy company." Here again, Enron Capital and its computer-literate leader are expected to play key roles. Skilling is now applying the methods he pioneered in trading methane molecules to the trading of electrons in the wholesaling and retailing of electricity. Although it entered this business just two years ago, Enron Capital has already become the nation's third-largest electricity wholesaler, behind the Bonneville Power Administration and the Tennessee Valley Authority.

While Lay estimates the wholesale electricity business at \$ 90 billion a year in the U.S., the retail electricity market is even bigger--close to \$ 300 billion in the U.S. and Canada, according to one estimate. And it is this market Lay wants to tap. Bills for legislation that would open the business to nonutility companies have been introduced in at least two dozen states, with Massachusetts's and Connecticut's proposed legislation the furthest along. The Federal Energy Regulatory Commission is also planning to review rules that currently limit access to the power grid only to utilities and independent wholesalers.

Already, Enron Capital is positioning itself for this market through its natural gas marketing operations. The company is providing retail gas services to groups of commercial customers, such as the New York State Restaurant Association. Skilling hopes that customers that sign up for Enron's natural gas today will become electricity customers in the future, lured by the promise of delivery guarantees and cost reductions.

Such aggressive tactics are one thing when you're marketing a product, another thing altogether when you are writing out a balance sheet, charge critics of Enron's methods of "managing" its earnings. One frequently voiced complaint involves Enron's "marked to market" accounting, which counts proceeds from long-term gas contracts as present income. According to several former employees, this practice simultaneously inflates current earnings and creates a "feeding frenzy" as executives scramble to make new deals to prop up future profits.

Many analysts and former insiders are also skeptical of the international division's practice of selling interests in completed power projects to a separately traded subsidiary, Enron Global Power & Pipeline, which is 59% owned by the parent. As one knowledgeable source points out, such sales allow management to accelerate or defer the realization of earnings from power plant development as it sees fit. Several high-ranking Enron Global Power & Pipeline executives left the company last year; they were uncomfortable with the apparent conflict of interest involved in these transactions.

A close look at Enron's seemingly impressive 1995 earnings hints at some of the possible repercussions of management's live-for-today philosophy. The corporation's reported half-billion-dollar profit came in part from the \$ 367 million

gain provided by the sale of stock in its oil and gas subsidiary EOG. Another \$ 48 million was supplied by the realization of previously deferred income from the sale of stock in EPP. "Without those stock sales, 1995 really wasn't that great a year," says a former top executive. "It's difficult to see how they're going to keep increasing profits by 15% a year."

Lay replies that he has plenty of new earnings opportunities: among them, taking Enron Capital's expertise in gas and electricity marketing to Europe, and exploring solar cell and other high-tech energy ventures. But he has recently revised his stated earnings targets: Instead of pledging to increase profits 15% each year, he now aims for profits to grow by an average of 15% annually over the next five years. If Lay meets that bold goal, his risk taking will be rewarded in lavish Enron style: With 2.7 million stock options, the chairman will receive an enviable payoff, no doubt. Still, ordinary investors may want to think twice about whether the rewards for them will prove worth the risks.

REPORTER ASSOCIATES Joyce E. Davis, Joe McGowan

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March 3, 1997

Correction Appended

SECTION: FEATURES/COVER STORIES; Pg. 60

LENGTH: 2737 words

HEADLINE: THE SECRETS OF AMERICA'S MOST ADMIRED CORPORATIONS: ;

NEW IDEAS NEW PRODUCTS COMPANIES THAT KNOW HOW TO INNOVATE DON'T NECESSARILY THROW MONEY INTO R&D. INSTEAD THEY CULTIVATE A NEW STYLE OF CORPORATE BEHAVIOR THAT'S COMFORTABLE WITH NEW IDEAS, CHANGE, RISK, AND EVEN FAILURE.

BYLINE: BRIAN O'REILLY, REPORTER ASSOCIATE RAJIV M. RAO

BODY:

*** Sometime, when you are having a very slow day, take a look at an old map of all the natural gas pipelines crisscrossing the United States. To any idiot, it looks like a vast cobweb of interconnections, capable of shipping gas from any gas field to any local gas company. But a decade ago, to the geniuses in Washington and in the utility businesses, it was no such thing. Government regulation required a gas pipeline to run single-mindedly from a specific field to a particular utility company, with few shifts or diversions.

Along came Kenneth Lay. In 1986 his company, Enron, had just been formed by the merger of two natural gas giants. Lay figured it was a good opportunity to change the entire way they did business. "I was trained as an economist, loved free markets, and was convinced that government regulation was causing most of the problems in the gas industry." And he viewed that national map of gas pipelines differently than just about everybody.

Lay recognized that by pushing deregulation, Enron could use all those natural gas lines as a network to buy gas where it was cheap and ship it to where it

was needed. So, while most gas utilities were vigorously resisting deregulation, Enron hired aggressive, well-compensated traders and almost single-handedly began creating spot markets in gas. To accelerate the growth of the new cultures he needed, Lay created several new public companies, majority owned by Enron. Those gung-ho traders went to one company; later, employees beating the bushes for business in Third World countries got set up in another.

And while his colleagues in the gas business harrumphed that there was no need for a spot market, Enron found its new approach and structure could reduce the cost of gas for some utilities by 30% to 50%. "We changed the concept of how the natural gas industry was run--new products, new services, new kinds of contracts, new ways of pricing," says Lay.

Success bred new ideas. With the cost of free-market gas so cheap, Lay thought the unthinkable: using gas for fuel in electric generation plants--something forbidden under old federal regulations. Enron built and operated its own gas-fired power plant in Texas, showing that it could compete economically against coal-fired plants, with far less pollution. "We created a huge new market for natural gas as fuel for electric generation."

The company is even expanding overseas and has just finished building a 150-megawatt plant in Hainan Province, China. Gadgets, patents, doodads? At Enron, not a one. Nevertheless, Ken Lay has turned Enron into the most innovative power company in the country. ***

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June 23, 1997

SECTION: FEATURES/COVER STORIES; Pg. 87

LENGTH: 1609 words

HEADLINE: TURNING YOUR BUSINESS UPSIDE DOWN;

MANAGEMENT EXPERT GARY HAMEL TALKS WITH ANHEUSER-BUSCH'S AUGUST BUSCH III AND ENRON'S KEN LAY ABOUT WHAT IT'S LIKE TO LAUNCH A NEW STRATEGY IN THE REAL WORLD.

BYLINE: GARY HAMEL; AUGUST BUSCH III; KEN LAY

BODY:

What's America's most innovative company? You probably wouldn't guess Enron, yet it ranked No. 1 in innovation--among 431 companies--in FORTUNE's latest survey of corporate reputations. In the natural gas and electricity industries, CEO Ken Lay is, in Gary Hamel's terms, a revolutionary who has taken his company into new countries, new businesses, and new strategies. America's overwhelmingly dominant brewer? A much easier question--it's Anheuser-Busch. That means CEO August Busch III must continue making and breaking the rules for his industry or risk being blind-sided by a competitor who changes the game. Both CEOs spoke recently with Hamel about the challenges of strategy innovation, the importance of young employees' perspectives, MBAs, microbreweries, and much else.

HAMEL: Ken, what would be the two or three things that you've done that really went against the conventions of the industry? Where has Enron been the rule-breaker?

LAY: Early on, when other natural gas companies were attempting to hold on in a regulated market, we were pushing hard to move our business upstream into unregulated businesses. We thought there'd be more opportunity here to differentiate ourselves on products and services and make a profit at it. Many other companies felt they needed to stay in the regulated pipeline business just to survive. You see a little of the same mentality today in the electrical industry.

More profoundly, we believed there were abundant supplies of natural gas worldwide, and shortages in the 1970s were just caused by regulation. So we were trying to substitute natural gas for all other fuels, particularly for coal and nuclear as electricity generators--and this was when the U.S. and Europe had legal prohibitions against building new natural gas power plants. Despite all that, our idea was that natural gas was, in fact, an ideal fuel for power generation--probably the best both economically and environmentally. And that has led to a total paradigm shift in the power business worldwide.

HAMEL: You brought a lot of new skills and people in to Enron. You now have, for example, Wall Street traders who help you exploit arbitrage opportunities in energy markets and who help customers manage financial risks. One of my arguments has always been that revolutions often get created by people from outside an industry.

LAY: Right. Historically it was thought that natural gas was natural gas was natural gas. But you also have a lot of risk management or contract issues. Do customers want to buy short-term or long-term? Do they want to hedge their risk? Or do they want to go with the market index? Now everybody can have the kind of portfolio they want, the kind of risk they want to take, and the kind of exposure they want to price swings.

HAMEL: So you've decommoditized the ultimate commodity.

LAY: To some extent we have. And in the process, of course, you acquire the kind of skills you need. We not only had to attract talent from investment banking houses, commercial banks, and elsewhere, but also had to compete against them. We also had to go up against the big consulting firms for some of the new MBAs coming out of our graduate schools.

HAMEL: So you really did bring a lot of new voices into Enron, who had different perspectives, different kinds of industry experience?

LAY: Very much so. And that's got to help shake the whole culture. In some ways, when you go through a profound restructuring, long years of experience in your industry really turn out to be a detriment, not an asset. ***

HAMEL: Ken, are there things you're doing at Enron to institutionalize the generation of new ideas and new strategies?

LAY: I'm not saying this can happen in every type of business, but we're breaking up our profit centers into smaller pieces. As you move down the organization--what August is talking about--you can have some really bright, capa-

ble people who are not able to spread their wings, not able to try the things they want to try. In a smaller operation they can, and of course we found that, in most cases, whenever we do this, it accelerates growth. Probably the most obvious place we've done that recently is our Enron Capital & Trade Resources, which provides all these risk-management, long-term contract, financing, and other type services to the gas and electricity industries in the U.S. and abroad. It was being run as one unit and is now being run effectively as five units, and I expect we'll break it even further.

HAMEL: But I guess one of the thoughts is that certainly there is no assumption that strategy and innovation start only at the top.

LAY: No, absolutely not. It's a matter of making sure you get more people down in those operations and that they have a more active role. Doing that really lets them determine the strategy for their unit, where maybe in a bigger unit they wouldn't have much impact. ***

HAMEL: That's really turning the hierarchy on its head. Does that play itself out in the fact that you personally spend as much time working the organization from the bottom up as you spend working it from the top down? ***

LAY: I think the one lesson probably all CEOs need to learn--at least I certainly needed to learn--is, you have to be very reluctant to tell somebody they shouldn't do something. Quite often someone will come up with an idea, and I have to keep myself from saying, "We just don't want to go in that direction." By doing that, I've learned that a lot of things that initially looked to me to be unreachable, undoable, or maybe even unwise, turned out to be brilliant after a lot of work. And I think if you start shutting down some of those ideas early, well then, of course, your employees won't come to you at all.

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January 24, 2000

SECTION: E-COMPANY; Pg. 127

LENGTH: 1281 words

HEADLINE: Enron Takes Its Pipeline to the Net;

The company that pioneered the trading of natural gas is applying its old paradigm to a newer type of commodity: Internet bandwidth.

BYLINE: David Kirkpatrick

BODY:

Enron--a champion of business' old world--is plunging into the new. Its audacious executives think they can fundamentally alter the way the Internet works. Proclaims CEO Ken Lay: "I think we could become the preferred platform for e-commerce around the world." Huh? Isn't this a gas pipeline company? Before we explain, recall that Enron has been consistently voted the most innovative large company in America in FORTUNE's Most Admired Companies survey. If any old-world company could thrive in the Internet era, it's this one.

The Net play seems hard to swallow at first. Enron says it has a solution to one of the Internet's fundamental problems--bandwidth. Everybody talks about how high-bandwidth applications like video are the future, but hardly anybody can actually deliver them. That's not just because consumers generally have slow 56K modems. It's also because the Internet's infrastructure is splintered and awkward.

The Internet really isn't a network at all, argues Enron President Jeff Skilling. It actually comprises a bunch of separate networks, each the property of one operator, such as MCI WorldCom, Sprint, or AT&T. To deliver a broadband signal--say, a digitized video stream--over long distances generally requires that the data travel entirely on one dedicated fiber-optic network. Though these independent networks connect to pass data around, getting one network to reserve a pathway for another's traffic is complicated. It can require months of negotiation for deals that often last years at a locked-in price.

So customers (mostly small telecoms and businesses that host Internet applications) face a dilemma. If they reserve enough bandwidth to handle only their regular needs, they'll have problems when usage spikes. But if they buy enough pipeline space to serve their maximum demand, they waste money on access they're not using. Customers would benefit enormously if they could mix and match networks to get the most flexibility and best price.

Enron's solution: create a system in which everybody could connect to everybody else quickly and easily. Such a system will require a market for trading bandwidth. Like a market maker on Wall Street, Enron will buy up pipeline space from other networks, maintaining an inventory that it can then mark up and sell to customers as needed. Owners and users of fiber-optic lines could then trade capacity back and forth, setting prices with standard contracts.

Enron, which created a similar market for the gas industry, says it has the technology to stitch together the disparate networks. It aims to have its market operating in the first quarter of this year. Says Joe Hirko, CEO of subsidiary Enron Communications: "We want to fulfill the original vision of the Internet, which is a competitive ubiquitous network capable of broadband application delivery."

Enron arrived here by a circuitous route. In 1997 it acquired a small Oregon utility that was in the process of laying fiber-optic lines. Enron continued laying fiber and then started trading strands with other fiber owners, a common practice in building networks. Today it owns 13,000 miles. Some entrepreneurial folks inside the company decided to use the network to enter a new business--broadband hosting. The so-called Enron Intelligent Network now carries broadband content on an as-needed basis for big customers like TV networks and financial services companies. So if, for example, Merrill Lynch wants to have a one-time video broadcast for its analysts over the Internet, Enron can provide the necessary bandwidth.

Enron has a history of finding its way into new lines of business. It was once solely a gas pipeline operator. These days it's still the second-largest operator of gas pipelines in the U.S., but it has also become the nation's largest buyer and seller of both natural gas and electricity. It pioneered the idea of making a market in both commodities, and helped create the infrastructure to allow trading. Now

well over a quarter of Enron's profits come from trading and associated businesses, including risk management, credit services, and consulting.

To Lay and Skilling, today's telecom landscape looks an awful lot like the disorganized gas industry did before the early 1980s. Skilling calls it "deja vu all over again." It was a short leap, they realized, from building a broadband infrastructure to trading--already one of the company's great strengths. Lay says precedent is on his side: "Everybody in electricity said it wouldn't work, that we couldn't do in electricity what we did in gas. But it took four years for us to become the largest supplier of electricity in the U.S. They were wrong."

Enron is installing huge Sun servers--200 so far, with 1,000 planned by year-end--around the world to aid in delivery of broadband content. To facilitate trading, the company is also creating what it calls "pooling points" where networks can interconnect. Finally Enron has created management software that allows customers to reserve and schedule bandwidth and pick a quality of service.

Enron expects to profit two ways. First, it hopes the trading system will sell more service through its own network, which covers only a small portion of the roughly 200,000 miles of fiber in the U.S. Second, Enron expects to make money on the spread between buying and selling prices for the bandwidth, as well as on related activities like risk management services.

Professional observers mostly express optimism about Enron's prospects. Says Steven Parla, an energy securities analyst at Credit Suisse First Boston: "For Enron to say we can do bandwidth trading is like Babe Ruth's saying, I can hit that pitcher. You tell him to get up there and take three swings. The risk is staggeringly low, and the potential reward is staggeringly high." Brownlee Thomas, a senior telecom industry analyst for Giga Information Group, agrees. She applauds Enron's entry into a business she calls "very sleazy--a bunch of cowboys and carpetbaggers." She adds, "What's new is that Enron is trying to make bandwidth a commodity. Absolutely, it will succeed. I think everyone wins."

Enron gets mixed reviews from industry incumbents. John Sidgmore, vice chairman of MCI WorldCom, is dismissive: "Honestly, what possible expertise could Enron have to help in the communications industry? They have zero experience that I know of." Over at Global Crossing they take a different view. The aggressive transoceanic fiber operator was the first telecommunications firm to strike a deal with Enron, selling capacity from New York to Los Angeles in early December. Jon Tingley, president of Global Crossing Services, says he sees "some of the difficulties of making it work." But he adds, "I have no doubt those difficulties will be overcome, and I think Enron will probably have a leading role."

Enron's new business puts it in competition with Internet highfliers like Akamai Technologies. Could Enron's stock, which has doubled since September 1998, achieve an Internet-type valuation? Says Skilling, who has Akamai's market capitalization on the tip of his tongue (recently \$ 25 billion, compared with Enron's \$ 31 billion): "We think our technology has as much value as Akamai's, plus we have a physical network comparable to somebody like Qwest--maybe not in miles but in cities we connect. So you can see how big this can be."

Skilling may be overoptimistic, but Enron has resources most dot-coms would die for. In today's environment, where every well-funded tech whippersnapper looks like a genius, it's tempting to root for a graybeard.

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Fortune

March 6, 2000

SECTION: ON THE JOB; The Leading Edge; Pg. 424

LENGTH: 982 words

HEADLINE: Taking Risk To the Marketplace

BYLINE: Thomas A. Stewart

BODY:

"You should always value the ability to move and change, because that creates options, and options are valuable," says Jeffrey K. Skilling, chief operating officer of Enron, the big energy company. Not for Skilling an energy company's usual penchant for holding lots of fixed assets and long-term contracts. Says he: "I prefer a smart person to an asset."

Enron is one of a handful of companies that have learned new ways of managing risk. Last time (The Leading Edge, Feb. 7) we talked about how traditional risk management, with its emphasis on real property and financial events, isn't enough for knowledge companies, whose big risks are intellectual assets, such as brand equity, human capital, innovation, and their network of relationships.

Before doing anything, you have to know what's at risk-- which isn't always easy for intangible assets. For example, a chemical company's ability to customize products is probably attributable to its knowledge assets rather than to its retorts and alembics. But what is the structure of the knowledge asset? It might be people-based--i.e., the skill to concoct custom chemicals might reside in the knowledge of experienced chemists. It might be media-based (found in cookbooks, manuals, databases). It might be relationship-based, found in ties to customers, suppliers, universities, etc.

Each has a different risk profile. To protect the cash flow from a people-based asset, you might want to diversify the ownership of vital knowledge by emphasizing teamwork, guard against obsolescence by developing learning programs, and shackle key people with golden handcuffs. Those are not the usual subjects of talk in treasurers' offices--yet they cry out for treasury's mathematical and actuarial rigor.

To see why, consider the analogy between managing risk and planning strategy. Says Art deTore, senior vice president for strategy at Lincoln Re, one of the largest reinsurers in the U.S.: "Our strategic planning process works like asset allocation for a portfolio." Existing lines of business are like bonds, deTore says, providing a steady cash flow with a high degree of certainty; Lincoln Re evaluates them using discounted cash-flow analysis. New opportunities are less predictable and best evaluated as if they were stocks. Untried ideas are startups, and evaluated using real-option pricing models, which take the tools that Robert Merton, Myron Scholes, and Fischer Black developed for financial options, and apply them

to real investments. They allow you to set a fair price for an asset today, even though its ultimate value might vary.

Thinking like a portfolio manager works for risk management as well as for strategy, says Bruce Pasternak, head of the strategic leadership practice at Booz Allen & Hamilton. In either case, adaptability is a cardinal virtue; the top goal is organizational flexibility. All-or-nothing bets like insurance have limited use in protecting cash flows from intangibles because their value is so uncertain, says Anjana Bhattacharee, director of Aporia, a British startup developing tools to manage those risks. Hedging also has problems. Says Bjarni Armannsson, head of the Icelandic Investment Bank in Reykjavik: "It's difficult to find a counterparty for intellectual risks." To hedge against falling gas prices, Enron can sell the risk to someone who fears rising prices, like a utility, but how do you hedge against a loss of expertise or brand equity?

General managers instinctively want to reduce risk by planning; portfolio managers exploit it via markets. Thus Armannsson makes equity investments in companies whose main asset is intellectual capital, but won't give them loans. He says, "These companies are volatile. If you lend to 100 companies and just one or two go bankrupt, you lose all your profit. If you have equity, you might need just one or two winners to get an excellent return."

Many intellectual risks can be securitized--at least metaphorically--and managed as part of a portfolio. Innovation, for example: Pharmaceutical companies like Merck use real options methods to keep tabs on R&D portfolios, periodically reweighting bets as each project's value becomes clearer.

Enron lowers business-model and human-capital risks with a flexible internal labor market. They are subject to what COO Skilling calls "the recurring nature of nonrecurring events"--he cannot know where change will strike but can be sure it will be somewhere. In 1992 long-term fixed-price gas contracts for independent power producers were Enron's biggest moneymaker. In 1993 the market changed, and Enron didn't sell even one. Yet, he says, "we didn't skip a beat, because we have a free market in people internally. They started gravitating to other businesses--we started our power marketing business in 1993--and we redeployed almost painlessly. We didn't lay off anyone--we hired."

Enron's labor market rests on five pillars. Common compensation structures mean no one loses money by moving. Titles go with the person, not the position; once a VP, always a VP. Equity is a substantial piece of pay, giving people an incentive to put their talent where the company makes the most money. Performance appraisals are made by committees of 24 people, not just by supervisors. That way, says Skilling, "your performance rating comes from the organization, not your boss, so you have very little risk to mobility." Last and most important, Enron keeps people by promising to challenge and develop them constantly.

Markets are full of risk, but it turns out that they're a lot safer than rigid structures. Intellectual assets and operations obey no one's command and are subject to discontinuous--i.e., quantum--change. There are four ways to respond to risk: Avoid it, reduce it, transfer it, or accept it. The one thing you can't do, if it's intellectual risk, is tie it up and subdue it.

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Fortune

October 2, 2000

SECTION: FEATURES/GLOBAL MOST ADMIRED; Pg. 182

LENGTH: 3295 words

HEADLINE: The World's Most Admired Companies;

How do you make the Most Admired list? Innovate, innovate, innovate. The winners on this year's list, compiled by the Hay Group consultancy, tell how they do it.

BYLINE: Nicholas Stein

BODY:

*** No company illustrates the transformative power of innovation more dramatically than Enron. Over the past decade Enron's commitment to the invention--and later domination--of new business categories has taken it from a \$ 200 million old-economy pipeline operator to a \$ 40 billion new-economy trading powerhouse. In 1985, Enron recognized the opportunities wrought by natural gas deregulation and began to trade it like a commodity. Soon it was opening new markets trading electric power, pulp, paper--even broadband. Jeff Shenkman, the COO of Enron Global Markets, credits the company's culture for its success in building frontier markets. "Challenging conventional wisdom is something we push here," he says. "The way we do things today is different from how we will do it six months from now." For example, Louise Kitchen, a trader in Enron's London office, was able to attract a group of 350 people for a project to take the company's gas-trading operations online--before upper management even knew about it. Launched in November 1999, Enron Online has racked up \$ 129 billion in transactions, making it one of the largest e-commerce sites in the world. "We didn't start it because the chairman said we needed an e-commerce strategy," says EVP Steve Kean. "The quality and strength of ideas are determined by how many employees support them--not by upper management. Good ideas are able to attract the resources they need to move forward freely." ***

The All-Stars

2000/1999

Rank Company Industry

1/1 GENERAL ELECTRIC Electronics, electrical equipment

2/8 CISCO SYSTEMS Network Commun., Internet Tech.

3/2 MICROSOFT Computer hardware, software

4/4 INTEL Computer hardware, software

5/7 WAL-MART STORES Retail: general, specialty

6/14 SONY Electronics, electrical equipment

7/9 DELL COMPUTER Computer hardware, software

8/NR NOKIA Network commun., Internet tech.

9/20 HOME DEPOT Retail: general, specialty

10/16 TOYOTA MOTOR Motor vehicles

11/22 SOUTHWEST AIRLINES Airlines

12/11 LUCENT TECHNOLOGIES Network Commun., Internet Tech.

13/NR GOLDMAN SACHS Securities, diversified financials
14/5 BERKSHIRE HATHAWAY Insurance: property, casualty
15/3 COCA-COLA Beverages
16/NR CHARLES SCHWAB Securities, diversified financials
17/17 JOHNSON & JOHNSON Pharmaceuticals
18/25 CITIGROUP Securities, diversified financials
19/15 FORD MOTOR Motor vehicles
20/13 PFIZER Pharmaceuticals
21/10 MERCK Pharmaceuticals
22/21 WALT DISNEY Entertainment
23/19 AMERICAN EXPRESS Securities, diversified financials
24/NR UNITED PARCEL SERVICE Mail, pkg., freight delivery
25/NR ENRON Energy transmission providers

The National Champions
Company Score Industry
U.S.
GENERAL ELECTRIC 8.41 Electronics, electrical equip.
HOME DEPOT 8.33 Retailers: general, specialty
WAL-MART STORES 8.32 Retailers: general, specialty
UNITED PARCEL SERVICE 8.20 Mail, pkg., freight delivery
ENRON 7.93 Energy transmission providers

Best of Category

INNOVATIVENESS
1 ENRON
2 NOKIA
3 HOME DEPOT

GETTING/KEEPING TALENT
1 GENERAL ELECTRIC
2 ENRON
3 MERCK

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Fortune

November 27, 2000

SECTION: FIRST; Value Driven; Pg. 82

LENGTH: 756 words

HEADLINE: The Envelope, Please;

My Proteus awards honor companies that have undergone superhuman change. This year's winners turned diapers and garbage into cell phones and entertainment.

BYLINE: Geoffrey Colvin

BODY:

The Proteus Awards are given annually, starting now, to big, established companies that have transformed themselves most completely during a single CEO's tenure. More specifically, they've adopted radical new business models--ones that seize on the digital revolution and seem to be working.

Such behavior deserves an award (even if it can't be placed on the mantel) because it lights the way for big, old companies everywhere, all of which will have to do something similar. The digital revolution is so pervasive that it's forcing every company to rethink the basic question of how it makes money and to recreate itself in some fundamental way. Proteus, as you sort of recall from school, was a Greek god who could adopt any form he liked. When not posing as a horse, a tree, a fire, or anything else, he was an old man. That's why he's the right inspiration for this award.

And the winners are:

*** --Enron (age 75). Formerly a regulated natural-gas pipeline utility; now the world's largest buyer and seller of gas and electricity, plus a market maker in fiber-optic bandwidth, shipping, pulp, paper, and related derivative securities. When I recently asked CEO Ken Lay the famous Peter Drucker question--"What business are you in?"--he said nothing about natural gas but, rather, "market making." Lay and COO Jeff Skilling looked at the world and saw rampant deregulation, globalizing industries, and Internet technology stripping delay, ignorance, and friction out of all markets. Once they identified market making as a core competency, they realized that making a market in, say, bandwidth was the same--"exactly the same," says Skilling--as making one in gas. Of course they make all those markets, and probably many more to come, at Enron Online, the world's largest e-business. The stock is up 300% in the past three years. ***

What's the message from these three geriatric radical companies? At a conference a few years ago I was criticizing boards of directors that paid CEOs lavishly when shareholders were suffering. A man in the audience protested that I was being unfair: A CEO, he said, is "trapped" in his company's industry and shouldn't be penalized if it's a lousy industry. As the Proteus winners show, that's just wrong.

You are never trapped. If you think you are, then your company is a top candidate, especially today, for the Lot's Wife award--named for the Old Testament character who looked backward instead of forward and as a result was turned into a pillar of salt. I haven't given any of these yet, but I think they'll be awarded posthumously.

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Fortune

February 19, 2001

SECTION: FEATURES/COVER STORIES/AMERICA'S MOST ADMIRED COMPANIES; Pg. F-1

LENGTH: 16155 words

HEADLINE: Where Companies Rank in Their Industries;

How executives, directors, and securities analysts rate 535 companies in 61 industries.

BODY:

PIPELINES, ENERGY[3]

2000 1999 COMPANY SCORE

1 1	Enron	8.29
2 2	Williams	6.86
3 3	El Paso Energy	6.85
4 4	Dynegy	6.75
5 6	Kinder Morgan	6.63
6 2[4]	MidAmerican Energy Holdings	5.46
7 1[4]	NorthWestern	5.25
8 8	Western Gas Resources	5.01
9 4[4]	USEC	4.56
10 7	TransMontaigne Oil	4.46

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Fortune

March 5, 2001

SECTION: FEATURES; Pg. 122

LENGTH: 2390 words

HEADLINE: Is Enron Overpriced?;

It's in a bunch of complex businesses. Its financial statements are nearly impenetrable. So why is Enron trading at such a huge multiple?

BYLINE: Bethany McLean

BODY:

In Hollywood parlance, the "It Girl" is someone who commands the spotlight at any given moment--you know, like Jennifer Lopez or Kate Hudson. Wall Street is a far less glitzy place, but there's still such a thing as an "It Stock." Right now, that title belongs to Enron, the Houston energy giant. While tech stocks were bombing at the box office last year, fans couldn't get enough of Enron, whose shares returned 89%. By almost every measure, the company turned in a virtuoso performance: Earnings increased 25%, and revenues more than doubled, to over \$100 billion. Not surprisingly, the critics are gushing. "Enron has built unique and, in our view, extraordinary franchises in several business units in very large markets," says Goldman Sachs analyst David Fleischer.

Along with "It" status come high multiples and high expectations. Enron now trades at roughly 55 times trailing earnings. That's more than 2 1/2 times the multiple of a competitor like Duke Energy, more than twice that of the S&P 500, and about on a par with new-economy sex symbol Cisco Systems. Enron has an

even higher opinion of itself. At a late-January meeting with analysts in Houston, the company declared that it should be valued at \$ 126 a share, more than 50% above current levels. "Enron has no shame in telling you what it's worth," says one portfolio manager, who describes such gatherings as "revival meetings." Indeed, First Call says that 13 of Enron's 18 analysts rate the stock a buy.

But for all the attention that's lavished on Enron, the company remains largely impenetrable to outsiders, as even some of its admirers are quick to admit. Start with a pretty straightforward question: How exactly does Enron make its money? Details are hard to come by because Enron keeps many of the specifics confidential for what it terms "competitive reasons." And the numbers that Enron does present are often extremely complicated. Even quantitatively minded Wall Streeters who scrutinize the company for a living think so. "If you figure it out, let me know," laughs credit analyst Todd Shipman at S&P. "Do you have a year?" asks Ralph Pellecchia, Fitch's credit analyst, in response to the same question.

To skeptics, the lack of clarity raises a red flag about Enron's pricey stock. Even owners of the stock aren't uniformly sanguine. "I'm somewhat afraid of it," admits one portfolio manager. And the inability to get behind the numbers combined with ever higher expectations for the company may increase the chance of a nasty surprise. "Enron is an earnings-at-risk story," says Chris Wolfe, the equity market strategist at J.P. Morgan's private bank, who despite his remark is an Enron fan. "If it doesn't meet earnings, [the stock] could implode."

What's clear is that Enron isn't the company it was a decade ago. In 1990 around 80% of its revenues came from the regulated gas-pipeline business. But Enron has been steadily selling off its old-economy iron and steel assets and expanding into new areas. In 2000, 95% of its revenues and more than 80% of its operating profits came from "wholesale energy operations and services." This business, which Enron pioneered, is usually described in vague, grandiose terms like the "financialization of energy"--but also, more simply, as "buying and selling gas and electricity." In fact, Enron's view is that it can create a market for just about anything; as if to underscore that point, the company announced last year that it would begin trading excess broadband capacity.

But describing what Enron does isn't easy, because what it does is mind-numbingly complex. CEO Jeff Skilling calls Enron a "logistics company" that ties together supply and demand for a given commodity and figures out the most cost-effective way to transport that commodity to its destination. Enron also uses derivatives, like swaps, options, and forwards, to create contracts for third parties and to hedge its exposure to credit risks and other variables. If you thought Enron was just an energy company, have a look at its SEC filings. In its 1999 annual report the company wrote that "the use of financial instruments by Enron's businesses may expose Enron to market and credit risks resulting from adverse changes in commodity and equity prices, interest rates, and foreign exchange rates."

Analyzing Enron can be deeply frustrating. "It's very difficult for us on Wall Street with as little information as we have," says Fleischer, who is a big bull. (The same is true for Enron's competitors, but "wholesale operations" are usually a smaller part of their business, and they trade at far lower multiples.) "Enron is a

big black box," gripes another analyst. Without having access to each and every one of Enron's contracts and its minute-by-minute activities, there isn't any way to independently answer critical questions about the company. For instance, many Wall Streeters believe that the current volatility in gas and power markets is boosting Enron's profits, but there is no way to know for sure. "The ability to develop a somewhat predictable model of this business for the future is mostly an exercise in futility," wrote Bear Stearns analyst Robert Winters in a recent report.

To some observers, Enron resembles a Wall Street firm. Indeed, people commonly refer to the company as "the Goldman Sachs of energy trading." That's meant as a compliment. But the fact that part of Goldman's business is inherently risky and impenetrable to outsiders is precisely the reason that Goldman, despite its powerful franchise, trades at 17 times trailing earnings--or less than one-third of Enron's P/E. And as Long Term Capital taught us, the best-laid hedges, even those designed by geniuses, can go disastrously wrong. "Trying to get a good grip on Enron's risk profile is challenging," says Shipman.

Nor at the moment is Enron's profitability close to that of brokerages (which, in fairness, do tend to be more leveraged). While Wall Street firms routinely earn north of 20% returns on their equity--Goldman's ROE last year was 27%--Enron's rate for the 12 months ended in September (the last period for which balance sheet information is available) was 13%. Even less appealing is Enron's return on invested capital (a measure including debt), which is around 7%. That's about the same rate of return you get on far less risky U.S. Treasuries.

Enron vehemently disagrees with any characterization of its business as black box-like. It also dismisses any comparison to a securities firm. "We are not a trading company," CFO Andrew Fastow emphatically declares. In Enron's view, its core business--where the company says it makes most of its money--is delivering a physical commodity, something a Goldman Sachs doesn't do. And unlike a trading firm, which thrives when prices are going wild, Enron says that volatility has no effect on its profits--other than to increase customers, who flock to the company in turbulent times. Both Skilling, who describes Enron's wholesale business as "very simple to model," and Fastow note that the growth in Enron's profitability tracks the growth in its volumes almost perfectly. "People who raise questions are people who have not gone through [our business] in detail and who want to throw rocks at us," says Skilling. Indeed, Enron dismisses criticism as ignorance or as sour grapes on the part of analysts who failed to win its investment-banking business. The company also blames short-sellers for talking down Enron. As for the details about how it makes money, Enron says that's proprietary information, sort of like Coca-Cola's secret formula. Fastow, who points out that Enron has 1,217 trading "books" for different commodities, says, "We don't want anyone to know what's on those books. We don't want to tell anyone where we're making money."

In addition to its commodities business, Enron has another division called Assets and Investments that is every bit as mysterious. This business involves building power plants around the world, operating them, selling off pieces of them, "invest[ing] in debt and equity securities of energy and communications-related business," as Enron's filings note, and other things.

Actually, analysts don't seem to have a clue what's in Assets and Investments or, more to the point, what sort of earnings it will generate. Enron's results from that part of its business tend to be quite volatile--profits fell from \$ 325 million in the second quarter of 1999 to \$ 55 million in the second quarter of 2000. In written reports, Morgan Stanley chalked up the decline to the poor performance of Enron's "significant number of investments" in telecom stocks; Dain Rauscher Wessels blamed it on a lack of asset sales.

In any event, some analysts seem to like the fact that Enron has some discretion over the results it reports in this area. In a footnote to its 1999 financials, Enron notes that it booked "pretax gains from sales of merchant assets and investments totaling \$ 756 million, \$ 628 million, and \$ 136 million" in 1999, 1998, and 1997. "This is an enormous earnings vehicle, which can often be called upon when and if market conditions require," notes UBS Warburg analyst Ron Barone. Not everyone is so chipper. "We are concerned they are liquidating their asset base and booking it as recurring revenue, especially in Latin America," says analyst Andre Meade at Commerzbank--who has a hold rating on the stock. At the least, these sorts of hard-to-predict earnings are usually assigned a lower multiple.

There are other concerns: Despite the fact that Enron has been talking about reducing its debt, in the first nine months of 2000 its debt went up substantially. During this period, Enron issued a net \$ 3.9 billion in debt, bringing its total debt up to a net \$ 13 billion at the end of September and its debt-to-capital ratio up to 50%, vs. 39% at the end of 1999. Nor does Enron make life easy for those who measure the health of a business by its cash flow from operations. In 1999 its cash flow from operations fell from \$ 1.6 billion the previous year to \$ 1.2 billion. In the first nine months of 2000, the company generated just \$ 100 million in cash. (In fact, cash flow would have been negative if not for the \$ 410 million in tax breaks it received from employees' exercising their options.)

But Enron says that extrapolating from its financial statements is misleading. The fact that Enron's cash flow this year was meager, at least when compared with earnings, was partly a result of its wholesale business. Accounting standards mandate that its assets and liabilities from its wholesale business be "marked to market"--valued at their market price at a given moment in time. Changes in the valuation are reported in earnings. But these earnings aren't necessarily cash at the instant they are recorded. Skilling says that Enron can convert these contracts to cash anytime it chooses by "securitizing" them, or selling them off to a financial institution. Enron then receives a "servicing fee," but Skilling says that all the risks (for example, changes in the value of the assets and liabilities) are then transferred to the buyer. That's why, he says, Enron's cash flow will be up dramatically, while debt will be "way down, way down" when the company publishes its full year-end results, which are due out soon.

That's good, because Enron will need plenty of cash to fund its new, high-cost initiatives: namely, the high-cost buildout of its broadband operations. In order to facilitate its plan to trade excess bandwidth capacity, Enron is constructing its own network. This requires big capital expenditures. So broadband had better be a good business. Both Enron and some of the analysts who cover it think it already is. Included in the \$ 126 a share that Enron says it's worth is \$ 40 a share--or \$ 35 billion--for broadband. Several of Enron's analysts value broadband at \$ 25 a

share, or roughly \$ 22 billion (and congratulate themselves for being conservative). But \$ 22 billion seems like a high valuation for a business that reported \$ 408 million of revenues and \$ 60 million of losses in 2000. Not all analysts are so aggressive. "Valuing the broadband business is an "extremely difficult, uncertain exercise at this point in time," notes Bear Stearns' Winters, who thinks that broadband, while promising, is worth some \$ 5 a share today.

Of course everything could go swimmingly. Enron has told analysts that it plans to sell between \$ 2 billion and \$ 4 billion of assets over the next 12 months. The bullish scenario for Enron is that the proceeds from those sales will reduce debt, and as earnings from new businesses kick in, the company's return on invested capital will shoot upward. Along with broadband, Enron has ambitious plans to create big businesses trading a huge number of other commodities, from pulp and paper to data storage to advertising time and space. Perhaps most promising is its Enron Energy Services business, which manages all the energy needs of big commercial and industrial companies. Skilling has told analysts that its new businesses will generate a return on invested capital of about 25% over the long run.

But all of these expectations are based on what Wolfe, the J.P. Morgan strategist, calls "a little bit of the China syndrome"--in other words, if you get x% of y enormous market, you'll get z in revenues. For instance, Enron says the global market for broadband and storage services will expand from \$ 155 billion in 2001 to somewhere around \$ 383 billion in 2004. "Even a modest market share and thin margins provide excellent potential here," writes Ed Tirello, a Deutsche Bank Alex. Brown senior power strategist. The problem, as we know from innumerable failed dot-coms, is that the y enormous market doesn't always materialize on schedule. And Enron isn't leaving itself a lot of room for the normal wobbles and glitches that happen in any developing business.

In the end, it boils down to a question of faith. "Enron is no black box," says Goldman's Fleischer. "That's like calling Michael Jordan a black box just because you don't know what he's going to score every quarter." Then again, Jordan never had to promise to hit a certain number of shots in order to please investors.

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Fortune

September 17, 2001

SECTION: FIRST/ENERGY; Pg. 48

LENGTH: 632 words

HEADLINE: Enron's Power Crisis

BYLINE: Bethany McLean

BODY:

"Bizarre" is how everyone describes it. On Aug. 14, Enron CEO Jeff Skilling--a self-described "brilliant" 47-year-old who says he's never suffered any kind of failure--announced he was relinquishing his title and leaving the company after a mere six months in the top job. Skilling insisted that the parting was voluntary, laying the blame on unspecified personal, non-health-related reasons. But by leav-

ing when and how he did, Skilling forfeited a roughly \$ 20 million severance package and gained the responsibility of repaying a \$ 2 million loan that Enron would have forgiven had he stuck around until the end of the year.

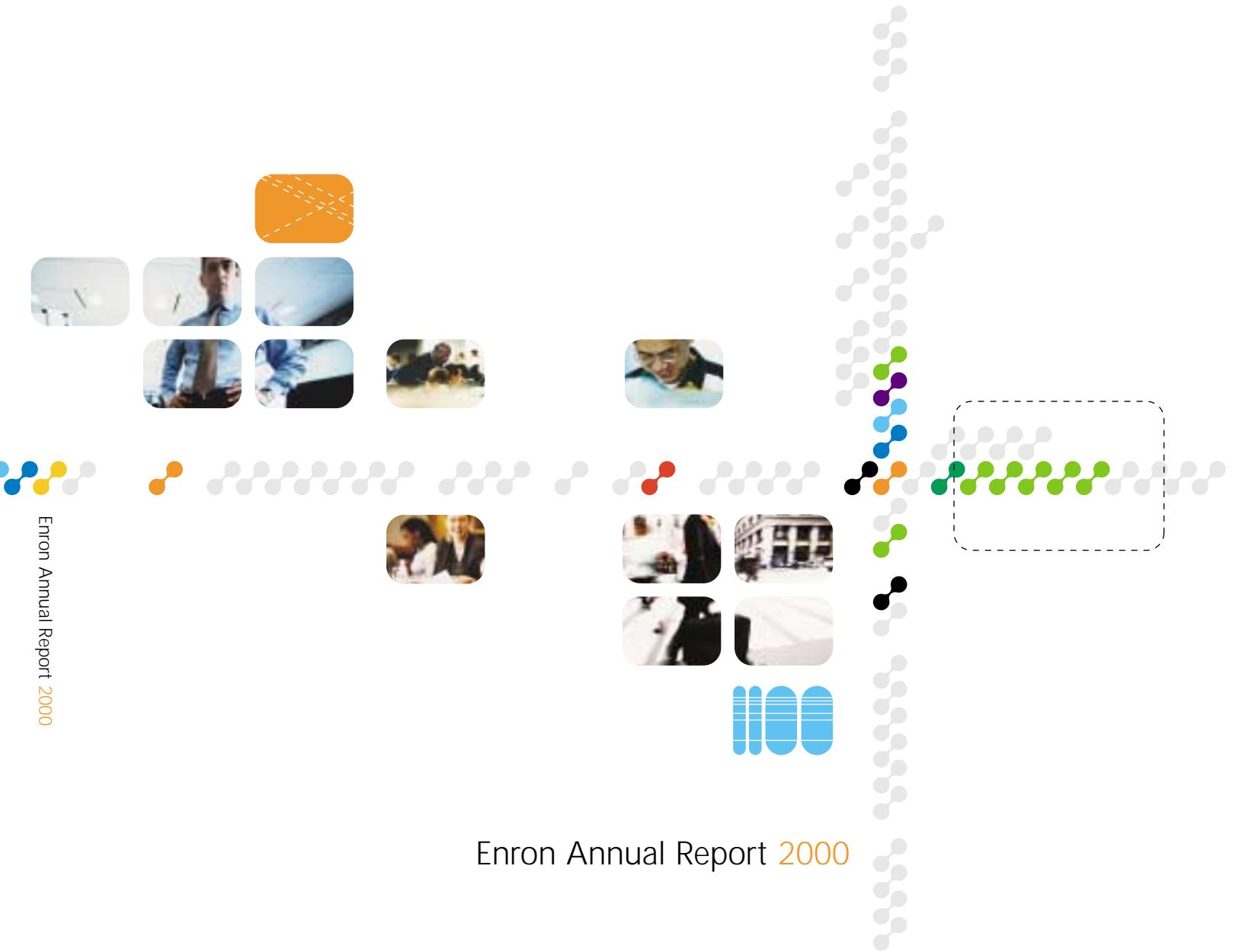
More bizarre than his timing is how quickly Enron's once tight relationship with Wall Street deteriorated during Skilling's reign. The ex-CEO was famously boastful--insisting that Enron's nascent broadband trading business was worth \$ 35 billion--and thin-skinned, declaring on a conference call that a money manager who dared ask for a balance sheet was an "asshole."

The task of restoring Enron's glory falls to Ken Lay, the company's chairman and former CEO, who has replaced Skilling. He's got his work cut out. Enron's "overall quality of earnings has deteriorated, its level of behind-the-scenes financial engineering has increased, and its overall standing with the Street has plunged," wrote UBS Warburg analyst Ron Barone in a recent report--and Barone is one of the bulls. Despite Lay's insistence that there aren't any "accounting issues, trading issues, or reserve issues" at Enron, investors are hesitant to bid the company back up. Indeed, Enron now trades at around \$ 38, down some 60% from its 52-week high.

One reason Lay's job is so tough is that, as FORTUNE pointed out in March (see "Is Enron Overpriced?" on fortune.com), Enron's financials are on the dim side of opaque. While Wall Street was once willing to take the company's word on financial performance, it no longer is. And because Enron gives analysts so little to work with, building independent models is next to impossible. Enron's major business, the trading and marketing of energy, is relatively new and extremely complicated. Seemingly basic questions--like the effects of lower natural gas prices and less volatility in the energy markets on Enron's profits--are still unanswered. And there's confusion about the relationship between Enron's reported earnings, which reflect changes in the value of its energy-trading portfolio, and the actual cash coming in. In the first half of the year, Enron reported net income of \$ 810 million and cash flow from operations of negative \$ 1.3 billion.

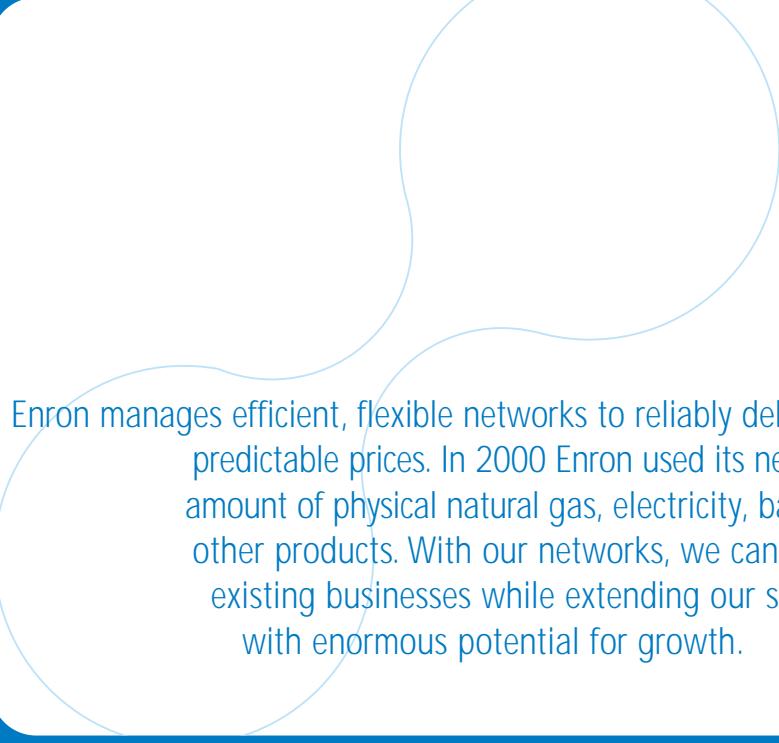
Then there's the challenge of convincing investors that Enron itself believes it has a rosy future. High-level executives besides Skilling have recently left, and analysts like Jeff Dietert at Simmons say insider selling has been "aggressive" recently. While Enron executives still hold big chunks of stock, according to Thomson Financial/Lancer Analytics, insiders have sold 1.75 million shares in 2001--and they've sold as the stock has fallen, which is generally regarded as a bad sign. Among the biggest sellers: Lay, who has sold 408,000 shares at prices ranging from \$ 81 last winter to \$ 43 in July. Other sellers have included two executives who have since resigned: new business unit head Lou Pai and broadband chief Kenneth Rice. Enron says that sales are related to the pending expiration of options.

Lay is moving swiftly to address those concerns. He's promised the Street more disclosure about Enron's operations, and to combat criticism about Enron's weak bench he recently announced a new office of the chairman, anointing veterans Greg Whalley and Mark Frevert to help him run the company. No word yet on whether he plans to start buying Enron stock.



Enron Annual Report 2000





Enron manages efficient, flexible networks to reliably deliver physical products at predictable prices. In 2000 Enron used its networks to deliver a record amount of physical natural gas, electricity, bandwidth capacity and other products. With our networks, we can significantly expand our existing businesses while extending our services to new markets with enormous potential for growth.

CONTENTS

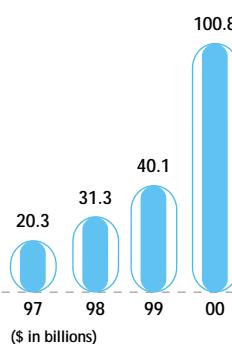
- [1 FINANCIAL HIGHLIGHTS](#)
- [2 LETTER TO SHAREHOLDERS](#)
- [9 ENRON WHOLESALE SERVICES](#)
- [14 ENRON ENERGY SERVICES](#)
- [16 ENRON BROADBAND SERVICES](#)
- [18 ENRON TRANSPORTATION SERVICES](#)

- [20 FINANCIAL REVIEW](#)
- [53 OUR VALUES](#)
- [54 BOARD OF DIRECTORS](#)
- [56 ENRON CORPORATE POLICY COMMITTEE](#)
- [56 SHAREHOLDER INFORMATION](#)

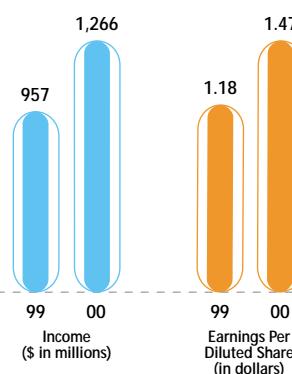
FINANCIAL HIGHLIGHTS

(Unaudited: in millions, except per share data)

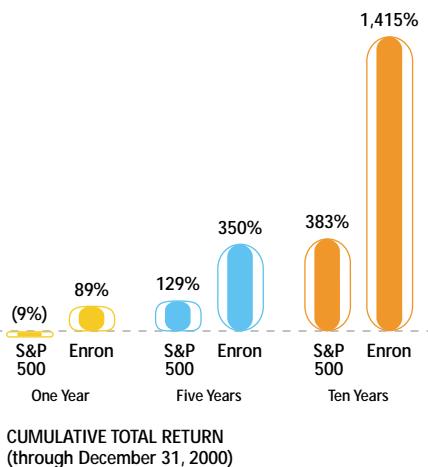
	2000	1999	1998	1997	1996
Revenues	\$ 100,789	\$ 40,112	\$ 31,260	\$ 20,273	\$ 13,289
Net income:					
Operating results	\$ 1,266	957	698	515	493
Items impacting comparability	(287)	(64)	5	(410)	91
Total	\$ 979	893	703	105	584
Earnings per diluted common share:					
Operating results	\$ 1.47	1.18	1.00	0.87	0.91
Items impacting comparability	(0.35)	(0.08)	0.01	(0.71)	0.17
Total	\$ 1.12	1.10	1.01	0.16	1.08
Dividends paid per common share	\$ 0.50	0.50	0.48	0.46	0.43
Total assets	\$ 65,503	33,381	29,350	22,552	16,137
Cash from operating activities (excluding working capital)	\$ 3,010	2,228	1,873	276	742
Capital expenditures and equity investments	\$ 3,314	3,085	3,564	2,092	1,483
NYSE price range					
High	\$ 90 1/8	44 7/8	29 3/8	22 1/8	23 3/4
Low	41 3/8	28 3/4	19 1/8	17 1/2	17 5/8
Close December 31	83 1/8	44 7/8	28 17/32	20 25/32	21 1/8



REVENUES



OPERATING RESULTS



TO OUR SHAREHOLDERS

Enron's performance in 2000 was a success by any measure, as we continued to

outdistance the competition

and solidify our leadership in each of our major businesses. In our largest business, wholesale services, we experienced an enormous increase of 59 percent in physical energy deliveries. Our retail energy business achieved its highest level ever of total contract value. Our newest business, broadband services, significantly accelerated transaction activity, and our oldest business, the interstate pipelines, registered increased earnings. The company's net income reached a record \$1.3 billion in 2000.



Enron has built unique and strong businesses that have tremendous opportunities for growth. These businesses — wholesale services, retail energy services, broadband services and transportation services — can be significantly expanded within their very large existing markets and extended to new markets with enormous growth potential. At a minimum, we see our market opportunities company-wide tripling over the next five years.

Enron is laser-focused on earnings per share, and we expect to continue strong earnings performance. We will leverage our extensive business networks, market knowledge and logistical expertise to produce high-value bundled products for an increasing number of global customers.

Competitive Advantages

Our targeted markets are very large and are undergoing fundamental changes. Energy deregulation and liberalization continue, and customers are driving demand for reliable delivery of energy at predictable prices. Many markets are experiencing tighter supply, higher prices and increased volatility, and there is increasing interdependence within regions and across commodities. Similarly, the broadband industry faces issues of overcapacity and capital constraint even as demand increases for

faster, flexible and more reliable connectivity. Enron is in a unique position to provide the products and services needed in these environments. Our size, experience and skills give us enormous competitive advantages. We have:

- Robust networks of strategic assets that we own or have contractual access to, which give us greater flexibility and speed to reliably deliver widespread logistical solutions.
- Unparalleled liquidity and market-making abilities that result in price and service advantages.
- Risk management skills that enable us to offer reliable prices as well as reliable delivery.
- Innovative technology such as EnronOnline to deliver products and services easily at the lowest possible cost.

These capabilities enable us to provide high-value products and services other wholesale service providers cannot. We can take the physical components and repackage them to suit the specific needs of customers. We treat term, price and delivery as variables that are blended into a single, comprehensive solution. Our technology and fulfillment systems ensure execution. In current market environments, these abilities make Enron the right company with the right model at the right time.

The Astonishing Success of EnronOnline

In late 1999 we extended our successful business model to a web-based system, EnronOnline. EnronOnline has broadened our market reach, accelerated our business activity and enabled us to scale our business beyond our own expectations. By the end of 2000, EnronOnline had executed 548,000 transactions with a notional value of \$336 billion, and it is now the world's largest web-based eCommerce system.

With EnronOnline, we are reaching a greater number of customers more quickly and at a lower cost than ever. It's a great new business generator, attracting users who are drawn by the site's ease of use, transparent, firm prices and the fact that they are transacting directly with Enron. In 2000 our total physical volumes increased significantly as a direct result of EnronOnline.

left page:
Jeffrey K. Skilling
President and CEO

right page:
Kenneth L. Lay
Chairman

wholesale services income before interest, minority interests and taxes (IBIT) increased 72 percent to \$2.3 billion. Over the past five years, as physical volumes have increased, wholesale IBIT has grown at a compounded average annual rate of 48 percent, and we have had 20 consecutive quarters of year-over-year growth. We have established core wholesale businesses in both natural gas and power in North America and Europe, where we are market leaders.

In North America, we deliver almost double the amount of natural gas and electricity than the second tier of competitors. Our network of 2,500 delivery points provides price advantages, flexibility and speed-to-market in both natural gas and power. Natural gas, our most developed business, has seen substantial volume growth throughout the United States and Canada. In 2000 our physical natural gas volumes were up 77 percent to 24.7 billion cubic feet per day (Bcf/d). Physical power volumes were up 52 percent to 579 million megawatt-hours (MWh).

We are building a similar, large network in Europe. In 2000 we marketed 3.6 Bcf/d of natural gas and 53 million MWh in this market, a vast increase over 1999. As markets open, we tenaciously pursue the difficult, early deals that break ground for subsequent business. We are the only pan-European



EnronOnline has enabled us to scale quickly, soundly and economically. Since its introduction, EnronOnline has expanded to include more than 1,200 of our products. It also has streamlined our back-office processes, making our entire operation more efficient. It has reduced our overall transaction costs by 75 percent and increased the productivity of our commercial team by five-fold on average. We are not sitting still with this important new business tool — in September 2000 we released EnronOnline 2.0, which added even more customer functionality and customization features and attracted more customers.

Enron Wholesale Services

The wholesale services business delivered record physical volumes of 51.7 trillion British thermal units equivalent per day (TBtue/d) in 2000, compared to 32.4 TBtue/d in 1999. As a result,

player, and we are optimizing our advantage to conduct cross-border transactions.

We are extending Enron's proven business approach to other markets, and integrating EnronOnline into all our businesses as an accelerator. Our growth rates are rising in areas such as metals, forest products, weather derivatives and coal. We expect these businesses to contribute to earnings even more significantly in 2001.

Enron Energy Services

Our retail unit is a tremendous business that experienced a break-out year in 2000. We signed contracts with a total value of \$16.1 billion of customers' future energy expenditures, almost double the \$8.5 billion signed in 1999. We recorded increasing positive earnings in all four quarters in 2000, and the business generated \$103 million of recurring IBIT. Energy and facilities management outsourcing is

now a proven concept, and we've established a profitable deal flow, which includes extensions of contracts by many existing customers. Price volatility in energy markets has drawn fresh attention to our capabilities, increasing demand for our services. No other provider has the skill, experience, depth and versatility to offer both energy commodity and price risk management services, as well as energy asset management and capital solutions. In 2001 we expect to close approximately \$30 billion in new total contract value, including business from our newest market, Europe.

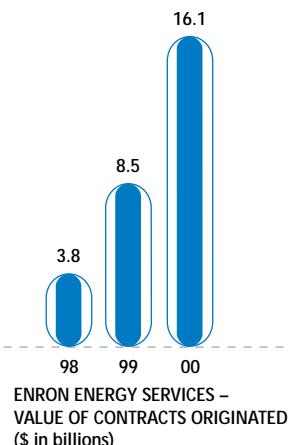
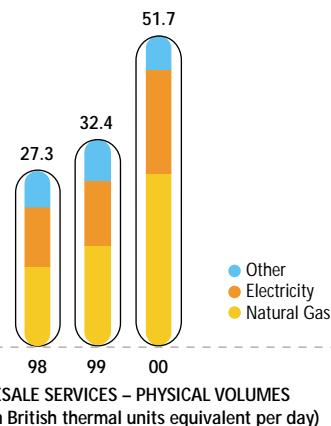
Enron Broadband Services

We have created a new market for bandwidth intermediation with Enron Broadband Services. In 2000 we completed 321 transactions with 45 coun-

businesses and offer viewers at home an additional convenient way to choose and receive entertainment. Enron provides the wholesale logistical services that bridge the gap between content providers and last-mile distributors. Full-length movies-on-demand service has been successfully tested in four U.S. metropolitan markets.

Enron Transportation Services

The new name for our gas pipeline group accurately reflects a cultural shift to add more innovative customer services to our efficient pipeline operation. To serve our customers more effectively, we are increasingly incorporating the web into those relationships. Customers can go online to schedule nominations and handle inquiries, and they can transact for available capacity on EnronOnline. The pipelines



terparties. We are expanding our broadband intermediation capabilities to include a broad range of network services, such as dark fiber, circuits, Internet Protocol service and data storage. Our opportunities are increasing commensurately.

Part of the value we bring to the broadband field is network connectivity — providing the switches, the network intelligence and the intermediation skills to enable the efficient exchange of capacity between independent networks. We operate 25 pooling points to connect independent third-parties — 18 in the United States, six in Europe and one in Japan. At least 10 more are scheduled to be completed in 2001.

Enron also has developed a compelling commercial model to deliver premium content-on-demand services via the Enron Intelligent Network. Content providers want to extend their established

continued to provide strong earnings and cash flow in 2000. Demand for natural gas is at a high in the United States, and we're adding capacity to take advantage of expansion opportunities in all markets. New capacity is supported by long-term contracts.

Strong Returns

Enron is increasing earnings per share and continuing our strong returns to shareholders. Recurring earnings per share have increased steadily since 1997 and were up 25 percent in 2000. The company's total return to shareholders was 89 percent in 2000, compared with a negative 9 percent returned by the S&P 500. The 10-year return to Enron shareholders was 1,415 percent compared with 383 percent for the S&P 500.

Enron hardly resembles the company we were in the early days. During our 15-year history, we have stretched ourselves beyond our own expectations.

We have metamorphosed from an asset-based pipeline and power generating company to a marketing and logistics company whose biggest assets are its well-established business approach and its innovative people.

Our performance and capabilities cannot be compared to a traditional energy peer group. Our results put us in the top tier of the world's corporations. We have a proven business concept that is eminently scalable in our existing businesses and adaptable enough to extend to new markets.

As energy markets continue their transformation, and non-energy markets develop, we are poised to capture a good share of the enormous opportunities they represent. We believe wholesale gas and power in North America, Europe and Japan

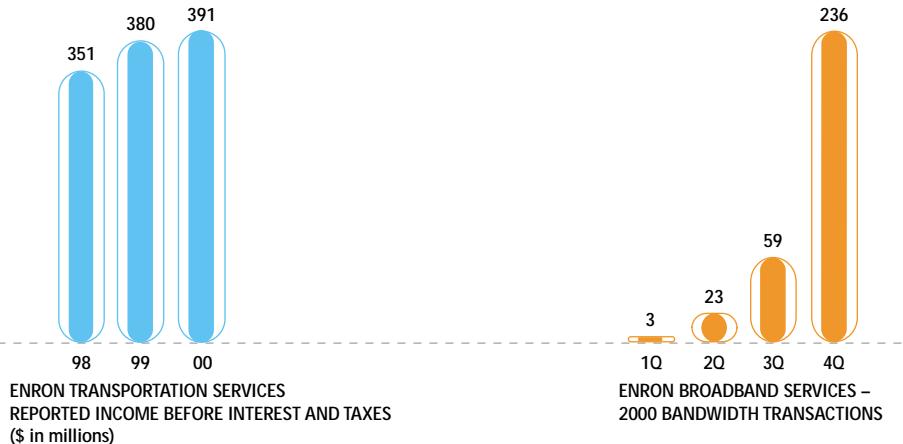
EnronOnline will accelerate their growth. We plan to leverage all of these competitive advantages to create significant value for our shareholders.



Kenneth L. Lay
Chairman



Jeffrey K. Skilling
President and
Chief Executive Officer



will grow from a \$660 billion market today to a \$1.7 trillion market over the next several years. Retail energy services in the United States and Europe have the potential to grow from \$180 billion today to \$765 billion in the not-so-distant future. Broadband's prospective global growth is huge — it should increase from just \$17 billion today to \$1.4 trillion within five years.

Taken together, these markets present a \$3.9 trillion opportunity for Enron, and we have just scratched the surface. Add to that the other big markets we are pursuing — forest products, metals, steel, coal and air-emissions credits — and the opportunity rises by \$830 billion to reach nearly \$4.7 trillion.

Our talented people, global presence, financial strength and massive market knowledge have created our sustainable and unique businesses.

In Volatile Markets, *EVERYTHING CHANGES BUT US*

When customers do business with Enron, they get our commitment to reliably deliver their product at a predictable price, regardless of the market condition.

This commitment is possible because of Enron's unrivaled access to markets and liquidity. We manage flexible networks with thousands of delivery points, giving us multiple options and a distinct service advantage.

Our extensive daily market activity keeps us on top of price movements, so we can manage our customers' price risk. We offer a multitude of predictable pricing options.

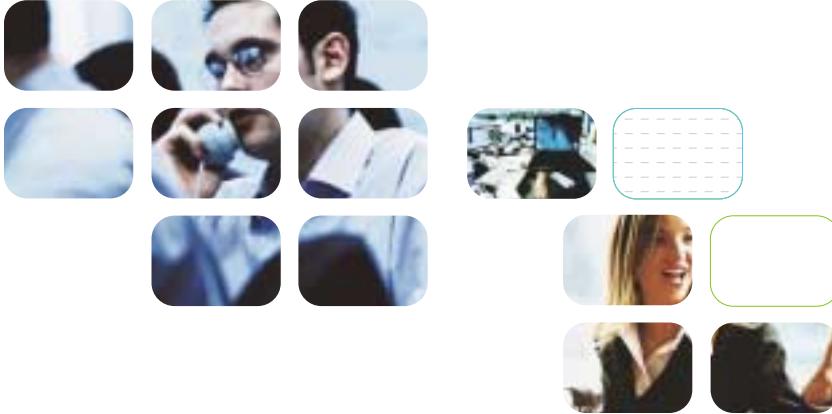
Market access and information allow Enron to deliver comprehensive logistical solutions that work in volatile markets or markets undergoing fundamental changes, such as energy and broadband.

This core logistical capability led to our best year ever in 2000 because physical volumes drive our wholesale profits. We see ample opportunities for further volume growth in existing and new markets. Enron's ability to deliver is the one constant in an increasingly complex and competitive world.

Enron blends these four elements together to deliver premium logistical solutions.

>>





Extensive Market Networks

- Enron manages large, flexible networks of assets, contracts and services that provide unrivaled liquidity.
- Liquidity allows Enron to move products in and out of markets so it can maximize opportunity and margins.
- Because it has broad physical access, Enron reliably executes contracts.

Knowledgeable Pricing

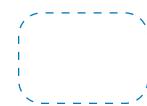
- Enron's market activity captures massive amounts of pricing information.
- Pricing information helps Enron effectively manage its customers' price risk and its own.
- Enron allows customers to choose the optimal way to set a predictable price.

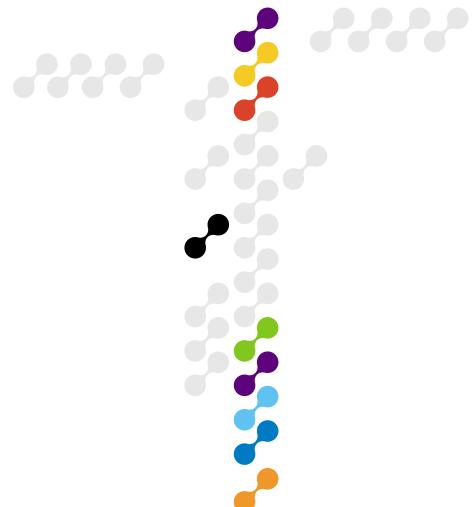
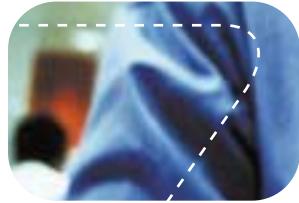
Technology Advantages

- Information systems quickly distribute real-time information.
- EnronOnline extends Enron's reach to increase volumes and market share.
- Enron's sophisticated systems track prices, register exposures and monitor customer credit.

Scalable Fulfillment

- EnronOnline integrates seamlessly into delivery fulfillment systems, reducing transaction costs.
- Existing systems scale readily as volumes increase.
- Standardized legal and tax compliance speed business.
- Systematic risk assessment and control protect Enron.





ENRON WHOLESALE SERVICES

Wholesale services is Enron's largest and fastest growing business, with sustainable growth opportunities in each of its markets. In 2000 income before interest, minority interests and taxes (IBIT) rose 72 percent to \$2.3 billion, with record physical energy volumes of 51.7 trillion British thermal units equivalent per day (TBtue/d) — a 59 percent increase over 1999.

For the past five years, wholesale services earnings have grown at an average compounded growth rate of 48 percent annually, and our competitive position is growing stronger. Customers transact with Enron because we offer products and services few others can match. With our flexible networks and unique capabilities in risk management and finance, we deliver the widest range of reliable logistical solutions at predictable prices.

Enron delivers more than two times the natural gas and power volumes as does its nearest energy marketing competitor. Our formidable lead comes from our willingness to enter markets early and serve as a market-maker to build liquidity and price transparency. Breakthrough technology applications, such as EnronOnline, accelerate our market penetration. These competitive advantages have made us the most successful energy marketer in the two largest deregulating energy markets, North America and Europe. We expect to achieve a similar leadership position as we extend our business approach to new regions, products and industries.

Our business has flourished with EnronOnline. Launched in November 1999, EnronOnline handled 548,000 transactions in 2000 with a gross notional value of \$336 billion. EnronOnline is unquestionably the largest web-based eCommerce site in the world and dwarfs all other energy marketing web sites combined. By the fourth quarter of 2000, it accounted for almost half of Enron's transactions over all business units. EnronOnline has pushed productivity through the roof: Transactions per commercial person rose to 3,084 in 2000 from 672 in 1999. EnronOnline Version 2.0, launched in September 2000, has attracted more users with its additional functionality (see "EnronOnline" next page).

Enron North America

In North America, Enron's physical natural gas volumes increased 77 percent to 24.7 billion cubic feet per day (Bcf/d) in 2000 from 13.9 Bcf/d in 1999. Power deliveries increased 52 percent to 579 million megawatt-hours (MWh) from 381 million MWh the year before.

EnronOnline has been a runaway success in North America. It accounted for 74 percent of North American volume transacted in 2000, and

created liquidity on a scale never seen before. It is a dynamic business accelerator: It took nearly a decade for Enron's daily gas transactions to reach 13.9 Bcf in 1999. Just 12 months later, EnronOnline had helped to practically double daily transactions to 24.7 Bcf.

EnronOnline magnifies the success of our existing business, which springs from the scale and scope of our established networks. We touch more parts of North America's energy system than any other merchant, with access to upwards of 2,500 distinct delivery points each day. The widespread delivery options and possibilities of our network give us a price and service advantage. Our networks and presence in nationwide energy markets also enable us to capture and distribute massive amounts of information about real-time market supply and demand, grid constraints and bottlenecks. When the market moves, we are able to conduct business while competitors are still fact-finding.

Our people also make a difference. We are able to attract the best and the brightest and place them in an entrepreneurial atmosphere in which they can thrive. With our intellectual capital, we develop premium high-margin structured products that draw on our liquidity and market knowledge. A good example is the gas-marketing-services hub in Chicago we launched with People's Energy in March 2000. Known as Enovate, this venture optimizes People's 30 Bcf a year of Chicago-area storage capacity and related transportation. It played a role in increasing our gas volumes in the central United States by 156 percent, the largest increase in our 2000 North American physical volumes.

We continually assess the necessity of adding or owning assets in a region. Sometimes it is less expensive to own an asset than to replicate the asset in the market through contracting and market-making. We are developing generation plants to sell merchant power to high-demand markets, including proposed facilities in California, Florida, Texas, Louisiana and Georgia. But as liquidity increases, asset ownership may no longer be necessary. We plan to sell Houston Pipe Line Company, and Louisiana Resources Company is now held by Bridgeline Holdings, L.P., a joint venture in which Enron retains an interest. Additionally, in the second quarter of 2001 we expect to close the sale of five of the six electricity peaking generation units in operation. The result is the same earnings power with less invested capital.

Mexico's move toward liberalizing its energy markets should gain intensity and speed with its new government. Increased cross-border electricity transactions between Mexico and the United States seem inevitable. Our activities in Mexico seek to

optimize both the Mexican electricity market and cross-border activity between the two countries.

Enron also is active in South America, where we own and develop assets to help create an energy network.

Enron Europe

We are rapidly extending Enron's market-making approach into the deregulating European markets, focusing on the U.K., the Continent and the Nordic region. The Continent is still in the early stages of liberalization. Although the European Union has mandated liberalization of the power and natural gas markets, each country is responding at its own pace. The velocity of transactions is rising on the Continent, however, and Enron expects to raise the level of liquidity to make the markets work.

Our business throughout Europe is growing rapidly. Natural gas and power volumes more than doubled to 10.3 trillion British thermal units equivalent per day (TBtue/d) in 2000 from 4.1 TBtue/d in 1999. We enjoy several competitive advantages in Europe: We are the only pan-European player; we have a proven business strategy; we entered the market early to build a presence; and we have attracted a talented and skilled local workforce.

Our cross-border capabilities are becoming increasingly important as markets interconnect. U.K. gas can now be transported to Belgium, and subsequently to the rest of the Continent, giving us the opportunity to develop innovative transactions on both sides of the border. The resulting increase in price volatility has nearly doubled U.K. gas prices, which, along with more volatile electricity prices ahead, has significantly improved demand for the U.K. risk management products we offer, both now and over the long term.

Just as in North America, EnronOnline is increasing Enron's reach and volumes in Europe and is a prime driver of liquidity. Its simple contracts, multi-currency capabilities, transparent and competitive prices and easy accessibility have won EnronOnline rapid acceptance.

In the U.K., power and gas volumes more than doubled, with power rising to 113 million MWh in 2000, and gas volumes climbing 119 percent to reach 3.2 Bcf/d. Several market factors are likely to create more business for us. The U.K.'s New Electricity Trading Agreements, which replace the existing U.K. power pool, are scheduled to be implemented by the second quarter of 2001. The agreements will result in increased price volatility, and Enron is well-positioned to help customers manage this risk. Additionally, lower power prices are shrinking profit margins for U.K. merchant power plants, which increasingly need to turn to market inter-

mediaries such as Enron to hedge their fuel and power prices.

On the Continent, our power volumes increased to 50 million MWh in 2000 from 7 million MWh in 1999. We are transacting at all major country interconnections, benefiting from cross-border opportunities. We closed our first-ever transaction in France and are an active player in Germany and Switzerland. We are beginning to partner with utilities to offer comprehensive portfolio management services, such as our agreement to purchase and distribute power jointly with Swiss Citypower AG, which controls 19 percent of the Swiss electricity market.

EnronOnline

EnronOnline successfully leverages Enron's core market-making capabilities, benefiting both our customers and Enron. The web-based system makes it easier to do business with Enron. It also accelerates the growth of Enron's existing businesses and facilitates quick and efficient entry into new markets.



In Spain, electricity demand is growing faster than anywhere else in Europe, and there are limited import and export capabilities. Enron is responding to this opportunity by developing a 1,200-megawatt plant in Arcos, south of Seville, that should close financing in 2001.

Continental gas liquidity is just starting to increase. Our volumes grew to 472 million cubic feet per day (MMcf/d) in 2000 from 53 MMcf/d in 1999. While the market is in its early stages, Enron has managed to increase weekly transactions from about 5 to 100 over the course of a year. In October we initiated the first gas supply deal in Germany to the local utilities of Heidelberg, Tuebingen and Bensheim. We also are delivering natural gas to some large users in the Netherlands and France.

We continue to set records in the Nordic region, where we are the largest power marketer. Electricity volumes increased nearly 150 percent to reach 77 million MWh in 2000 from 31 million MWh in 1999. Enron's Oslo office also is now the base of our European weather risk management business.

As more Nordic companies outsource energy supply and management, Enron's products and services — including advanced technology applications — are eagerly sought. In December Enron entered into a two-year portfolio management agreement with UPM-Kymmene Corp., one of the world's largest forest products companies. Enron will assist

opportunities to support our market-making activities, including inside-the-fence power generation. Under consideration are a number of sites, which may be fueled by gas, liquefied natural gas or coal.

Enron Australia

Enron's market-making ability has been successfully extended to Australia, where Enron is a leading provider of logistical solutions in the country's power market. During 2000 we introduced weather risk management products in the region, offering temperature-based products for Sydney, Melbourne, Hong Kong, Tokyo and Osaka. The Sydney office also provides a strategic platform for the extension of Enron's coal, metals and broad-



MAKING MARKETS

Enron's networks of assets and contractual relationships allow us to make markets and offer real-time pricing for more than 1,200 products on EnronOnline. This tremendous market liquidity attracts customers and further increases Enron's volumes and market share.

CUSTOMER RELATIONSHIPS

EnronOnline provides customers with a more convenient way to discover prices and do business with Enron, which increases transaction volumes and attracts new customers. The system automatically taps into Enron's sophisticated customer-credit profiles to protect Enron from credit risk.

INFORMATION SYSTEMS

EnronOnline is fully integrated with Enron's proprietary information systems, which provide critical market information, process thousands of deals and help assess and manage market and other risks. As a result, Enron manages risks instantaneously even in the most volatile markets.

SCALABILITY

Enron's well-tuned back-office system, integrated with EnronOnline, has proven its ability to scale as Enron's total transactions have grown from an average of 650 a day at EnronOnline's November 1999 launch to an average of 7,900 a day by year-end 2000. As EnronOnline expands products and volumes, Enron's scalable back-office will continue to be a competitive advantage.



UPM-Kymmene in optimizing its Nordic power portfolio of approximately 14 terawatt hours.

Enron Japan

Enron Japan formally opened its Tokyo office in October 2000. Japan represents an enormous opportunity: Its electricity rates are the highest in the world, and electricity consumption is second only to the United States. We have attracted top talent to develop wholesale and joint venture possibilities, and have introduced our first product for large electricity users — three- to five-year contracts that will reduce electricity bills immediately by up to 10 percent the first year, with the possibility of further reductions in subsequent years. Our first contracts were signed in early 2001.

Through joint ventures with several Japanese companies, Enron is exploring merchant plant

band businesses, as well as providing support for Enron's operations in the Asia-Pacific region.

Extending to New Markets

Enron's durable business approach, which has driven our success in the natural gas and electricity markets, is eminently applicable to other markets and geographical regions. While we are remaining focused on increasing earnings and opportunities in gas and power, we also are extending Enron's method to large, fragmented industries and products, where intermediation can make markets more efficient and responsive to customer needs. We expect these new businesses to contribute to earnings in 2001.

Enron Metals was launched in July 2000 when Enron acquired the world's leading merchant of non-ferrous metals, MG plc. Together, MG and Enron are

a powerful team. Enron's financial resources and eCommerce abilities add a new dimension to MG's widespread physical merchant skills and excellent customer relationships. The early results are right on target, with physical volumes up 31 percent in 2000.

Enron Metals opens an additional door to large energy customers. Cominco Ltd., a zinc producer and an Enron Metals customer in Vancouver, British Columbia, worked with Enron to halt zinc production for six weeks and sell its power into the Northwestern power market, where it was needed. Enron North America protected Cominco by structuring a fixed-price swap to guarantee the sale price of the power, and Enron Metals arranged to

Coal intermediation moved to a new level in 2000. The industry has been radically affected by the worldwide deregulation of the electricity industry. Like natural-gas-fueled generation, coal-burning generators require flexible terms and risk-management protection. Enron is able to provide unrivaled logistical support. Our coal business has led us to participate in sea and land logistics as well.

Weather has never been better for us. Our weather risk management business is up about five-fold to 1,629 transactions in 2000 from 321 transactions the year before. As in all of our markets, we bring cross-commodity capabilities to our weather products. For instance, we closed a three-

One Coal Contract Covers All Logistics

The process of sourcing and delivering coal to an electricity generator is a complicated process. Enron provides a single, comprehensive solution to manage all logistics and risk, whether the coal is sourced domestically or abroad. In some cases, we have reduced the customer's cost of coal by as much as 10 percent.

COAL PRICE AND SUPPLY RISKS
Enron allows generators to purchase coal at flexible terms, such as long-term fixed rates or a maximum price. Supply and price are assured because Enron has access to multiple sources all over the globe. Enron is on its way to becoming the world's largest wholesale coal merchant.

TRANSPORTATION RISKS
Imported coal travels by sea and land, and the consumer usually makes each arrangement separately and bears the risk if prices or capacity change. Enron delivers a complete logistical solution for its customers, managing both the process and risk as part of just a single contract for the coal. Enron also provides complete domestic logistics.

CURRENCY RISKS
Like oil, imported coal is denominated in U.S. dollars. A British generator, however, collects electricity payments in pounds sterling. When appropriate, Enron includes currency hedges in its contracts to protect customers if the value of the pound drops against the dollar.



supply a portion of the zinc required to fulfill Cominco's obligations. Cominco's profit from the deal exceeded the annual profit it makes from producing zinc.

Enron Credit is a new business with strong market potential. Enron has leveraged its internal risk management processes and systems to create a real-time, market-based online credit evaluation system. The idea is simple: Existing credit ratings and scoring mechanisms are not market-based and cannot respond in real time to credit events. This means creditors must figure out their credit risk exposure on their own. Enron Credit posts the cost of credit as a simple interest rate for more than 10,000 companies on its web site, www.enroncredit.com. Enron Credit also gives corporations the ability to hedge their credit risk via a bankruptcy product.

year precipitation transaction that provides financial compensation linked to natural gas prices if precipitation falls below a pre-determined minimum. The weather unit worked with several other Enron groups to transfer Enron's risk, ultimately transacting with 10 external companies in three markets (natural gas, weather products and insurance). The bundled end-product resulted in an effective hedge for the customer.

Crude oil. We now average crude deliveries of 7.5 TBtue/d to 240 customers in 46 countries. We have introduced the first-ever 24x7 commodity market of a West Texas Intermediate crude product on EnronOnline, allowing our customers to respond to market-changing events at any time, day or night. We also concluded our biggest physical jet fuel contract, providing 100,000 barrels for one



year at the flexible and market-based prices that the customer needed.

LNG. Enron is establishing a liquefied natural gas (LNG) network to create merchant LNG opportunities and to bring more gas to areas of the world that need it. Our LNG-related assets in operation and development in the Caribbean and the Middle East form part of this network. We source surplus LNG from the Middle East and Asia and currently market it in the United States.

Forest Products. Enron has offered pulp, paper and lumber financial products for several years, and now we are marketing physical volumes. In 2000 we acquired Garden State Paper Co., which gives us access to 210,000 tons of newsprint a year and four recycling centers in key markets. In January 2001 we agreed to purchase a newsprint mill and related assets in Canada. With this acquisition, Enron will become the seventh-largest producer of newsprint in North America, giving us the physical liquidity necessary to quickly grow this business. Enron's Clickpaper.com™ is powered by the EnronOnline platform but is totally customized for the forest products industry. It offers more than 100 financial and physical products and features news and information tailored specifically to forest products industry customers.

Steel. In some markets, such as steel, we believe we can run our network with minimal assets. The industry currently suffers from overcapacity, but lacks a market mechanism to efficiently market the surplus. We will offer a core commodity baseline product that can be indexed against almost all other products in this \$330 billion industry. The outlook is promising — we have transacted our first steel swap. This year we will build liquidity, improve pricing efficiency and gain contractual access to the physical product to provide comprehensive logistical support.

Enron Global Assets

Enron Global Assets manages and optimizes Enron's assets outside North America and Europe. Enron has a solid portfolio of asset-based businesses. However, with the higher returns available in the company's other businesses, we expect to divest some interests in a number of these assets. The remaining asset businesses will continue to focus on performance and complementing our market-making and services businesses.

Enron Wind Corp.

The economics of wind power are more promising than ever, creating significant growth for Enron Wind. Technological advancements and lower costs associated with today's larger, more efficient wind turbines have made wind power

costs competitive with fossil fuel-generation for the first time. This cost competitiveness, together with government policies supporting renewable energy in most key markets and growing consumer demand for green energy, have fueled 30 percent annual growth over the past five years.

With focused efforts in the world's three key wind power markets — Germany, Spain and the United States — Enron Wind completed 2000 with revenues of approximately \$460 million. Strong growth in both the United States and Europe will account for a projected sales increase of approximately 100 percent in 2001.

ENRON ENERGY SERVICES

Enron Energy Services is the retail arm of Enron, serving business users of energy in commercial and industrial sectors. Our comprehensive energy outsourcing product has proven an exceptionally effective way for companies to reduce their costs, manage risks of energy price volatility, improve their energy infrastructure and focus resources on their core businesses.

Enron Energy Services recorded its first profitable quarter as expected at the end of 1999, and continued to grow rapidly through 2000, with increasing profits in all four quarters of 2000 and aggregate recurring income before interest and taxes (IBIT) of \$103 million for the year. The value of our contracts in 2000 totaled more than \$16 billion, increasing Enron Energy Services' cumulative contract value to more than \$30 billion since late 1997.

This success reflects growing acceptance of Enron's energy outsourcing product — acceptance that has meant an increasing rate of new contracting. Our retail energy success in 2000 also reflects our strong emphasis on contract execution and implementation and on excellence in customer service. Additionally, 2000 was marked by increased activity in Europe — an untapped market for energy outsourcing.

We are positioned to dramatically increase our profitability in 2001. Retail energy earnings will be fueled by the rapid growth of our U.S. and European businesses and the strong execution and extension of existing contracts.

Market Volatility

The U.S. energy sector experienced unprecedented challenge and opportunity in 2000. In national terms, steady movement toward a functioning deregulated energy marketplace continues. More than half the country's population is scheduled to be able to choose their electricity supplier by 2004. The ongoing energy crisis in California has focused everyone's attention on the complexities of incomplete deregulation, the risks of unreliable supply and the costs of unmanaged energy demand. Enron provides commercial and industrial energy customers with the solutions they need, bringing reliability and price-risk management to a market otherwise fraught with uncertainty.

The volatility of energy prices across the country has heightened the value of energy management and increased the demand for retail services. With our series of capabilities — energy commodity and price risk management capabilities, energy asset management and capital solutions — we remain the only firm with the skill, experience, depth and

versatility to provide a comprehensive solution to address uncertain, rapidly changing markets.

Customer Relationships

The core of Enron's retail business is developing long-term, multi-year relationships with our customers. The value at contract signing is only a part of the potential value that can be realized when satisfied customers seek to add additional Enron services to their contracts.

Of the \$16.1 billion in total contract value signed in 2000, approximately \$3 billion came from expansions of existing contract relationships. For example, in 1998, we signed a five-year, \$250 million contract with World Color Press, which later merged with Quebecor Printing. In 2000, based on Quebecor

Measuring Performance

Companies can't improve what they can't measure. That's why Enron has developed a state-of-the-art Performance Measurement Center (PMC) that monitors, predicts and changes customer energy consumption. Powered by a flexible Internet-based link that connects customers' building controls to the PMC, and operated by a team of energy management professionals, the PMC is a unique resource, enabling genuinely proactive energy management.



World's satisfaction, the relationship was extended and expanded to a 10-year, \$1 billion agreement including not only commodity supply, but also overall energy management, including the design and implementation of improvements in energy asset infrastructure in more than 60 facilities operated by Quebecor World.

We value our long-term customer relationships, and the health of these relationships can't be left to luck, instinct or vague impressions. Our Customer Satisfaction Program continually captures our performance against expectations and benchmarks those results. Further, it is designed to ensure identification and resolution — including prompt escalation to the executive level if needed — of any issue that might arise.

Medium-size Business Market

In the first three years of U.S. operation, Enron Energy Services has been squarely focused on Fortune 1000 customers. But U.K.-based Enron Direct has successfully penetrated the immense medium-size business market, proving that we can sell energy to smaller enterprises in a truly open retail market.

Since gaining regulatory approval in February 1999 through the end of 2000, Enron Direct has acquired more than 130,000 gas and power customers, and continues to grow at a substantial rate. The profitability of these smaller accounts comes from Enron's long-term price risk management capability and Enron Direct's low-cost sales channels. Our high expectations for medium-size businesses are



SENSIBLE INVESTMENTS

PMC data identify opportunities to improve efficiency through equipment upgrades or through changes in processes, without adversely affecting a client's operations. The PMC's sophisticated modeling systems calculate a cost-benefit analysis for every potential investment in energy assets. This analysis includes a real-time correlation with the price of commodities — to help companies not only make decisions but also to show them that there are decisions to be made.

REDUCING PEAK DEMAND

The cost of energy varies widely over the course of the day. The PMC uses real-time pricing information, and the stream of data coming from the customer site, to automatically and remotely reduce customers' low-priority energy use when the price of energy is highest —ensuring that the customer gets maximum benefit for every dollar spent on energy.

DIAGNOSTIC MEASUREMENTS

Most energy users don't realize something is wrong until the energy bill comes, and then it is much too late. But with the Enron PMC, real-time monitoring means that unusual changes in energy demand are tracked instantaneously, enabling Enron and the customer to identify and address problems before energy costs get out of hand.

MINIMIZING DOWNTIME

When repairs are needed, PMC personnel can help control the costs of vendor calls and on-site repairs through diagnostic data, and through best-practice management of a network of thousands of service providers. We work with service providers to categorize and analyze the actual cost of repairs. With Enron's expertise and scale, we can improve response times, reduce downtime and cut the cost of repairs and maintenance.

reflected by the rapid expansion of the European operation. *Enron Directo* already is active in Madrid, Spain, and similar businesses will be launched in other countries as well.

It is our strong belief that Enron is uniquely positioned to benefit both in the United States and Europe from the world's steady shift toward deregulated energy markets. We will continue to provide sensible market solutions for the effective management of energy costs, and will continue to build a dynamic global retail business to drive company profits and sustain our reputation for innovation.

ENRON BROADBAND SERVICES

Enron Broadband Services made excellent progress executing its business plan in 2000. The build-out of Enron's 18,000-mile global fiber network is near completion, bandwidth intermediation transaction volume is growing exponentially, and we are testing the first commercially sound premium content-on-demand service. Clearly, the Enron business model is working in the broadband market.

Enron Broadband Services' goals are to:

- Deploy the most open, efficient global broadband network, the Enron Intelligent Network.
- Be the world's largest marketer of bandwidth and network services.
- Be the world's largest provider of premium content delivery services.

The Enron Intelligent Network

We expect to be the first to provide broadband connectivity on a global basis through the Enron Intelligent Network (EIN). The EIN operates as a "network of networks," providing switching capacity between independent networks for low-cost scalability. We will continue to add pooling points, which physically interconnect third parties' networks and serve as reference points for bandwidth contracts. We currently operate 25 pooling points: 18 in the United States, and one each in Tokyo, London, Brussels, Amsterdam, Paris, Dusseldorf and Frankfurt. We expect to add at least 10 more in 2001.

EIN's embedded intelligence, provided by Enron's proprietary Broadband Operating System (BOS), gives Enron unique, powerful multi-layer network control. The Enron BOS enables the EIN to:

- Dynamically provision bandwidth in real time.
- Control quality and access to the network for Internet Service Providers.
- Control and monitor applications as they stream over the network to ensure quality and avoid congested routes.

The BOS automates the transaction process all the way from the initial request for capacity to provisioning, electronic billing and funds transfer. With the BOS, Enron has created the first scalable, fully integrated transaction processing platform for delivering bandwidth capacity.

Bandwidth Intermediation

We exceeded our expectations by delivering more than 72,000 terabytes of network services in 2000, demonstrating rapidly growing industry acceptance of our flexible services. We are creating the risk management building blocks to manage almost every element of the network in addition to

bandwidth: dark fiber, circuits, Internet Protocol (IP) services (transporting data packets according to IP standards) and storage capacity.

To date we have transacted with 45 counterparties, including U.S. and international telecommunications carriers, marketers and resellers and network service providers. In 2001 we expect to deliver 570,000 terabytes as we grow both the breadth and the depth of our network and products. We offer 32 bandwidth-related products on EnronOnline.

Enron's ability to provide bandwidth-on-demand at specified service levels and guaranteed delivery enables customers to access capacity without necessarily building, buying or expanding their

The Value of Bandwidth Intermediation

Enron's bandwidth intermediation business gives the broadband industry new tools — standard contracts, liquidity, price transparency, connectivity, quick provisioning and flexibility — to help industry participants optimize assets and opportunities.



own networks. Our bundled intermediation package includes IP transport over land, under the sea, and via satellite, at both fixed and peak-usage terms. For example, we are working with i2 Technologies, a global provider of intelligent eBusiness solutions, to connect with customers in six cities, including four overseas. i2 has provisioned local-loop and long-haul capacity through Enron, and has low-cost access to our network's equipment as if it were its own, but it now has the flexibility to quickly add or discard capacity as day-to-day needs change.

Data storage is a \$30 billion-per-year business, and we know customers would like to purchase it on an as-needed basis. In January 2001 we completed our first data storage transactions with a

leading provider of managed storage services, StorageNetworks, and a large retailer, Best Buy. Best Buy is buying off-site storage capacity to save money and gain flexibility to accommodate changing storage needs.

Content Services

In April 2000 Enron signed an agreement with a U.S. video rental retailer to deliver movies over the Enron Intelligent Network. The trial service is up and running in Seattle; Portland, Ore.; Salt Lake City and New York City. Additionally, we have established relationships with other high-visibility content providers. Over the next two or three years, we plan to deliver on-demand not only movies but sports, educational content, games, music and



CONNECTIVITY

Enron is facilitating network connectivity by establishing pooling points in major metropolitan areas to switch bandwidth from one independent network to another. The pooling points help optimize network capacity by creating common physical delivery points and access to multiple locations.

DYNAMIC PROVISIONING

Enron's pooling point infrastructure allows companies to provision bandwidth quickly, eliminating the long lead times associated with circuit provisioning in the past. Enhanced connectivity and dynamic provisioning allow bandwidth users to take advantage of bandwidth market opportunities on short notice.

NETWORK CONTROL

Within Enron's Broadband Operating System (BOS) lie several unique capabilities that monitor switching activity between networks and control the provisioning of circuits. The Enron BOS can measure performance in real time at every layer of the network and ensure quality of service and delivery.

SCALABILITY

The Enron Intelligent Network (EIN) has extensive reach throughout the continental United States and connects to Europe and Asia. With its broad connectivity, the EIN is designed to scale without the cost of building additional infrastructure. Leveraging the EnronOnline platform provides additional reach and gives customers a new, easy option for their bandwidth needs.

applications not yet imagined.

Market Innovator

Enron's innovative approach is as valuable in broadband as it is in energy. Our proven intermediation skills are creating new value for the industry and giving it a flexibility it has never enjoyed. We have combined our business model with readily available technologies to deliver premium content over the Enron Intelligent Network in a very compelling commercial model. We are not tied to any particular technology. We use the best solution at the best time for our customers, delivering the most reliable product at the lowest available cost in the marketplace.



ENRON TRANSPORTATION SERVICES

The Gas Pipeline Group formally changed its name in September 2000 to Enron Transportation Services to emphasize its ability to deliver innovative solutions to its customers. These emerging services augment our core competency: operating interstate pipelines safely and efficiently. In 2000 we continued our record of strong returns with consistent earnings and cash flow. Income before interest and taxes reached \$391 million, up from \$380 million in 1999. Cash flow from operations rose to \$415 million in 2000 from \$370 million in 1999. Throughput remained relatively unchanged in 2000 at 9.13

needs. Northern Natural Gas, for example, has used interruptible storage products that extend its capability to meet the growing demand for services to manage physical positions. Transwestern Pipeline Company is offering shippers increased service flexibility by accessing third-party storage. Across all pipelines, web-based applications have been introduced to allow customers to better manage transactions and allow the pipelines to maximize their capacity offerings. Northern Natural Gas, Transwestern Pipeline and Florida Gas Transmission began to sell available capacity on EnronOnline in 2000 to give customers the convenience of eCommerce transacting (see "Purchasing Capacity Through EnronOnline" on this page).

Purchasing Capacity Through EnronOnline

Enron Transportation Services has introduced several innovative customer services, including the use of EnronOnline. Northern Natural Gas, Transwestern Pipeline and Florida Gas Transmission are selling available firm and interruptible capacity on EnronOnline in addition to selling capacity through traditional methods. Customers already using EnronOnline to transact gas can now arrange transportation at the same time.



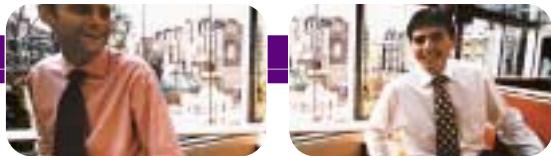
PRICE DISCOVERY

Knowledge helps customers make better decisions. Prices are fully transparent and instantly accessible, which allows buyers to know what their transportation costs will be when they are buying their gas.



OPTIMIZING THE ASSETS

When a pipeline is not totally subscribed, EnronOnline lets the market know it is available. Pipelines also can auction off highly desirable capacity by accepting sealed bids. EnronOnline gives Enron Transportation Services the ability to put more product in front of more of its customers than ever before.



billion cubic feet per day (Bcf/d), compared to 9.18 Bcf/d the previous year.

Together, our interstate pipelines span approximately 25,000 miles with a peak capacity of 9.8 Bcf/d. We transport 15 percent of U.S. natural gas demand. We connect to the major supply basins in the United States and Canada, and we continue to increase capacity from those basins to our major markets. We have added 840 million cubic feet per day (MMcf/d) over the past two years, and nearly 1 Bcf/d is scheduled to enter service in the next three years. At the same time, our expense per MMcf/d has declined by 26 percent from 1992 to today.

Enron Transportation Services pipelines have brought to market a variety of new products and services specifically tailored to address customer

Northern Natural Gas

Northern Natural Gas, Enron's largest pipeline, has approximately 16,500 miles of pipeline extending from the Permian Basin in Texas to the Great Lakes, providing extensive access to major utilities and industrials in the upper Midwest. The pipeline has market area peak capacity of 4.3 Bcf/d. It interconnects with major pipelines, including Great Lakes, Transwestern, El Paso, Northern Border and Trailblazer, to offer excellent northern, southern and western flow capabilities. Ninety-five percent of market area capacity is contracted through 2003.

Market area demand is expected to increase considerably with the development of approximately 2,000 megawatts of gas-fired generation over the next three years. The pipeline has developed innova-

tive and flexible services to meet the transportation, storage and balancing needs of power producers. It completed construction in October 2000 of a link to 445 megawatts of peaking power operated by Great River Energy in Minnesota. The link will transport up to 120 MMcf/d of gas.

Transwestern Pipeline

Transwestern operates approximately 2,500 miles of pipe with 1.7 Bcf/d of peak capacity. With pipeline originating in the San Juan, Permian and Anadarko Basins, Transwestern can move gas east to Texas or west to the California border. To respond to increased gas demand in California, Transwestern Pipeline added compressor facilities near Gallup, New Mexico, in May 2000 to increase mainline capacity by 140 MMcf/d to the California border. The new capacity is completely subscribed under long-term contracts. In 2000 the pipeline also added several major interconnects to tap into growing markets east of California.

The Transwestern system is fully subscribed for western deliveries through December 2005 and for eastern deliveries through December 2002. The system has the potential to quickly increase throughput capacity. An expansion project is expected to be filed this year and completed in 2002.

Florida Gas Transmission

Florida Gas Transmission serves the rapidly growing Florida peninsula and connects with 10 major pipelines. It has maintained a competitive position by staging expansions to keep pace with demand as it grows. With current peak capacity of 1.5 Bcf/d, Florida Gas Transmission will add 600 MMcf/d of capacity when its Phase IV and Phase V expansions are completed. The Fort Myers extension, part of a 200 MMcf/d Phase IV expansion, went into service on October 1, 2000, and the remainder is scheduled to go into service in May 2001. The 400-MMcf/d Phase V expansion has received preliminary approval from the Federal Energy Regulatory Commission and is expected to be completed in April 2002.

The 4,795-mile pipeline currently is evaluating supply connections to two proposed liquefied natural gas facilities.

Northern Border Partners, L.P.

Northern Border Partners, L.P. is a publicly traded partnership (NYSE: NBP), of which Enron is the largest general partner. Northern Border Partners owns a 70 percent general partner interest in Northern Border Pipeline, which extends 1,214 miles from the Canadian border in Montana to Illinois. The pipeline, a low-cost link between Canadian reserves and the Midwest market, has a peak capacity of 2.4 Bcf/d and is fully contracted

under long-term agreements with an average term of six years. Its Project 2000 extension — 34 miles of pipe from Manhattan, Illinois, to a point near North Hayden, Indiana — will provide 544 MMcf/d to industrial markets in Indiana with a targeted in-service date of late 2001.

Late in 2000, Northern Border Pipeline settled its rate case, allowing it to switch from a cost-of-service tariff to a stated-rate tariff, which will provide rate certainty to customers, increase competitiveness and allow flexibility in services provided.

Northern Border Partners also owns interests in gathering systems in the Powder River and Wind River Basins in Wyoming, and recently signed a letter of intent to purchase Bear Paw LLC, which has extensive gathering and processing operations in the Powder River Basin and the Williston Basin. The partnership also owns Black Mesa Pipeline, a 273-mile coal-water slurry pipeline running from Kayenta, Arizona, to Mohave Power Station in Laughlin, Nevada.

Portland General Electric

The sale of Portland General Electric (PGE) to Sierra Pacific Resources has been delayed by the effect of recent events in California and Nevada on the buyer. In 2000 the Portland, Oregon-based electricity utility performed well in the face of regional wholesale price volatility. IBIT rose approximately 12 percent to \$341 million. Total electricity sales reached 38.4 million megawatt-hours (MWh) compared to 31.9 million MWh in 1999. We will continue to drive performance while we pursue the utility's sale.

FINANCIAL REVIEW

CONTENTS

- 21 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
- 27 FINANCIAL RISK MANAGEMENT
- 29 INFORMATION REGARDING FORWARD-LOOKING STATEMENTS
- 29 MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING
- 30 REPORTS OF INDEPENDENT PUBLIC ACCOUNTANTS
- 31 ENRON CORP. AND SUBSIDIARIES CONSOLIDATED INCOME STATEMENT
- 31 ENRON CORP. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
- 32 ENRON CORP. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET
- 34 ENRON CORP. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CASH FLOWS
- 35 ENRON CORP. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
- 36 ENRON CORP. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
- 52 SELECTED FINANCIAL AND CREDIT INFORMATION (UNAUDITED)

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following review of the results of operations and financial condition of Enron Corp. and its subsidiaries and affiliates (Enron) should be read in conjunction with the Consolidated Financial Statements.

RESULTS OF OPERATIONS

Consolidated Net Income

Enron's net income for 2000 was \$979 million compared to \$893 million in 1999 and \$703 million in 1998. Items impacting comparability are discussed in the respective segment results. Net income before items impacting comparability was \$1,266 million, \$957 million and \$698 million, respectively, in 2000, 1999 and 1998. Enron's business is divided into five segments and Exploration and Production (Enron Oil & Gas Company) through August 16, 1999 (see Note 2 to the Consolidated Financial Statements). Enron's operating segments include:

Transportation and Distribution. Transportation and Distribution consists of Enron Transportation Services and Portland General. Transportation Services includes Enron's interstate natural gas pipelines, primarily Northern Natural Gas Company (Northern), Transwestern Pipeline Company (Transwestern), Enron's 50% interest in Florida Gas Transmission Company (Florida Gas) and Enron's interests in Northern Border Partners, L.P. and EOTT Energy Partners, L.P. (EOTT).

Wholesale Services. Wholesale Services includes Enron's wholesale businesses around the world. Wholesale Services operates in developed markets such as North America and Europe, as well as developing or newly deregulating markets including South America, India and Japan.

Retail Energy Services. Enron, through its subsidiary Enron Energy Services, LLC (Energy Services), is extending its energy expertise and capabilities to end-use retail customers in the industrial and commercial business sectors to manage their energy requirements and reduce their total energy costs.

Broadband Services. Enron's broadband services business (Broadband Services) provides customers with a single source for broadband services, including bandwidth intermediation and the delivery of premium content.

Corporate and Other. Corporate and Other includes Enron's investment in Azurix Corp. (Azurix), which provides water and wastewater services, results of Enron Renewable Energy Corp. (EREC), which develops and constructs wind-generated power projects, and the operations of Enron's methanol and MTBE plants as well as overall corporate activities of Enron.

Net income includes the following:

(In millions)	2000	1999	1998
After-tax results before items impacting comparability	\$ 1,266	\$ 957	\$ 698
Items impacting comparability: (a)			
Charge to reflect impairment by Azurix	(326)	-	-
Gain on TNPC, Inc. (The New Power Company), net	39	-	-
Gains on sales of subsidiary stock	-	345	45
MTBE-related charges	-	(278)	(40)
Cumulative effect of accounting changes	-	(131)	-
Net income	\$ 979	\$ 893	\$ 703

(a) Tax affected at 35%, except where a specific tax rate applied.

Diluted earnings per share of common stock were as follows:

	2000	1999	1998
Diluted earnings per share: (a)			
After-tax results before items impacting comparability	\$ 1.47	\$ 1.18	\$ 1.00
Items impacting comparability:			
Charge to reflect impairment by Azurix	(0.40)	-	-
Gain on The New Power Company, net	0.05	-	-
Gains on sales of subsidiary stock	-	0.45	0.07
MTBE-related charges	-	(0.36)	(0.06)
Cumulative effect of accounting changes	-	(0.17)	-
Diluted earnings per share	\$ 1.12	\$ 1.10	\$ 1.01

(a) Restated to reflect the two-for-one stock split effective August 13, 1999.

Income Before Interest, Minority Interests and Income Taxes

The following table presents income before interest, minority interests and income taxes (IBIT) for each of Enron's operating segments (see Note 20 to the Consolidated Financial Statements):

(In millions)	2000	1999	1998
Transportation and Distribution:			
Transportation Services	\$ 391	\$ 380	\$ 351
Portland General	341	305	286
Wholesale Services	2,260	1,317	968
Retail Energy Services	165	(68)	(119)
Broadband Services	(60)	-	-
Exploration and Production	-	65	128
Corporate and Other	(615)	(4)	(32)
Income before interest, minority interests and taxes	\$ 2,482	\$ 1,995	\$ 1,582

Transportation and Distribution

Transportation Services. The following table summarizes total volumes transported by each of Enron's interstate natural gas pipelines.

	2000	1999	1998
Total volumes transported (BBtu/d) (a)			
Northern Natural Gas	3,529	3,820	4,098
Transwestern Pipeline	1,657	1,462	1,608
Florida Gas Transmission	1,501	1,495	1,324
Northern Border Pipeline	2,443	2,405	1,770

(a) Billion British thermal units per day. Amounts reflect 100% of each entity's throughput volumes. Florida Gas and Northern Border Pipeline are unconsolidated equity affiliates.

Significant components of IBIT are as follows:

(In millions)	2000	1999	1998
Net revenues	\$650	\$626	\$640
Operating expenses	280	264	276
Depreciation and amortization	67	66	70
Equity earnings	63	38	32
Other, net	25	46	25
Income before interest and taxes	\$391	\$380	\$351

Net Revenues

Revenues, net of cost of sales, of Transportation Services increased \$24 million (4%) during 2000 and declined \$14 million (2%) during 1999 as compared to 1998. In 2000, Transportation Services' interstate pipelines produced strong financial results. The volumes transported by Transwestern increased 13 percent in 2000 as compared to 1999. Northern's 2000 gross margin was comparable to 1999 despite an 8 percent decline in volumes transported. Net revenues in 2000 were favorably impacted by transportation revenues from Transwestern's Gallup, New Mexico expansion and by sales from Northern's gas storage inventory. The decrease in net revenue in 1999 compared to 1998 was primarily due to the expiration, in October 1998, of certain transition cost recovery surcharges, partially offset by a Northern sale of gas storage inventory in 1999.

Operating Expenses

Operating expenses, including depreciation and amortization, of Transportation Services increased \$17 million (5%) during 2000 primarily as a result of higher overhead costs related to information technology and employee benefits. Operating expenses decreased \$16 million (5%) during 1999 primarily as a result of the expiration of certain transition cost recovery surcharges which had been recovered through revenues.

Equity Earnings

Equity in earnings of unconsolidated equity affiliates increased \$25 million and \$6 million in 2000 and 1999, respectively. The increase in equity earnings in 2000 as compared to 1999 primarily relates to Enron's investment in Florida Gas. The increase in earnings in 1999 as compared to 1998 was primarily a result of higher earnings from Northern Border Pipeline and EOTT.

Other, Net

Other, net decreased \$21 million in 2000 as compared to 1999 after increasing \$21 million in 1999 as compared to 1998. Included in 2000 were gains related to an energy commodity contract and the sale of compressor-related equipment, while the 1999 amount included interest income earned in connection with the financing of an acquisition by EOTT. The 1998 amount included gains from the sale of an interest in an equity investment, substantially offset by charges related to litigation.

Portland General. Portland General realized IBIT as follows:

(In millions)	2000	1999	1998
Revenues	\$2,256	\$1,379	\$1,196
Purchased power and fuel	1,461	639	451
Operating expenses	321	304	295
Depreciation and amortization	211	181	183
Other, net	78	50	19
Income before interest and taxes	\$ 341	\$ 305	\$ 286

Revenues, net of purchased power and fuel costs, increased \$55 million in 2000 as compared to 1999. The increase is primarily the result of a significant increase in the price of power sold and

an increase in wholesale sales, partially offset by higher purchased power and fuel costs. Operating expenses increased primarily due to increased plant maintenance costs related to periodic overhauls. Depreciation and amortization increased in 2000 primarily as a result of increased regulatory amortization. Other, net in 2000 included the impact of an Oregon Public Utility Commission (OPUC) order allowing certain deregulation costs to be deferred and recovered through rate cases, the settlement of litigation related to the Trojan nuclear power generating facility and gains on the sale of certain generation-related assets.

Revenues, net of purchased power and fuel costs, decreased \$5 million in 1999 as compared to 1998. Revenues increased primarily as a result of an increase in the number of customers served by Portland General. Higher purchased power and fuel costs, which increased 42 percent in 1999, offset the increase in revenues. Other income, net increased \$31 million in 1999 as compared to 1998 primarily as a result of a gain recognized on the sale of certain assets.

In 1999, Enron entered into an agreement to sell Portland General Electric Company to Sierra Pacific Resources. See Note 2 to the Consolidated Financial Statements.

Statistics for Portland General are as follows:

	2000	1999	1998
Electricity sales (thousand MWh) ^(a)			
Residential	7,433	7,404	7,101
Commercial	7,527	7,392	6,781
Industrial	4,912	4,463	3,562
Total retail	19,872	19,259	17,444
Wholesale	18,548	12,612	10,869
Total electricity sales	38,420	31,871	28,313
Resource mix			
Coal	11%	15%	16%
Combustion turbine	12	8	12
Hydro	6	9	9
Total generation	29	32	37
Firm purchases	63	57	56
Secondary purchases	8	11	7
Total resources	100%	100%	100%
Average variable power cost (Mills/KWh) ^(b)			
Generation	14.5	11.3	8.6
Firm purchases	34.9	23.2	17.3
Secondary purchases	123.6	19.7	23.6
Total average variable power cost	37.2	20.0	15.6
Retail customers (end of period, thousands)	725	719	704

(a) Thousand megawatt-hours.

(b) Mills (1/10 cent) per kilowatt-hour.

Outlook

Enron Transportation Services is expected to provide stable earnings and cash flows during 2001. The four major natural gas pipelines have strong competitive positions in their respective markets as a result of efficient operating practices, competitive rates and favorable market conditions. Enron Transportation Services expects to continue to pursue demand-driven expansion opportunities. Florida Gas expects to complete an expansion that will increase throughput by 198 million cubic feet per day (MMcf/d) by mid-2001. Florida Gas has received preliminary approval from the Federal Energy Regulatory Commission for an expansion of 428 MMcf/d, expected to be completed by early 2003, and is also pursuing an expansion of 150 MMcf/d that is expected to be completed in mid-2003. Transwestern completed an expansion of 140 MMcf/d in May 2000 and is pursuing an expansion of 50 MMcf/d that is expected to be completed in 2001

and an additional expansion of up to 150 MMcf/d that is expected to be completed in 2002. Northern Border Partners is evaluating the development of a 325 mile pipeline with a range of capacity from 375 MMcf/d to 500 MMcf/d to connect natural gas production in Wyoming to the Northern Border Pipeline in Montana.

In 2001, Portland General anticipates purchased power and fuel costs to remain at historically high levels. Portland General has submitted a request with the OPUC to recover the anticipated cost increase through a rate adjustment.

Wholesale Services

Enron builds its wholesale businesses through the creation of networks involving selective asset ownership, contractual access to third-party assets and market-making activities. Each market in which Wholesale Services operates utilizes these components in a slightly different manner and is at a different stage of development. This network strategy has enabled Wholesale Services to establish a leading position in its markets. Wholesale Services' activities are categorized into two business lines: (a) Commodity Sales and Services and (b) Assets and Investments. Activities may be integrated into a bundled product offering for Enron's customers.

Wholesale Services manages its portfolio of contracts and assets in order to maximize value, minimize the associated risks and provide overall liquidity. In doing so, Wholesale Services uses portfolio and risk management disciplines, including offsetting or hedging transactions, to manage exposures to market price movements (commodities, interest rates, foreign currencies and equities). Additionally, Wholesale Services manages its liquidity and exposure to third-party credit risk through monetization of its contract portfolio or third-party insurance contracts. Wholesale Services also sells interests in certain investments and other assets to improve liquidity and overall return, the timing of which is dependent on market conditions and management's expectations of the investment's value.

The following table reflects IBIT for each business line:

(In millions)	2000	1999	1998
Commodity sales and services	\$1,630	\$ 628	\$411
Assets and investments	889	850	709
Unallocated expenses	(259)	(161)	(152)
Income before interest, minority interests and taxes	\$2,260	\$1,317	\$968

The following discussion analyzes the contributions to IBIT for each business line.

Commodity Sales and Services. Wholesale Services provides reliable commodity delivery and predictable pricing to its customers through forwards and other contracts. This market-making activity includes the purchase, sale, marketing and delivery of natural gas, electricity, liquids and other commodities, as well as the management of Wholesale Services' own portfolio of contracts. Contracts associated with this activity are accounted for using the mark-to-market method of accounting. See Note 1 to the Consolidated Financial Statements. Wholesale Services' market-making activity is facilitated through a network of capabilities including selective asset ownership. Accordingly, certain assets involved in the delivery of these services are included in this business (such as intrastate natural gas pipelines, gas storage facilities and certain electric generation assets).

Wholesale Services markets, transports and provides energy commodities as reflected in the following table (including inter-company amounts):

	2000	1999	1998
Physical volumes (BBtue/d)(a)(b)			
Gas:			
United States	17,674	8,982	7,418
Canada	6,359	4,398	3,486
Europe and Other	3,637	1,572	1,251
	27,670	14,952	12,155
Transportation volumes			
	649	575	559
Total gas volumes	28,319	15,527	12,714
Crude oil and Liquids	6,088	6,160	3,570
Electricity(c)	17,308	10,742	11,024
	51,715	32,429	27,308
Total physical volumes (BBtue/d)			
Electricity volumes (thousand MWh)			
United States	578,787	380,518	401,843
Europe and Other	54,670	11,576	529
Total	633,457	392,094	402,372
Financial settlements (notional, BBtue/d)			
	196,148	99,337	75,266

(a) Billion British thermal units equivalent per day.

(b) Includes third-party transactions by Enron Energy Services.

(c) Represents electricity volumes, converted to BBtue/d.

Earnings from commodity sales and services increased \$1.0 billion (160%) in 2000 as compared to 1999. Increased profits from North American gas and power marketing operations, European power marketing operations as well as the value of new businesses, such as pulp and paper, contributed to the earnings growth of Enron's commodity sales and services business. Continued market leadership in terms of volumes transacted, significant increases in natural gas prices and price volatility in both the gas and power markets were the key contributors to increased profits in the gas and power intermediation businesses. In late 1999, Wholesale Services launched an Internet-based eCommerce system, EnronOnline, which allows wholesale customers to view Enron's real time pricing and to complete commodity transactions with Enron as principal, with no direct interaction. In its first full year of operation, EnronOnline positively impacted wholesale volumes, which increased 59 percent over 1999 levels.

Earnings from commodity sales and services increased \$217 million (53%) in 1999 as compared to 1998, reflecting strong results from the intermediation businesses in both North America and Europe, which include delivery of energy commodities and associated risk management products. Wholesale Services also successfully managed its overall portfolio of contracts, particularly in minimizing credit exposures utilizing third-party contracts. New product offerings in coal and pulp and paper markets also added favorably to the results.

Assets and Investments. Enron's Wholesale businesses make investments in various energy and certain related assets as a part of its network strategy. Wholesale Services either purchases the asset from a third party or develops and constructs the asset. In most cases, Wholesale Services operates and manages such assets. Earnings from these investments principally result from operations of the assets or sales of ownership interests.

Additionally, Wholesale Services invests in debt and equity securities of energy and technology-related businesses, which may also utilize Wholesale Services' products and services. With these merchant investments, Enron's influence is much more limited relative to assets Enron develops or constructs. Earnings from these activities, which are accounted for on a fair value basis and are included in revenues, result from changes in the market value of the securities. Wholesale Services uses risk

management disciplines, including hedging transactions, to manage the impact of market price movements on its merchant investments. See Note 4 to the Consolidated Financial Statements for a summary of these investments.

Earnings from assets and investments increased \$39 million (5%) in 2000 as compared to 1999 as a result of an increase in the value of Wholesale Services' merchant investments, partially offset by lower gains from sales of energy assets. Earnings from asset operations were comparable to 1999 levels. Earnings from merchant investments were positively impacted by power-related and energy investments, partially offset by the decline in value of technology-related and certain energy-intensive industry investments. Gains on sales of energy assets in 2000 included the monetization of certain European energy operations.

Earnings from assets and investments increased \$141 million (20%) in 1999 as compared to 1998. During 1999, earnings from Wholesale Services' energy-related assets increased, reflecting the operation of the Dabhol Power Plant in India, ownership in Elektro Eletricidade e Serviços S.A. (Elektro), a Brazilian electric utility, and assets in various other developing markets. Wholesale Services' merchant investments increased in value during the year due to the expansion into certain technology-related investments, partially offset by a decline in the value of certain energy investments. In addition, Wholesale Services' 1999 earnings increased due to development and construction activities, while gains on sales of energy assets declined.

Unallocated Expenses. Net unallocated expenses such as systems expenses and performance-related costs increased in 2000 due to growth of Wholesale Services' existing businesses and continued expansion into new markets.

Outlook

In 2000, Wholesale Services reinforced its leading positions in the natural gas and power markets in both North America and Europe. In the coming year, Wholesale Services plans to continue to expand and refine its existing energy networks and to extend its proven business model to new markets and industries.

In 2001, Wholesale Services plans to continue to fine-tune its already successful existing energy networks. In North America, Enron expects to complete the sale of five of its peaking power plants located in the Midwest and its intrastate natural gas pipeline. In each case, market conditions, such as increased liquidity, have diminished the need to own physical assets. For energy networks in other geographical areas where liquidity may be an issue, Enron will evaluate whether its existing network will benefit from additional physical assets. The existing networks in North America and Europe should continue to provide opportunities for sustained volume growth and increased profits.

The combination of knowledge gained in building networks in key energy markets and the application of new technology, such as EnronOnline, is expected to provide the basis to extend Wholesale Services' business model to new markets and industries. In key international markets, where deregulation is underway, Enron plans to build energy networks by using the optimum combination of acquiring or constructing physical assets and securing contractual access to third-party assets. Enron also plans to replicate its business model to new industrial markets such as metals, pulp, paper and lumber, coal and steel. Enron expects to use its eCommerce platform, EnronOnline, to accelerate the penetration into these industries.

Earnings from Wholesale Services are dependent on the origination and completion of transactions, some of which are individually significant and which are impacted by market conditions, the regulatory environment and customer relationships. Wholesale Services' transactions have historically been based on

a diverse product portfolio, providing a solid base of earnings. Enron's strengths, including its ability to identify and respond to customer needs, access to extensive physical assets and its integrated product offerings, are important drivers of the expected continued earnings growth. In addition, significant earnings are expected from Wholesale Services' commodity portfolio and investments, which are subject to market fluctuations. External factors, such as the amount of volatility in market prices, impact the earnings opportunity associated with Wholesale Services' business. Risk related to these activities is managed using naturally offsetting transactions and hedge transactions. The effectiveness of Enron's risk management activities can have a material impact on future earnings. See "Financial Risk Management" for a discussion of market risk related to Wholesale Services.

Retail Energy Services

Energy Services sells or manages the delivery of natural gas, electricity, liquids and other commodities to industrial and commercial customers located in North America and Europe. Energy Services also provides outsourcing solutions to customers for full energy management. This integrated product includes the management of commodity delivery, energy information and energy assets, and price risk management activities. The commodity portion of the contracts associated with this business are accounted for under the mark-to-market method of accounting. See Note 1 to the Consolidated Financial Statements.

(In millions)	2000	1999	1998
Revenues	\$4,615	\$1,807	\$1,072
Cost of sales	4,028	1,551	955
Operating expenses	449	308	210
Depreciation and amortization	38	29	31
Equity losses	(60)	-	(2)
Other, net	63	13	7
IBIT before items impacting comparability	103	(68)	(119)
Items impacting comparability:			
Gain on The New Power Company stock issuance	121	-	-
Retail Energy Services charges	(59)	-	-
Income (loss) before interest, minority interests and taxes	\$ 165	\$ (68)	\$ (119)

Operating Results

Revenues and gross margin increased \$2,808 million and \$331 million, respectively, in 2000 compared to 1999, primarily resulting from execution of commitments on its existing customer base, long-term energy contracts originated in 2000 and the increase in the value of Energy Services' contract portfolio. Operating expenses increased as a result of costs incurred in building the capabilities to deliver services on existing customer contracts and in building Energy Services' outsourcing business in Europe. Other, net in 2000 consisted primarily of gains associated with the securitization of non-merchant equity instruments. Equity losses reflect Energy Services' portion of losses of The New Power Company.

Items impacting comparability in 2000 included a pre-tax gain of \$121 million related to the issuance of common stock by The New Power Company and a charge of \$59 million related to the write-off of certain information technology and other costs. The New Power Company, which is approximately 45 percent owned by Enron, was formed to provide electricity and natural gas to residential and small commercial customers in deregulated energy markets in the United States.

Outlook

During 2001, Energy Services anticipates continued growth in the demand for retail energy outsourcing solutions. Energy Services will deliver these services to its existing customers, while continuing to expand its commercial and industrial customer base for total energy outsourcing. Energy Services also plans to continue integrating its service delivery capabilities, extend its business model to related markets and offer new products.

Broadband Services

In implementing Enron's network strategy, Broadband Services is constructing the Enron Intelligent Network, a nationwide fiber-optic network that consists of both fiber deployed by Enron and acquired capacity on non-Enron networks and is managed by Enron's Broadband Operating System software. Enron is extending its market-making and risk management skills from its energy business to develop the bandwidth intermediation business to help customers manage unexpected fluctuation in the price, supply and demand of bandwidth. Enron's bandwidth-on-demand platform allows delivery of high-bandwidth media-rich content such as video streaming, high capacity data transport and video conferencing. Broadband Services also makes investments in companies with related technologies and with the potential for capital appreciation. Earnings from these merchant investments, which are accounted for on a fair value basis and are included in revenues, result from changes in the market value of the securities. Broadband Services uses risk management disciplines, including hedging transactions, to manage the impact of market price movements on its merchant investments. Broadband Services also sells interests in certain investments and other assets to improve liquidity and overall return, the timing of which is dependent on market conditions and management's expectations of the investment's value.

The components of Broadband Services' businesses include the development and construction of the Enron Intelligent Network, sales of excess fiber and software, bandwidth intermediation and the delivery of content. Significant components of Broadband Services' results are as follows:

(In millions)	2000
Gross margin	\$318
Operating expenses	305
Depreciation and amortization	77
Other, net	4
Loss before interest, minority interests and taxes	(\$60)

Broadband Services recognized a loss before interest, minority interests and taxes of \$60 million in 2000. Gross margin included earnings from sales of excess fiber capacity, a significant increase in the market value of Broadband Services' merchant investments and the monetization of a portion of Enron's broadband content delivery platform. Expenses incurred during the period include expenses related to building the business and depreciation and amortization.

Outlook

Broadband Services is extending Enron's proven business model to the communications industry. In 2001, Enron expects to further develop the Enron Intelligent Network, a global broadband network with broad connectivity potential to both buyers and sellers of bandwidth through Enron's pooling points. In addition, Enron expects to further deploy its proprietary Broadband Operating System across the Enron Intelligent Network, enabling Enron to manage bandwidth capacity independent of owning the underlying fiber. Broadband Services expects its intermediation transaction level to increase significantly in 2001 as more market participants connect to the pooling points and transact with Enron.

to manage their bandwidth needs. The availability of Enron's bandwidth intermediation products and prices on EnronOnline are expected to favorably impact the volume of transactions. In 2001, Broadband Services expects to continue to expand the commercial roll-out of its content service offerings including video-on-demand. Enron expects the volume of content delivered over its network to increase as more content delivery contracts are signed and as more distribution partner locations are connected.

Corporate and Other

Significant components of Corporate and Other's IBIT are as follows:

(In millions)	2000	1999	1998
IBIT before items impacting comparability	\$(289)	\$ (17)	\$ 7
Items impacting comparability:			
Charge to reflect impairment by Azurix	(326)	-	-
Gains on exchange and sales of Enron Oil & Gas Company (EOG) stock	-	454	22
Charge to reflect impairment of MTBE assets and losses on contracted MTBE production	-	(441)	(61)
Loss before interest, minority interests and taxes	\$(615)	\$ (4)	\$(32)

Results for Corporate and Other in 2000 reflect operating losses from Enron's investment in Azurix (excluding the impairments discussed below) and increased information technology, employee compensation and corporate-wide expenses.

Results for Corporate and Other in 1999 were impacted by higher corporate expenses, partially offset by increased earnings from EREC resulting from increased sales volumes from its German manufacturing subsidiary and from the completion and sale of certain domestic wind projects. Enron also recognized higher earnings related to Azurix. Results in 1998 were favorably impacted by increases in the market value of certain corporate-managed financial instruments, partially offset by higher corporate expenses.

Items impacting comparability in 2000 included a \$326 million charge reflecting Enron's portion of impairments recorded by Azurix related to assets in Argentina. Items impacting comparability in 1999 included a pre-tax gain of \$454 million on the exchange and sale of Enron's interest in EOG (see Note 2 to the Consolidated Financial Statements) and a \$441 million pre-tax charge for the impairment of its MTBE assets (see Note 17 to the Consolidated Financial Statements).

During 1998, Enron recognized a pre-tax gain of \$22 million on the delivery of 10.5 million shares of EOG stock held by Enron as repayment of mandatorily exchangeable debt. Enron also recorded a \$61 million charge to reflect losses on contracted MTBE production.

Interest and Related Charges, Net

Interest and related charges, net of interest capitalized which totaled \$38 million, \$54 million and \$66 million for 2000, 1999 and 1998, respectively, increased to \$838 million in 2000 from \$656 million in 1999 and \$550 million in 1998. The increase in 2000 as compared to 1999 was primarily a result of increased long-term debt levels, increased average short-term borrowings, short-term debt assumed as a result of the acquisition of MG plc and higher interest rates in the U.S. The increase was partially offset by the replacement of debt related to a Brazilian subsidiary with lower interest rate debt.

The increase in 1999 as compared to 1998 was primarily due to debt issuances and debt related to a Brazilian subsidiary, partially offset by a decrease in debt related to EOG following the sale and exchange of Enron's interests in August 1999. See Note 2 to the Consolidated Financial Statements.

Minority Interests

Minority interests include the following:

(In millions)	2000	1999	1998
Elektro (a)	\$ 33	\$ 39	\$ -
Majority-owned limited liability company and limited partnerships	105	71	-
Enron Oil & Gas Company	-	2	24
Other	16	23	53
Total	\$154	\$135	\$77

(a) Relates to the respective parents of Elektro, which had minority shareholders in 2000 and 1999. See Note 8 to the Consolidated Financial Statements.

Minority interests include Elektro beginning January 1, 1999, a majority-owned limited liability company and majority-owned limited partnerships since their formation during 1998 through 2000 and EOG until the exchange and sale of Enron's interests in August 1999 (see Note 2 to the Consolidated Financial Statements).

Income Tax Expense

Income tax expense increased in 2000 as compared to 1999 primarily as a result of increased earnings, decreased equity earnings and decreased tax benefits related to the foreign tax rate differential, partially offset by an increase in the differences between the book and tax basis of certain assets and stock sales.

Income tax expense decreased in 1999 compared to 1998 primarily as a result of increased equity earnings, tax benefits related to the foreign tax rate differential and the audit settlement related to Monthly Income Preferred Shares, partially offset by increased earnings.

Cumulative Effect of Accounting Changes

In 1999, Enron recorded an after-tax charge of \$131 million to reflect the initial adoption (as of January 1, 1999) of two new accounting pronouncements, the AICPA Statement of Position 98-5 (SOP 98-5), "Reporting on the Costs of Start-Up Activities," and the Emerging Issues Task Force Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The 1999 charge was primarily related to the adoption of SOP 98-5.

NEW ACCOUNTING PRONOUNCEMENTS

In 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was subsequently amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 must be applied to all derivative instruments and certain derivative instruments embedded in hybrid instruments and requires that such instruments be recorded in the balance sheet either as an asset or liability measured at its fair value through earnings, with special accounting allowed for certain qualifying hedges. Enron will adopt SFAS No. 133 as of January 1, 2001. Due to the adoption of SFAS No. 133, Enron will recognize an after-tax non-cash loss of approximately \$5 million in earnings and an after-tax non-cash gain in "Other Comprehensive Income," a component of shareholders' equity, of approximately \$22 million from the cumulative effect of a change in accounting principle. Enron will also reclassify \$532 million from "Long-Term Debt" to "Other Liabilities" due to the adoption.

The total impact of Enron's adoption of SFAS No. 133 on earnings and on "Other Comprehensive Income" is dependent upon certain pending interpretations, which are currently under consideration, including those related to "normal purchases and normal sales" and inflation escalators included in certain contract payment provisions. The interpretations of these issues, and others, are currently under consideration by the FASB. While the ultimate conclusions reached on interpretations being considered by the FASB could impact the effects of Enron's adoption of SFAS No. 133, Enron does not believe that such conclusions would have a material effect on its current estimate of the impact of adoption.

FINANCIAL CONDITION

Cash Flows

(In millions)	2000	1999	1998
Cash provided by (used in):			
Operating activities	\$ 4,779	\$ 1,228	\$ 1,640
Investing activities	(4,264)	(3,507)	(3,965)
Financing activities	571	2,456	2,266

Net cash provided by operating activities increased \$3,551 million in 2000, primarily reflecting decreases in working capital, positive operating results and a receipt of cash associated with the assumption of a contractual obligation. Net cash provided by operating activities decreased \$412 million in 1999, primarily reflecting increases in working capital and net assets from price risk management activities, partially offset by increased earnings and higher proceeds from sales of merchant assets and investments. The 1998 amount reflects positive operating cash flow from Enron's major business segments, proceeds from sales of interests in energy-related merchant assets and cash from timing and other changes related to Enron's commodity portfolio, partially offset by new investments in merchant assets and investments.

Net cash used in investing activities primarily reflects capital expenditures and equity investments, which total \$3,314 million in 2000, \$3,085 million in 1999 and \$3,564 million in 1998, and cash used for business acquisitions. See "Capital Expenditures and Equity Investments" below and see Note 2 to the Consolidated Financial Statements for cash used for business acquisitions. Partially offsetting these uses of cash were proceeds from sales of non-merchant assets, including certain equity instruments by Energy Services and an international power project, which totaled \$494 million in 2000. Proceeds from non-merchant asset sales were \$294 million in 1999 and \$239 million in 1998.

Cash provided by financing activities in 2000 included proceeds from the issuance of subsidiary equity and the issuance of common stock related to employee benefit plans, partially offset by payments of dividends. Cash provided by financing activities in 1999 included proceeds from the net issuance of short- and long-term debt, the issuance of common stock and the issuance of subsidiary equity, partially offset by payments of dividends. Cash provided by financing activities in 1998 included proceeds from the net issuance of short- and long-term debt, the issuance of common stock and the sale of a minority interest in a subsidiary, partially offset by payments of dividends.

Capital Expenditures and Equity Investments

Capital expenditures by operating segment are as follows:

(In millions)	Estimate	2001	2000	1999	1998
Transportation and Distribution	\$ 140	\$ 270	\$ 316	\$ 310	
Wholesale Services	570	1,280	1,216	706	
Retail Energy Services	50	70	64	75	
Broadband Services	700	436	-	-	
Exploration and Production	-	-	226	690	
Corporate and Other	40	325	541	124	
Total	\$1,500	\$2,381	\$2,363	\$1,905	

Capital expenditures increased \$18 million in 2000 and \$458 million in 1999 as compared to the previous year. Capital expenditures in 2000 primarily relate to construction of power plants to extend Wholesale Services' network and fiber optic network infrastructure for Broadband Services. During 1999, Wholesale Services expenditures increased due primarily to construction of domestic and international power plants. The 1999 increase in Corporate and Other reflects the purchase of certain previously leased MTBE-related assets.

Cash used for investments in equity affiliates by the operating segments is as follows:

(In millions)	2000	1999	1998
Transportation and Distribution	\$ 1	\$ -	\$ 27
Wholesale Services	911	712	703
Corporate and Other	21	10	929
Total	\$933	\$722	\$1,659

Equity investments in 2000 relate primarily to capital invested for the ongoing construction, by a joint venture, of a power plant in India as well as other international investments. Equity investments in 1999 relate primarily to an investment in a joint venture that holds gas distribution and related businesses in South Korea and the power plant project in India.

The level of spending for capital expenditures and equity investments will vary depending upon conditions in the energy and broadband markets, related economic conditions and identified opportunities. Management expects that the capital spending program will be funded by a combination of internally generated funds, proceeds from dispositions of selected assets and short- and long-term borrowings.

Working Capital

At December 31, 2000, Enron had working capital of \$2.0 billion. If a working capital deficit should occur, Enron has credit facilities in place to fund working capital requirements. At December 31, 2000, those credit lines provided for up to \$4.2 billion of committed and uncommitted credit, of which \$290 million was outstanding. Certain of the credit agreements contain prefunding covenants. However, such covenants are not expected to restrict Enron's access to funds under these agreements. In addition, Enron sells commercial paper and has agreements to sell trade accounts receivable, thus providing financing to meet seasonal working capital needs. Management believes that the sources of funding described above are sufficient to meet short- and long-term liquidity needs not met by cash flows from operations.

CAPITALIZATION

Total capitalization at December 31, 2000 was \$25.0 billion. Debt as a percentage of total capitalization increased to 40.9 percent at December 31, 2000 as compared to 38.5 percent at December 31, 1999. The increase in the ratio primarily reflects increased debt levels and the impact on total equity of the decline in the value of the British pound sterling. This was partially offset by the issuances, in 2000, of Enron common stock and the contribution of common shares (see Note 16 to the Consolidated Financial Statements). The issuances of Enron common stock primarily related to the acquisition of a minority shareholder's interest in Enron Energy Services, LLC and the exercise of employee stock options.

Enron is a party to certain financial contracts which contain provisions for early settlement in the event of a significant market price decline in which Enron's common stock falls below certain levels (prices ranging from \$28.20 to \$55.00 per share) or if the credit ratings for Enron's unsecured, senior long-term debt obligations fall below investment grade. The impact of this early settlement could include the issuance of additional shares of Enron common stock.

Enron's senior unsecured long-term debt is currently rated BBB+ by Standard & Poor's Corporation and Fitch IBCA and Baa1 by Moody's Investor Service. Enron's continued investment grade status is critical to the success of its wholesale businesses as well as its ability to maintain adequate liquidity. Enron's management believes it will be able to maintain its credit rating.

Financial Risk Management

Wholesale Services offers price risk management services primarily related to commodities associated with the energy sector (natural gas, electricity, crude oil and natural gas liquids). Energy Services and Broadband Services also offer price risk management services to their customers. These services are provided through a variety of financial instruments including forward contracts, which may involve physical delivery, swap agreements, which may require payments to (or receipt of payments from) counterparties based on the differential between a fixed and variable price for the commodity, options and other contractual arrangements. Interest rate risks and foreign currency risks associated with the fair value of Wholesale Services' commodities portfolio are managed using a variety of financial instruments, including financial futures, swaps and options.

On a much more limited basis, Enron's other businesses also enter into financial instruments such as forwards, swaps and other contracts primarily for the purpose of hedging the impact of market fluctuations on assets, liabilities, production or other contractual commitments. Changes in the market value of these hedge transactions are deferred until the gain or loss is recognized on the hedged item.

Enron manages market risk on a portfolio basis, subject to parameters established by its Board of Directors. Market risks are monitored by an independent risk control group operating separately from the units that create or actively manage these risk exposures to ensure compliance with Enron's stated risk management policies.

Market Risk

The use of financial instruments by Enron's businesses may expose Enron to market and credit risks resulting from adverse changes in commodity and equity prices, interest rates and foreign exchange rates. For Enron's businesses, the major market risks are discussed below:

Commodity Price Risk. Commodity price risk is a consequence of providing price risk management services to customers. As discussed above, Enron actively manages this risk on a portfolio basis to ensure compliance with Enron's stated risk management policies.

Interest Rate Risk. Interest rate risk is also a consequence of providing price risk management services to customers and having variable rate debt obligations, as changing interest rates impact the discounted value of future cash flows. Enron utilizes forwards, futures, swaps and options to manage its interest rate risk.

Foreign Currency Exchange Rate Risk. Foreign currency exchange rate risk is the result of Enron's international operations and price risk management services provided to its worldwide customer base. The primary purpose of Enron's foreign currency hedging activities is to protect against the volatility associated with foreign currency purchase and sale transactions. Enron primarily utilizes forward exchange contracts, futures and purchased options to manage Enron's risk profile.

Equity Risk. Equity risk arises from Enron's participation in investments. Enron generally manages this risk by hedging specific investments using futures, forwards, swaps and options.

Enron evaluates, measures and manages the market risk in its investments on a daily basis utilizing value at risk and other methodologies. The quantification of market risk using value at risk provides a consistent measure of risk across diverse markets and products. The use of these methodologies requires a number of key assumptions including the selection of a confidence level for expected losses, the holding period for liquidation and the treatment of risks outside the value at risk methodologies, including liquidity risk and event risk. Value at risk represents an estimate of reasonably possible net losses in earnings that would be recognized on its investments assuming hypothetical movements in future market rates and no change in positions. Value at risk is not necessarily indicative of actual results which may occur.

Value at Risk

Enron has performed an entity-wide value at risk analysis of virtually all of Enron's financial instruments, including price risk management activities and merchant investments. Value at risk incorporates numerous variables that could impact the fair value of Enron's investments, including commodity prices, interest rates, foreign exchange rates, equity prices and associated volatilities, as well as correlation within and across these variables. Enron estimates value at risk for commodity, interest rate and foreign exchange exposures using a model based on Monte Carlo simulation of delta/gamma positions which captures a significant portion of the exposure related to option positions. The value at risk for equity exposure discussed above is based on J.P. Morgan's RiskMetrics™ approach. Both value at risk methods utilize a one-day holding period and a 95% confidence level. Cross-commodity correlations are used as appropriate.

The use of value at risk models allows management to aggregate risks across the company, compare risk on a consistent basis and identify the drivers of risk. Because of the inherent limitations to value at risk, including the use of delta/gamma approximations to value options, subjectivity in the choice of liquidation period and reliance on historical data to calibrate the models, Enron relies on value at risk as only one component in its risk control process. In addition to using value at risk measures,

Enron performs regular stress and scenario analyses to estimate the economic impact of sudden market moves on the value of its portfolios. The results of the stress testing, along with the professional judgment of experienced business and risk managers, are used to supplement the value at risk methodology and capture additional market-related risks, including volatility, liquidity and event, concentration and correlation risks.

The following table illustrates the value at risk for each component of market risk:

(In millions)	December 31,		Year ended December 31, 2000		
	2000	1999	Average ^(a)	High Valuation ^(a)	Low Valuation ^(a)
Trading Market Risk:					
Commodity price ^(b)	\$66	\$21	\$50	\$81	\$23
Interest rate	-	-	-	-	-
Foreign currency exchange rate	-	-	-	-	-
Equity ^(c)	59	26	45	59	36
Non-Trading Market Risk^(d):					
Commodity price	2	1	2	5	2
Interest rate	-	2	1	2	-
Foreign currency exchange rate	8	4	8	10	4
Equity	7	3	6	7	5

(a) The average value presents a twelve month average of the month-end values. The high and low valuations for each market risk component represent the highest and lowest month-end value during 2000.

(b) In 2000, increased natural gas prices combined with increased price volatility in power and gas markets caused Enron's value at risk to increase significantly.

(c) Enron's equity trading market risk primarily relates to merchant investments (see Note 4 to the Consolidated Financial Statements). In 2000, the value at risk model utilized for equity trading market risk was refined to more closely correlate with the valuation methodologies used for merchant activities.

(d) Includes only the risk related to the financial instruments that serve as hedges and does not include the related underlying hedged item.

Accounting Policies

Accounting policies for price risk management and hedging activities are described in Note 1 to the Consolidated Financial Statements.

Information Regarding Forward-Looking Statements

This Report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts contained in this document are forward-looking statements. Forward-looking statements include, but are not limited to, statements relating to expansion opportunities for the Transportation Services, extension of Enron's business model to new markets and industries, demand in the market for broadband services and high bandwidth applications, transaction volumes in the U.S. power market, commencement of commercial operations of new power plants and pipeline projects, completion of the sale of certain assets and growth in the demand for retail energy outsourcing solutions. When used in this document, the words "anticipate," "believe," "estimate," "expects," "intend," "may," "project," "plan," "should" and similar expressions are intended to be among the statements that identify forward-looking statements. Although Enron believes that its expectations reflected in these forward-looking statements are based on reasonable assumptions, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements herein include success in marketing natural gas and power to wholesale customers; the ability of Enron to penetrate new retail natural gas and electricity markets (including energy outsourcing markets) in the United States and foreign jurisdictions; development of Enron's broadband network and customer demand for intermediation and content services; the timing, extent and market effects of deregulation of energy markets in the United States, including the current energy market conditions in California, and in foreign jurisdictions; other regulatory developments in the United States and in foreign countries, including tax legislation and regulations; political developments in foreign countries; the extent of efforts by governments to privatize natural gas and electric utilities and other industries; the timing and extent of changes in commodity prices for crude oil, natural gas, electricity, foreign currency and interest rates; the extent of success in acquiring oil and gas properties and in discovering, developing, producing and marketing reserves; the timing and success of Enron's efforts to develop international power, pipeline and other infrastructure projects; the effectiveness of Enron's risk management activities; the ability of counterparties to financial risk management instruments and other contracts with Enron to meet their financial commitments to Enron; and Enron's ability to access the capital markets and equity markets during the periods covered by the forward-looking statements, which will depend on general market conditions and Enron's ability to maintain the credit ratings for its unsecured senior long-term debt obligations.

Management's Responsibility for Financial Reporting

The following financial statements of Enron Corp. and subsidiaries (collectively, Enron) were prepared by management, which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles and necessarily include some amounts that are based on the best estimates and judgments of management.

The system of internal controls of Enron is designed to provide reasonable assurance as to the reliability of financial statements and the protection of assets from unauthorized acquisition, use or disposition. This system is augmented by written policies and guidelines and the careful selection and training of qualified personnel. It should be recognized, however, that there are inherent limitations in the effectiveness of any system of internal control. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to the preparation of reliable financial statements and safeguarding of assets. Further, because of changes in conditions, internal control system effectiveness may vary over time.

Enron assessed its internal control system as of December 31, 2000, 1999 and 1998, relative to current standards of control criteria. Based upon this assessment, management believes that its system of internal controls was adequate during the periods to provide reasonable assurance as to the reliability of financial statements and the protection of assets against unauthorized acquisition, use or disposition.

Arthur Andersen LLP was engaged to audit the financial statements of Enron and issue reports thereon. Their audits included developing an overall understanding of Enron's accounting systems, procedures and internal controls and conducting tests and other auditing procedures sufficient to support their opinion on the financial statements. Arthur Andersen LLP was also engaged to examine and report on management's assertion about the effectiveness of Enron's system of internal controls. The Reports of Independent Public Accountants appear in this Annual Report.

The adequacy of Enron's financial controls and the accounting principles employed in financial reporting are under the general oversight of the Audit Committee of Enron Corp.'s Board of Directors. No member of this committee is an officer or employee of Enron. The independent public accountants have direct access to the Audit Committee, and they meet with the committee from time to time, with and without financial management present, to discuss accounting, auditing and financial reporting matters.

Reports Of Independent Public Accountants

To the Shareholders and Board of Directors of Enron Corp.:

We have examined management's assertion that the system of internal control of Enron Corp. (an Oregon corporation) and subsidiaries as of December 31, 2000, 1999 and 1998 was adequate to provide reasonable assurance as to the reliability of financial statements and the protection of assets from unauthorized acquisition, use or disposition, included in the accompanying report on Management's Responsibility for Financial Reporting. Management is responsible for maintaining effective internal control over the reliability of financial statements and the protection of assets against unauthorized acquisition, use or disposition. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examinations were made in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the system of internal control, testing and evaluating the design and operating effectiveness of the system of internal control and such other procedures as we considered necessary in the circumstances. We believe that our examinations provide a reasonable basis for our opinion.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the system of internal control to future periods are subject to the risk that the system of internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the system of internal control of Enron Corp. and its subsidiaries as of December 31, 2000, 1999 and 1998 was adequate to provide reasonable assurance as to the reliability of financial statements and the protection of assets from unauthorized acquisition, use or disposition is fairly stated, in all material respects, based upon current standards of control criteria.

To the Shareholders and Board of Directors of Enron Corp.:

We have audited the accompanying consolidated balance sheet of Enron Corp. (an Oregon corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of Enron Corp.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Enron Corp. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 18 to the consolidated financial statements, Enron Corp. and subsidiaries changed its method of accounting for costs of start-up activities and its method of accounting for certain contracts involved in energy trading and risk management activities in the first quarter of 1999.

Arthur Andersen LLP

Houston, Texas
February 23, 2001

Arthur Andersen LLP

Houston, Texas
February 23, 2001

Enron Corp. and Subsidiaries Consolidated Income Statement

(In millions, except per share amounts)	Year ended December 31,		
	2000	1999	1998
Revenues			
Natural gas and other products	\$ 50,500	\$19,536	\$13,276
Electricity	33,823	15,238	13,939
Metals	9,234	-	-
Other	7,232	5,338	4,045
Total revenues	100,789	40,112	31,260
Costs and Expenses			
Cost of gas, electricity, metals and other products	94,517	34,761	26,381
Operating expenses	3,184	3,045	2,473
Depreciation, depletion and amortization	855	870	827
Taxes, other than income taxes	280	193	201
Impairment of long-lived assets	-	441	-
Total costs and expenses	98,836	39,310	29,882
Operating Income	1,953	802	1,378
Other Income and Deductions			
Equity in earnings of unconsolidated equity affiliates	87	309	97
Gains on sales of non-merchant assets	146	541	56
Gains on the issuance of stock by TNPC, Inc.	121	-	-
Interest income	212	162	88
Other income, net	(37)	181	(37)
Income Before Interest, Minority Interests and Income Taxes	2,482	1,995	1,582
Interest and related charges, net	838	656	550
Dividends on company-obligated preferred securities of subsidiaries	77	76	77
Minority interests	154	135	77
Income tax expense	434	104	175
Net income before cumulative effect of accounting changes	979	1,024	703
Cumulative effect of accounting changes, net of tax	-	(131)	-
Net Income	979	893	703
Preferred stock dividends	83	66	17
Earnings on Common Stock	\$ 896	\$ 827	\$ 686
Earnings Per Share of Common Stock			
Basic			
Before cumulative effect of accounting changes	\$ 1.22	\$ 1.36	\$ 1.07
Cumulative effect of accounting changes	-	(0.19)	-
Basic earnings per share	\$ 1.22	\$ 1.17	\$ 1.07
Diluted			
Before cumulative effect of accounting changes	\$ 1.12	\$ 1.27	\$ 1.01
Cumulative effect of accounting changes	-	(0.17)	-
Diluted earnings per share	\$ 1.12	\$ 1.10	\$ 1.01
Average Number of Common Shares Used in Computation			
Basic	736	705	642
Diluted	814	769	695

Enron Corp. and Subsidiaries Consolidated Statement of Comprehensive Income

(In millions)	Year ended December 31,		
	2000	1999	1998
Net Income	\$ 979	\$ 893	\$ 703
Other comprehensive income:			
Foreign currency translation adjustment and other	(307)	(579)	(14)
Total Comprehensive Income	\$ 672	\$ 314	\$ 689

The accompanying notes are an integral part of these consolidated financial statements.

Enron Corp. and Subsidiaries Consolidated Balance Sheet

	December 31,	2000	1999
(In millions, except shares)			
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 1,374	\$ 288	
Trade receivables (net of allowance for doubtful accounts of \$133 and \$40, respectively)	10,396	3,030	
Other receivables	1,874	518	
Assets from price risk management activities	12,018	2,205	
Inventories	953	598	
Deposits	2,433	81	
Other	1,333	535	
Total current assets	30,381	7,255	
Investments and Other Assets			
Investments in and advances to unconsolidated equity affiliates	5,294	5,036	
Assets from price risk management activities	8,988	2,929	
Goodwill	3,638	2,799	
Other	5,459	4,681	
Total investments and other assets	23,379	15,445	
Property, Plant and Equipment, at cost			
Natural gas transmission	6,916	6,948	
Electric generation and distribution	4,766	3,552	
Fiber-optic network and equipment	839	379	
Construction in progress	682	1,120	
Other	2,256	1,913	
Less accumulated depreciation, depletion and amortization	15,459	13,912	
Property, plant and equipment, net	11,743	10,681	
Total Assets	\$65,503	\$33,381	

The accompanying notes are an integral part of these consolidated financial statements.

December 31,

	2000	1999
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 9,777	\$ 2,154
Liabilities from price risk management activities	10,495	1,836
Short-term debt	1,679	1,001
Customers' deposits	4,277	44
Other	2,178	1,724
Total current liabilities	<u>28,406</u>	<u>6,759</u>
Long-Term Debt	<u>8,550</u>	<u>7,151</u>
Deferred Credits and Other Liabilities		
Deferred income taxes	1,644	1,894
Liabilities from price risk management activities	9,423	2,990
Other	2,692	1,587
Total deferred credits and other liabilities	<u>13,759</u>	<u>6,471</u>
Commitments and Contingencies (Notes 13, 14 and 15)		
Minority Interests	<u>2,414</u>	<u>2,430</u>
Company-Obligated Preferred Securities of Subsidiaries	<u>904</u>	<u>1,000</u>
Shareholders' Equity		
Second preferred stock, cumulative, no par value, 1,370,000 shares authorized, 1,240,933 shares and 1,296,184 shares issued, respectively	124	130
Mandatorily Convertible Junior Preferred Stock, Series B, no par value, 250,000 shares issued	1,000	1,000
Common stock, no par value, 1,200,000,000 shares authorized, 752,205,112 shares and 716,865,081 shares issued, respectively	8,348	6,637
Retained earnings	3,226	2,698
Accumulated other comprehensive income	(1,048)	(741)
Common stock held in treasury, 577,066 shares and 1,337,714 shares, respectively	(32)	(49)
Restricted stock and other	(148)	(105)
Total shareholders' equity	<u>11,470</u>	<u>9,570</u>
Total Liabilities and Shareholders' Equity	<u>\$65,503</u>	<u>\$33,381</u>

Enron Corp. and Subsidiaries Consolidated Statement of Cash Flows

(In millions)	Year ended December 31,		
	2000	1999	1998
Cash Flows From Operating Activities			
Reconciliation of net income to net cash provided by operating activities			
Net income	\$ 979	\$ 893	\$ 703
Cumulative effect of accounting changes	-	131	-
Depreciation, depletion and amortization	855	870	827
Impairment of long-lived assets (including equity investments)	326	441	-
Deferred income taxes	207	21	87
Gains on sales of non-merchant assets	(146)	(541)	(82)
Changes in components of working capital	1,769	(1,000)	(233)
Net assets from price risk management activities	(763)	(395)	350
Merchant assets and investments:			
Realized gains on sales	(104)	(756)	(628)
Proceeds from sales	1,838	2,217	1,434
Additions and unrealized gains	(1,295)	(827)	(721)
Other operating activities	1,113	174	(97)
Net Cash Provided by Operating Activities	4,779	1,228	1,640
Cash Flows From Investing Activities			
Capital expenditures	(2,381)	(2,363)	(1,905)
Equity investments	(933)	(722)	(1,659)
Proceeds from sales of non-merchant assets	494	294	239
Acquisition of subsidiary stock	(485)	-	(180)
Business acquisitions, net of cash acquired (see Note 2)	(777)	(311)	(104)
Other investing activities	(182)	(405)	(356)
Net Cash Used in Investing Activities	(4,264)	(3,507)	(3,965)
Cash Flows From Financing Activities			
Issuance of long-term debt	3,994	1,776	1,903
Repayment of long-term debt	(2,337)	(1,837)	(870)
Net increase (decrease) in short-term borrowings	(1,595)	1,565	(158)
Net issuance (redemption) of company-obligated preferred securities of subsidiaries	(96)	-	8
Issuance of common stock	307	852	867
Issuance of subsidiary equity	500	568	828
Dividends paid	(523)	(467)	(414)
Net disposition of treasury stock	327	139	13
Other financing activities	(6)	(140)	89
Net Cash Provided by Financing Activities	571	2,456	2,266
Increase (Decrease) in Cash and Cash Equivalents	1,086	177	(59)
Cash and Cash Equivalents, Beginning of Year	288	111	170
Cash and Cash Equivalents, End of Year	\$ 1,374	\$ 288	\$ 111
Changes in Components of Working Capital			
Receivables	\$(8,203)	\$ (662)	\$(1,055)
Inventories	1,336	(133)	(372)
Payables	7,167	(246)	433
Other	1,469	41	761
Total	\$ 1,769	\$ (1,000)	\$ (233)

The accompanying notes are an integral part of these consolidated financial statements.

Enron Corp. and Subsidiaries Consolidated Statement of Changes in Shareholders' Equity

(In millions, except per share
amounts; shares in thousands)

	2000		1999		1998	
	Shares	Amount	Shares	Amount	Shares	Amount
Cumulative Second Preferred Convertible Stock						
Balance, beginning of year	1,296	\$ 130	1,320	\$ 132	1,338	\$ 134
Exchange of convertible preferred stock for common stock	(55)	(6)	(24)	(2)	(18)	(2)
Balance, end of year	1,241	\$ 124	1,296	\$ 130	1,320	\$ 132
Mandatorily Convertible Junior Preferred Stock, Series B						
Balance, beginning of year	250	\$ 1,000	-	\$ -	-	\$ -
Issuances	-	-	250	1,000	-	-
Balance, end of year	250	\$ 1,000	250	\$ 1,000	-	\$ -
Common Stock						
Balance, beginning of year	716,865	\$ 6,637	671,094	\$ 5,117	636,594	\$ 4,224
Exchange of convertible preferred stock for common stock	1,509	6	465	(1)	-	(7)
Issuances related to benefit and dividend reinvestment plans	28,100	966	10,054	258	-	45
Sales of common stock	-	-	27,600	839	34,500	836
Issuances of common stock in business acquisitions (see Note 2)	5,731	409	7,652	250	-	-
Other	-	330	-	174	-	19
Balance, end of year	752,205	\$ 8,348	716,865	\$ 6,637	671,094	\$ 5,117
Retained Earnings						
Balance, beginning of year		\$ 2,698			\$ 2,226	\$ 1,852
Net income		979			893	703
Cash dividends						
Common stock (\$0.5000, \$0.5000 and \$0.4812 per share in 2000, 1999 and 1998, respectively)		(368)			(355)	(312)
Cumulative Second Preferred Convertible Stock (\$13.652, \$13.652 and \$13.1402 per share in 2000, 1999 and 1998, respectively)		(17)			(17)	(17)
Series A and B Preferred Stock		(66)			(49)	-
Balance, end of year		\$ 3,226			\$ 2,698	\$ 2,226
Accumulated Other Comprehensive Income						
Balance, beginning of year		\$ (741)			\$ (162)	\$ (148)
Translation adjustments and other		(307)			(579)	(14)
Balance, end of year		\$ (1,048)			\$ (741)	\$ (162)
Treasury Stock						
Balance, beginning of year	(1,338)	\$ (49)	(9,334)	\$ (195)	(14,102)	\$ (269)
Shares acquired	(3,114)	(234)	(1,845)	(71)	(2,236)	(61)
Exchange of convertible preferred stock for common stock	-	-	181	4	486	9
Issuances related to benefit and dividend reinvestment plans	3,875	251	9,660	213	6,426	124
Issuances of treasury stock in business acquisitions	-	-	-	-	92	2
Balance, end of year	(577)	\$ (32)	(1,338)	\$ (49)	(9,334)	\$ (195)
Restricted Stock and Other						
Balance, beginning of year		\$ (105)			\$ (70)	\$ (175)
Issuances related to benefit and dividend reinvestment plans		(43)			(35)	105
Balance, end of year		\$ (148)			\$ (105)	\$ (70)
Total Shareholders' Equity		\$11,470			\$9,570	\$7,048

The accompanying notes are an integral part of these consolidated financial statements.

Enron Corp. and Subsidiaries Notes to the Consolidated Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation Policy and Use of Estimates

The accounting and financial reporting policies of Enron Corp. and its subsidiaries conform to generally accepted accounting principles and prevailing industry practices. The consolidated financial statements include the accounts of all subsidiaries controlled by Enron Corp. after the elimination of significant intercompany accounts and transactions.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

"Enron" is used from time to time herein as a collective reference to Enron Corp. and its subsidiaries and affiliates. The businesses of Enron are conducted by its subsidiaries and affiliates whose operations are managed by their respective officers.

Cash Equivalents

Enron records as cash equivalents all highly liquid short-term investments with original maturities of three months or less.

Inventories

Inventories consist primarily of commodities, priced at market as such inventories are used in trading activities.

Depreciation, Depletion and Amortization

The provision for depreciation and amortization with respect to operations other than oil and gas producing activities is computed using the straight-line or regulatorily mandated method, based on estimated economic lives. Composite depreciation rates are applied to functional groups of property having similar economic characteristics. The cost of utility property units retired, other than land, is charged to accumulated depreciation.

Provisions for depreciation, depletion and amortization of proved oil and gas properties are calculated using the units-of-production method.

Income Taxes

Enron accounts for income taxes using an asset and liability approach under which deferred assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases (see Note 5).

Earnings Per Share

Basic earnings per share is computed based upon the weighted-average number of common shares outstanding during the periods. Diluted earnings per share is computed based upon the weighted-average number of common shares outstanding plus the assumed issuance of common shares for all potentially dilutive securities. All share and per share amounts have been adjusted to reflect the August 13, 1999 two-for-one stock split. See Note 11 for a reconciliation of the basic and diluted earnings per share computations.

Accounting for Price Risk Management

Enron engages in price risk management activities for both trading and non-trading purposes. Instruments utilized in connection with trading activities are accounted for using the mark-to-market method. Under the mark-to-market method of accounting, forwards, swaps, options, energy transportation contracts utilized for trading activities and other instruments with third parties are reflected at fair value and are shown as "Assets and Liabilities from Price Risk Management Activities" in the Consolidated Balance Sheet. These activities also include the commodity risk management component embedded in energy outsourcing contracts. Unrealized gains and losses from newly originated contracts, contract restructurings and the impact of price movements are recognized as "Other Revenues." Changes in the assets and liabilities from price risk management activities result primarily from changes in the valuation of the portfolio of contracts, newly originated transactions and the timing of settlement relative to the receipt of cash for certain contracts. The market prices used to value these transactions reflect management's best estimate considering various factors including closing exchange and over-the-counter quotations, time value and volatility factors underlying the commitments.

Financial instruments are also utilized for non-trading purposes to hedge the impact of market fluctuations on assets, liabilities, production and other contractual commitments. Hedge accounting is utilized in non-trading activities when there is a high degree of correlation between price movements in the derivative and the item designated as being hedged. In instances where the anticipated correlation of price movements does not occur, hedge accounting is terminated and future changes in the value of the financial instruments are recognized as gains or losses. If the hedged item is sold, the value of the financial instrument is recognized in income. Gains and losses on financial instruments used for hedging purposes are recognized in the Consolidated Income Statement in the same manner as the hedged item.

The cash flow impact of financial instruments is reflected as cash flows from operating activities in the Consolidated Statement of Cash Flows. See Note 3 for further discussion of Enron's price risk management activities.

Accounting for Development Activity

Development costs related to projects, including costs of feasibility studies, bid preparation, permitting, licensing and contract negotiation, are expensed as incurred until the project is estimated to be probable. At that time, such costs are capitalized or expensed as incurred, based on the nature of the costs incurred. Capitalized development costs may be recovered through reimbursements from joint venture partners or other third parties, or classified as part of the investment and recovered through the cash flows from that project. Accumulated capitalized project development costs are otherwise expensed in the period that management determines it is probable that the costs will not be recovered.

Environmental Expenditures

Expenditures that relate to an existing condition caused by past operations, and do not contribute to current or future revenue generation, are expensed. Environmental expenditures relating to current or future revenues are expensed or capitalized as appropriate based on the nature of the costs incurred. Liabilities are recorded when environmental assessments and/or clean-ups are probable and the costs can be reasonably estimated.

Computer Software

Direct costs of materials and services consumed in developing or obtaining software, including payroll and payroll-related costs for employees who are directly associated with and who devote time to the software project are capitalized. Costs may begin to be capitalized once the application development stage has begun. All other costs are expensed as incurred. Enron amortizes the costs on a straight-line basis over the useful life of the software. Impairment is evaluated based on changes in the expected usefulness of the software. At December 31, 2000 and 1999, Enron has capitalized, net of amortization, \$381 million and \$240 million, respectively, of software costs covering numerous systems, including trading and settlement, accounting, billing, and upgrades.

Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates are accounted for by the equity method, except for certain investments resulting from Enron's merchant investment activities which are included at market value in "Other Investments" in the Consolidated Balance Sheet. See Notes 4 and 9. Where acquired assets are accounted for under the equity method based on temporary control, earnings or losses are recognized only for the portion of the investment to be retained.

Sale of Subsidiary Stock

Enron accounts for the issuance of stock by its subsidiaries in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) 51. SAB 51 allows for Enron to recognize a gain in the amount that the offering price per share of a subsidiary's stock exceeds Enron's carrying amount per share.

Foreign Currency Translation

For international subsidiaries, asset and liability accounts are translated at year-end rates of exchange and revenue and expenses are translated at average exchange rates prevailing during the year. For subsidiaries whose functional currency is deemed to be other than the U.S. dollar, translation adjustments are included as a separate component of other comprehensive income and shareholders' equity. Currency transaction gains and losses are recorded in income.

During 1999, the exchange rate for the Brazilian real to the U.S. dollar declined, resulting in a non-cash foreign currency translation adjustment reducing the value of Enron's assets and shareholders' equity by approximately \$600 million.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for prior years to conform with the current presentation.

2 BUSINESS ACQUISITIONS AND DISPOSITIONS

In 2000, Enron, through a wholly-owned subsidiary, acquired all of the outstanding common shares of MG plc, a leading independent international metals market-making business that provides financial and marketing services to the global metals industry, for \$413 million in cash and assumed debt of approximately \$1.6 billion.

In addition, Enron made other acquisitions including a technology-related company, a facility maintenance company and all minority shareholders' interests in Enron Energy Services, LLC and Enron Renewable Energy Corp. Enron issued 5.7 million shares of Enron common stock, contributed common stock and warrants of an unconsolidated equity affiliate and paid cash in these transactions.

On August 16, 1999, Enron exchanged approximately 62.3 million shares (approximately 75%) of the Enron Oil & Gas Company (EOG) common stock it held for all of the stock of EOGI-India, Inc., a subsidiary of EOG. Also in August 1999, Enron received net proceeds of approximately \$190 million for the sale of 8.5 million shares of EOG common stock in a public offering and issued approximately \$255 million of public debt that is exchangeable in July 2002 into approximately 11.5 million shares of EOG common stock. As a result of the share exchange and share sale, Enron recorded a pre-tax gain of \$454 million (\$345 million after tax, or \$0.45 per diluted share) in 1999. As of August 16, 1999, EOG is no longer included in Enron's consolidated financial statements. EOGI-India, Inc. is included in the consolidated financial statements within the Wholesale Services segment following the exchange and sale. Enron accounts for its oil and gas exploration and production activities under the successful efforts method of accounting.

In August 1998, Enron, through a wholly-owned subsidiary, completed the acquisition of a controlling interest in Elektro Eletricidade e Serviços S.A. (Elektro) for approximately \$1.3 billion. Elektro was initially accounted for using the equity method based on temporary control. In 1999, after the acquisition of additional interests, Elektro was consolidated by Enron.

Additionally, during 1999 and 1998, Enron acquired generation, natural gas distribution, renewable energy, telecommunications and energy management businesses for cash, Enron and subsidiary stock and notes.

Enron has accounted for these acquisitions using the purchase method of accounting as of the effective date of each transaction. Accordingly, the purchase price of each transaction has been allocated based upon the estimated fair value of the assets and liabilities acquired as of the acquisition date, with the excess reflected as goodwill in the Consolidated Balance Sheet. This and all other goodwill is being amortized on a straight-line basis over 5 to 40 years.

Assets acquired, liabilities assumed and consideration paid as a result of businesses acquired were as follows:

(In millions)	2000	1999	1998 ^(a)
Fair value of assets acquired,			
other than cash	\$ 2,641	\$ 376	\$ 269
Goodwill	963	(71)	94
Fair value of liabilities assumed	(2,418)	6	(259)
Common stock of Enron issued and			
equity of an unconsolidated			
equity affiliate contributed	(409)	-	-
Net cash paid	\$ 777	\$ 311	\$ 104

^(a) Excludes amounts related to the 1998 acquisition of Elektro.

On November 8, 1999, Enron announced that it had entered into an agreement to sell Enron's wholly-owned electric utility subsidiary, Portland General Electric Company (PGE), to Sierra Pacific Resources for \$2.1 billion. Sierra Pacific Resources will also assume approximately \$1 billion in PGE debt and preferred stock. The transaction has been delayed by the effect of recent events in California and Nevada on the buyer. Enron's carrying amount of PGE as of December 31, 2000 was approximately \$1.6 billion. Income before interest, minority interest and income taxes for PGE was \$338 million, \$298 million and \$284 million for 2000, 1999 and 1998, respectively.

3 PRICE RISK MANAGEMENT ACTIVITIES AND FINANCIAL INSTRUMENTS

Trading Activities

Enron offers price risk management services to wholesale, commercial and industrial customers through a variety of financial and other instruments including forward contracts involving physical delivery, swap agreements, which require payments to (or receipt of payments from) counterparties based on the differential between a fixed and variable price for the commodity, options and other contractual arrangements. Interest rate risks and foreign currency risks associated with the fair value of the commodity portfolio are managed using a variety of financial instruments, including financial futures.

Notional Amounts and Terms. The notional amounts and terms of these instruments at December 31, 2000 are shown below (dollars in millions):

	Fixed Price Payor	Fixed Price Receiver	Maximum Terms in Years
Commodities (a)			
Natural gas	7,331	6,910	23
Crude oil and liquids	3,513	1,990	6
Electricity	2,424	2,388	24
Metals, coal and pulp and paper	368	413	9
Bandwidth	167	325	11
Financial products			
Interest rate (b)	\$4,732	\$3,977	29
Foreign currency	\$ 79	\$ 465	22
Equity investments (c)	\$2,998	\$3,768	13

(a) Natural gas, crude oil and liquids and electricity volumes are in TBtue; metals, coal and pulp and paper volumes are in millions of metric tonnes; and bandwidth volumes are in thousands of terabytes.

(b) The interest rate fixed price receiver includes the net notional dollar value of the interest rate sensitive component of the combined commodity portfolio. The remaining interest rate fixed price receiver and the entire interest rate fixed price payor represent the notional contract amount of a portfolio of various financial instruments used to hedge the net present value of the commodity portfolio. For a given unit of price protection, different financial instruments require different notional amounts.

(c) Excludes derivatives on Enron common stock. See Notes 10 and 11.

Enron also has sales and purchase commitments associated with commodity contracts based on market prices totaling 8,169 TBtue, with terms extending up to 16 years, and 7.2 million metric tonnes, with terms extending up to 5 years.

Notional amounts reflect the volume of transactions but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure Enron's exposure to market or credit risks. The maximum terms in years detailed above are not indicative of likely future cash flows as these positions may be offset in the markets at any time in response to the company's price risk management needs to the extent available in the market.

The volumetric weighted average maturity of Enron's fixed price portfolio as of December 31, 2000 was approximately 1.5 years.

Fair Value. The fair value as of December 31, 2000 and the average fair value of instruments related to price risk management activities held during the year are set forth below:

(In millions)	Fair Value as of 12/31/00		Average Fair Value for the Year Ended 12/31/00 (a)	
	Assets	Liabilities	Assets	Liabilities
Natural gas	\$10,270	\$ 9,342	\$ 5,525	\$ 5,114
Crude oil and liquids	1,549	3,574	1,402	2,745
Electricity	7,335	5,396	3,453	1,613
Other commodities	1,509	1,311	988	757
Equity investments	795	295	492	280
Total	\$21,458	\$19,918	\$11,860	\$10,509

(a) Computed using the ending balance at each month-end.

The income before interest, taxes and certain unallocated expenses arising from price risk management activities for 2000 was \$1,899 million.

Securitzations. From time to time, Enron sells interests in certain of its financial assets. Some of these sales are completed in securitzations, in which Enron concurrently enters into swaps associated with the underlying assets which limits the risks assumed by the purchaser. Such swaps are adjusted to fair value using quoted market prices, if available, or estimated fair value based on management's best estimate of the present value of future cash flow. These swaps are included in Price Risk Management activities above as equity investments. During 2000, gains from sales representing securitzations were \$381 million and proceeds were \$2,379 million (\$545 million of the proceeds related to sales to Whitewing Associates, L.P. (Whitewing)). See Notes 4 and 9. Purchases of securitized merchant financial assets totaled \$1,184 million during 2000. Amounts primarily related to equity interests.

Credit Risk. In conjunction with the valuation of its financial instruments, Enron provides reserves for credit risks associated with such activity. Credit risk relates to the risk of loss that Enron would incur as a result of nonperformance by counterparties pursuant to the terms of their contractual obligations. Enron maintains credit policies with regard to its counterparties that management believes significantly minimize overall credit risk. These policies include an evaluation of potential counterparties' financial condition (including credit rating), collateral requirements under certain circumstances and the use of standardized agreements which allow for the netting of positive and negative exposures associated with a single counterparty. Enron also minimizes this credit exposure using monetization of its contract portfolio or third-party insurance contracts.

The counterparties associated with assets from price risk management activities as of December 31, 2000 and 1999 are summarized as follows:

(In millions)	2000		1999	
	Investment Grade ^(a)	Total	Investment Grade ^(a)	Total
Gas and electric utilities	\$ 5,050	\$ 5,327	\$1,461	\$1,510
Energy marketers	4,677	6,124	544	768
Financial institutions	4,145	4,917	1,016	1,273
Independent power producers	672	791	471	641
Oil and gas producers	1,308	2,804	379	688
Industrials	607	1,138	336	524
Other	256	357	59	67
Total	\$16,715	21,458	\$4,266	5,471
Credit and other reserves		(452)		(337)
Assets from price risk management activities ^(b)		\$21,006 ^(c)		\$5,134

(a) "Investment Grade" is primarily determined using publicly available credit ratings along with consideration of cash, standby letters of credit, parent company guarantees and property interests, including oil and gas reserves. Included in "Investment Grade" are counterparties with a minimum Standard & Poor's or Moody's rating of BBB, or Baa3, respectively.

(b) One and two customers' exposures, respectively, at December 31, 2000 and 1999 comprise greater than 5% of Assets From Price Risk Management Activities and are included above as Investment Grade.

(c) At December 31, 2000, Enron held collateral of approximately \$5.5 billion, which consists substantially of cash deposits shown as "Customers' Deposits" on the balance sheet.

This concentration of counterparties may impact Enron's overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. Based on Enron's policies, its exposures and its credit reserves, Enron does not anticipate a materially adverse effect on financial position or results of operations as a result of counterparty nonperformance.

During 2000, the California power market was significantly impacted by the increase in wholesale power prices. California customer rates are currently frozen, requiring the utilities to finance the majority of their power purchases. If wholesale prices remain at the current levels and no regulatory relief or legislative assistance is obtained, certain California utilities may need to seek bankruptcy protection. During 2000, Enron entered into wholesale power transactions with California utilities, including their nonregulated power marketing affiliates. Enron has provided credit reserves related to such activities based on Enron's net position with each California utility. Due to the uncertainties surrounding the California power situation, management cannot predict the ultimate outcome but believes these matters will not have a material adverse impact on Enron's financial condition.

Non-Trading Activities

Enron also enters into financial instruments such as swaps and other contracts primarily for the purpose of hedging the impact of market fluctuations on assets, liabilities, production or other contractual commitments.

Energy Commodity Price Swaps. At December 31, 2000, Enron was a party to energy commodity price swaps covering 18.6 TBtu, 29.9 TBtu and 0.5 TBtu of natural gas for the years 2001, 2002 and 2003, respectively, and 0.3 million barrels of crude oil for the year 2001.

Interest Rate Swaps. At December 31, 2000, Enron had entered into interest rate swap agreements with an aggregate notional principal amount of \$1.0 billion to manage interest rate exposure. These swap agreements are scheduled to termi-

nate \$0.4 billion in 2001 and \$0.6 billion in the period 2002 through 2010.

Foreign Currency Contracts. At December 31, 2000, foreign currency contracts with a notional principal amount of \$1.4 billion were outstanding. These contracts will expire \$1.0 billion in 2001 and \$0.4 billion in the period 2002 through 2006.

Equity Contracts. At December 31, 2000, Enron had entered into Enron common stock swaps, with an aggregate notional amount of \$121 million, to hedge certain incentive-based compensation plans. Such contracts will expire in 2001.

Credit Risk. While notional amounts are used to express the volume of various financial instruments, the amounts potentially subject to credit risk, in the event of nonperformance by the third parties, are substantially smaller. Forwards, futures and other contracts are entered into with counterparties who are equivalent to investment grade. Accordingly, Enron does not anticipate any material impact to its financial position or results of operations as a result of nonperformance by the third parties on financial instruments related to non-trading activities.

Financial Instruments

The carrying amounts and estimated fair values of Enron's financial instruments, excluding trading activities, at December 31, 2000 and 1999 were as follows:

(In millions)	2000		1999	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Short- and long-term debt (Note 7)	\$10,229	\$10,217	\$8,152	\$8,108
Company-obligated preferred securities of subsidiaries (Note 10)	904	920	1,000	937
Energy commodity price swaps	-	68	-	(3)
Interest rate swaps	-	1	-	(55)
Foreign currency contracts	-	94	-	-
Equity contracts	15	15	4	4

Enron uses the following methods and assumptions in estimating fair values: (a) short- and long-term debt - the carrying amount of variable-rate debt approximates fair value, the fair value of marketable debt is based on quoted market prices and the fair value of other debt is based on the discounted present value of cash flows using Enron's current borrowing rates; (b) company-obligated preferred securities of subsidiaries - the fair value is based on quoted market prices, where available, or based on the discounted present value of cash flows using Enron's current borrowing rates if not publicly traded; and (c) energy commodity price swaps, interest rate swaps, foreign currency contracts and equity contracts - estimated fair values have been determined using available market data and valuation methodologies. Judgment is necessarily required in interpreting market data and the use of different market assumptions or estimation methodologies may affect the estimated fair value amounts.

The fair market value of cash and cash equivalents, trade and other receivables, accounts payable and investments accounted for at fair value are not materially different from their carrying amounts.

Guarantees of liabilities of unconsolidated entities and residual value guarantees have no carrying value and fair values which are not readily determinable (see Note 15).

4 MERCHANT ACTIVITIES

An analysis of the composition of Enron's merchant investments and energy assets at December 31, 2000 and 1999 is as follows:

(In millions)	December 31,	
	2000	1999
Merchant investments (a)		
Energy	\$137	\$ 516
Energy-intensive industries	63	218
Technology-related	99	11
Other	302	341
	601	1,086
Merchant assets (b)		
Independent power plants	53	152
Natural gas transportation	36	35
	89	187
Total	\$690	\$1,273

(a) Investments are recorded at fair value in "Other Assets" with changes in fair value reflected in "Other Revenues."

(b) Amounts represent Enron's investment in unconsolidated equity affiliates with operating earnings reflected in "Equity in Earnings of Unconsolidated Equity Affiliates."

Enron provides capital primarily to energy and technology-related businesses seeking debt or equity financing. The merchant investments made by Enron and certain of its unconsolidated affiliates (see Note 9) are carried at fair value and include public and private equity, government securities with maturities of more than 90 days, debt and interests in limited partnerships. The valuation methodologies utilize market values of publicly-traded securities, independent appraisals and cash flow analyses.

Also included in Enron's wholesale business are investments in merchant assets such as power plants and natural gas pipelines, primarily held through equity method investments. Some of these assets were developed, constructed and operated by Enron. The merchant assets are not expected to be long-term, integrated components of Enron's energy networks.

For the years ended December 31, 2000, 1999 and 1998, respectively, pre-tax gains from sales of merchant assets and investments totaling \$104 million, \$756 million and \$628 million are included in "Other Revenues," and proceeds were \$1,838 million, \$2,217 million and \$1,434 million.

5 INCOME TAXES

The components of income before income taxes are as follows:

(In millions)	2000	1999	1998
United States	\$ 640	\$ 357	\$197
Foreign	773	771	681
	\$1,413	\$1,128	\$878

Total income tax expense is summarized as follows:

(In millions)	2000	1999	1998
Payable currently			
Federal	\$112	\$ 29	\$ 30
State	22	6	8
Foreign	93	48	50
	227	83	88
Payment deferred			
Federal	13	(159)	(14)
State	14	23	11
Foreign	180	157	90
	207	21	87
Total income tax expense (a)	\$434	\$104	\$175

(a) See Note 11 for tax benefits related to stock options exercised by employees reflected in shareholders' equity.

The differences between taxes computed at the U.S. federal statutory tax rate and Enron's effective income tax rate are as follows:

	2000	1999	1998
Statutory federal income tax provision	35.0%	35.0%	35.0%
Net state income taxes	2.5	1.8	1.7
Foreign tax rate differential	(2.4)	(7.0)	0.8
Equity earnings	5.3	(10.1)	(4.3)
Basis and stock sale differences	(11.9)	(10.8)	(14.2)
Goodwill amortization	1.6	1.6	2.0
Audit settlement related to Monthly Income Preferred Shares	-	(1.8)	-
Other	0.6	0.5	(1.0)
	30.7%	9.2%	20.0%

The principal components of Enron's net deferred income tax liability are as follows:

(In millions)	December 31,	
	2000	1999
Deferred income tax assets		
Alternative minimum tax credit carryforward	\$ 254	\$ 220
Net operating loss carryforward	369	1,302
Other	189	188
	812	1,710
Deferred income tax liabilities		
Depreciation, depletion and amortization	1,813	1,807
Price risk management activities	(182)	1,133
Other	963	782
	2,594	3,722
Net deferred income tax liabilities (a)	\$1,782	\$2,012

(a) Includes \$138 million and \$118 million in other current liabilities for 2000 and 1999, respectively.

Enron has an alternative minimum tax (AMT) credit carry-forward of approximately \$254 million which can be used to offset regular income taxes payable in future years. The AMT credit has an indefinite carryforward period.

Enron has a net operating loss carryforward applicable to U.S. subsidiaries of approximately \$65 million, which will begin to expire in 2011. Enron has a net operating loss carryforward applicable to non-U.S. subsidiaries of approximately \$1.2 billion, of which \$1.0 billion can be carried forward indefinitely. The remaining \$200 million expires between the years 2001 and 2010. Deferred tax assets have been recognized on the \$65 million domestic loss and \$1.0 billion of the foreign losses.

U.S. and foreign income taxes have been provided for earnings of foreign subsidiary companies that are expected to be remitted to the U.S. Foreign subsidiaries' cumulative undistributed earnings of approximately \$1.8 billion are considered to be permanently reinvested outside the U.S. and, accordingly, no U.S. income taxes have been provided thereon. In the event of a distribution of those earnings in the form of dividends, Enron may be subject to both foreign withholding taxes and U.S. income taxes net of allowable foreign tax credits.

6 SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for income taxes and interest expense, including fees incurred on sales of accounts receivable, is as follows:

(In millions)	2000	1999	1998
Income taxes (net of refunds)	\$ 62	\$ 51	\$ 73
Interest (net of amounts capitalized)	834	678	585

Non-Cash Activity

In 2000, Enron acquired all minority shareholders' interests in Enron Energy Services, LLC and other businesses with Enron common stock. See Note 2.

In 2000 and 1999, Enron entered into various transactions with related parties, which resulted in an exchange of assets and an increase in common stock of \$171 million in 2000. See Note 16.

In 2000, a partnership in which Enron was a limited partner made a liquidating distribution to Enron resulting in a non-cash increase in current assets of \$220 million, a decrease of \$20 million in non-current assets and an increase in current liabilities of \$160 million.

During 2000 and 1999, Enron received the rights to specific third-party fiber-optic cable in exchange for the rights on specific fiber-optic cable held for sale by Enron. These exchanges resulted in non-cash increases in assets of \$69 million and \$111 million, respectively.

During 1999, Enron issued approximately 7.6 million shares of common stock in connection with the acquisition, by an unconsolidated equity affiliate, of interests in three power plants in New Jersey.

In December 1998, Enron extinguished its 6.25% Exchangeable Notes with 10.5 million shares of EOG common stock.

7 CREDIT FACILITIES AND DEBT

Enron has credit facilities with domestic and foreign banks which provide for an aggregate of \$1.4 billion in long-term committed credit, of which \$150 million relates to Portland General, and \$2.4 billion in short-term committed credit. Expiration dates of the committed facilities range from February 2001 to May 2005. Interest rates on borrowings are based upon the London Interbank Offered Rate, certificate of deposit rates or other short-term interest rates. Certain credit facilities contain covenants which must be met to borrow funds. Such debt covenants are not anticipated to materially restrict Enron's ability to borrow funds under such facilities. Compensating balances are not required, but Enron is required to pay a commitment or facility fee. At December 31, 2000, \$290 million was outstanding under these facilities.

Enron has also entered into agreements which provide for uncommitted lines of credit totaling \$420 million at December 31, 2000. The uncommitted lines have no stated expiration dates. Neither compensating balances nor commitment fees are required, as borrowings under the uncommitted credit lines are available subject to agreement by the participating banks. At December 31, 2000, no amounts were outstanding under the uncommitted lines.

In addition to borrowing from banks on a short-term basis, Enron and certain of its subsidiaries sell commercial paper to provide financing for various corporate purposes. As of December 31, 2000 and 1999, short-term borrowings of \$15 million and \$330 million, respectively, and long-term debt due within one year of \$1,303 million and \$670 million, respectively, have been reclassified as long-term debt based upon the availability of committed credit facilities with expiration dates exceeding one year and management's intent to maintain such amounts in excess of one year. Weighted average interest rates on short-term debt outstanding at December 31, 2000 and 1999 were 6.9% and 6.4%, respectively.

Detailed information on long-term debt is as follows:

	December 31,	
(In millions)	2000	1999
Enron Corp.		
Senior debentures		
6.75% to 8.25% due 2005 to 2012	\$ 262	\$ 318
Notes payable(a)		
7.00% exchangeable notes due 2002	532	239
6.40% to 9.88% due 2001 to 2028	4,416	4,114
Floating rate notes due 2000 to 2005	92	79
Other	242	34
Northern Natural Gas Company		
Notes payable		
6.75% to 7.00% due 2005 to 2011	500	500
Transwestern Pipeline Company		
Notes payable		
9.20% due 2004	11	15
Portland General		
First mortgage bonds		
6.47% to 9.46% due 2000 to 2023	328	373
Pollution control bonds		
Various rates due 2010 to 2033	200	200
Other	282	129
Other		
Amount reclassified from short-term debt	414	204
Unamortized debt discount and premium	1,318	1,000
	(47)	(54)
Total long-term debt	\$8,550	\$7,151

(a) Includes debt denominated in foreign currencies of approximately \$955 million and \$525 million, respectively, at December 31, 2000 and 1999. Enron has entered into derivative transactions to hedge interest rate and foreign currency exchange fluctuations associated with such debt. See Note 3.

The indenture securing Portland General's First Mortgage Bonds constitutes a direct first mortgage lien on substantially all electric utility property and franchises, other than expressly excepted property.

The aggregate annual maturities of long-term debt outstanding at December 31, 2000 were \$2,112 million, \$750 million, \$852 million, \$646 million and \$1,592 million for 2001 through 2005, respectively.

In February 2001, Enron issued \$1.25 billion zero coupon convertible senior notes that mature in 2021. The notes carry a 2.125 percent yield to maturity with an aggregate face value of \$1.9 billion and may be converted, upon certain contingencies being met, into Enron common stock at an initial conversion premium of 45 percent.

8 MINORITY INTERESTS

Enron's minority interests at December 31, 2000 and 1999 include the following:

(In millions)	2000	1999
Majority-owned limited liability company and limited partnerships	\$1,759	\$1,773
Elektro(a)	462	475
Other	193	182
	\$2,414	\$2,430

(a) Relates to the respective parents of Elektro, which had minority shareholders in 2000 and 1999.

Enron has formed separate limited partnerships and a limited liability company with third-party investors for various purposes. These entities are included in Enron's consolidated financial statements, with the third-party investors' interests reflected in "Minority Interests" in the Consolidated Balance Sheet.

In October 2000, Enron contributed approximately \$1.0 billion of net assets to a wholly-owned limited liability company. A third party contributed \$500 million for a preferred membership

interest in the limited liability company. The contribution by the third party was invested in highly liquid investment grade securities (including Enron notes) and short-term receivables. At December 31, 2000, the majority-owned limited liability company held net assets of \$1.0 billion.

During 1999, third-party investors contributed cash and merchant investments totaling \$1.0 billion to Enron-sponsored entities to invest in highly liquid investment grade securities (including Enron notes) and short-term receivables. The merchant investments, totaling \$500 million, were sold prior to December 31, 1999. During 2000, Enron acquired a portion of the minority shareholder's interest for \$485 million.

In 1998, Enron formed a wholly-owned limited partnership for the purpose of holding \$1.6 billion of assets contributed by Enron. That partnership contributed \$850 million of assets and a third party contributed \$750 million to a second newly-formed limited partnership. The assets held by the wholly-owned limited partnership represent collateral for a \$750 million note receivable held by the second limited partnership. In 2000 and 1999, the wholly-owned and second limited partnerships sold assets valued at approximately \$152 million and \$460 million, respectively, and invested the proceeds in Enron notes.

Absent certain defaults or other specified events, Enron has the option to acquire the minority holders' interests in these partnerships. Enron has the option to acquire the minority holder's interest in the limited liability company after November 2002. If Enron does not acquire the minority holders' interests before December 2004 through May 2009, or earlier upon certain specified events, the minority interest holders may cause the entities to liquidate their assets and dissolve.

In 2000, as part of a restructuring, Jacaré Electrical Distribution Trust (Jacaré) sold a 47 percent interest in Enron Brazil Power Holdings V Ltd, a subsidiary that holds its investment in Elektro, to Whitewing for approximately \$460 million. See Note 9. The proceeds were used to acquire the original minority shareholder's interest in Jacaré.

In 2000, Enron acquired all minority shareholders' interests in Enron Energy Services, LLC and Enron Renewable Energy Corp. See Note 2.

9 UNCONSOLIDATED EQUITY AFFILIATES

Enron's investment in and advances to unconsolidated affiliates which are accounted for by the equity method is as follows:

(In millions)	Net Voting Interest(a)	December 31,	
		2000	1999
Azurix Corp.	34%	\$ 325	\$ 762
Bridgeline Holdings	40%	229	-
Citrus Corp.	50%	530	480
Dabhol Power Company	50%	693	466
Joint Energy Development Investments L.P. (JEDI) (b)	50%	399	211
Joint Energy Development Investments II L.P. (JEDI II) (b)	50%	220	162
SK - Enron Co. Ltd.	50%	258	269
Transportadora de Gas del Sur S.A.	35%	479	452
Whitewing Associates, L.P.(b)	50%	558	662
Other		1,603	1,572
		\$5,294(c)	\$5,036(c)

(a) Certain investments have income sharing ratios which differ from Enron's voting interests.

(b) JEDI and JEDI II account for their investments at fair value. Whitewing accounts for certain of its investments at fair value. These affiliates held fair value investments totaling \$1,823 million and \$1,128 million, respectively, at December 31, 2000 and 1999.

(c) At December 31, 2000 and 1999, the unamortized excess of Enron's investment in unconsolidated affiliates was \$182 million and \$179 million, respectively, which is being amortized over the expected lives of the investments.

Enron's equity in earnings (losses) of unconsolidated equity affiliates is as follows:

(In millions)	2000	1999	1998
Azurix Corp.(a)	\$ (428)	\$ 23	\$ 6
Citrus Corp.	50	25	23
Dabhol Power Company	51	30	-
Joint Energy Development Investments L.P.	197	11	(45)
Joint Energy Development Investments II, L.P.	58	92	(4)
TNPC, Inc. (The New Power Company)	(60)	-	-
Transportadora de Gas del Sur S.A.	38	32	36
Whitewing Associates, L.P.	58	9	-
Other	123	87	81
	\$ 87	\$309	\$ 97

(a) During the fourth quarter of 2000, Azurix Corp. (Azurix) impaired the carrying value of its Argentine assets, resulting in a charge of approximately \$470 million. Enron's portion of the charge was \$326 million.

Summarized combined financial information of Enron's unconsolidated affiliates is presented below:

(In millions)	December 31,	
	2000	1999
Balance sheet		
Current assets(a)	\$ 5,884	\$ 3,168
Property, plant and equipment, net	14,786	14,356
Other noncurrent assets	13,485	9,459
Current liabilities(a)	4,739	4,401
Long-term debt(a)	9,717	8,486
Other noncurrent liabilities	6,148	2,402
Owners' equity	13,551	11,694

(a) Includes \$410 million and \$327 million receivable from Enron and \$302 million and \$84 million payable to Enron at December 31, 2000 and 1999, respectively.

(In millions)	2000	1999	1998
Income statement (a)			
Operating revenues	\$15,903	\$11,568	\$8,508
Operating expenses	14,710	9,449	7,244
Net income	586	1,857	142
Distributions paid to Enron	137	482	87

(a) Enron recognized revenues from transactions with unconsolidated equity affiliates of \$510 million in 2000, \$674 million in 1999 and \$563 million in 1998.

In 2000 and 1999, Enron sold approximately \$632 million and \$192 million, respectively, of merchant investments and other assets to Whitewing. Enron recognized no gains or losses in connection with these transactions. Additionally, in 2000, ECT Merchant Investments Corp., a wholly-owned Enron subsidiary, contributed two pools of merchant investments to a limited partnership that is a subsidiary of Enron. Subsequent to the contributions, the partnership issued partnership interests representing 100% of the beneficial, economic interests in the two asset pools, and such interests were sold for a total of \$545 million to a limited liability company that is a subsidiary of Whitewing. See Note 3. These entities are separate legal entities from Enron and have separate assets and liabilities. In 2000 and 1999, the Related Party, as described in Note 16, contributed \$33 million and \$15 million, respectively, of equity to Whitewing. In 2000, Whitewing contributed \$7.1 million to a partnership formed by Enron, Whitewing and a third party. Subsequently, Enron sold a portion of its interest in the partnership through a securitization. See Note 3.

In 2000, The New Power Company sold warrants convertible into common stock of The New Power Company for \$50 million to the Related Party (described in Note 16).

From time to time, Enron has entered into various administrative service, management, construction, supply and operating

agreements with its unconsolidated equity affiliates. Enron's management believes that its existing agreements and transactions are reasonable compared to those which could have been obtained from third parties.

10 PREFERRED STOCK

Preferred Stock

Enron has authorized 16,500,000 shares of preferred stock, no par value. At December 31, 2000, Enron had outstanding 1,240,933 shares of Cumulative Second Preferred Convertible Stock (the Convertible Preferred Stock), no par value. The Convertible Preferred Stock pays dividends at an amount equal to the higher of \$10.50 per share or the equivalent dividend that would be paid if shares of the Convertible Preferred Stock were converted to common stock. Each share of the Convertible Preferred Stock is convertible at any time at the option of the holder thereof into 27.304 shares of Enron's common stock, subject to certain adjustments. The Convertible Preferred Stock is currently subject to redemption at Enron's option at a price of \$100 per share plus accrued dividends. During 2000, 1999 and 1998, 55,251 shares, 23,664 shares and 17,797 shares, respectively, of the Convertible Preferred Stock were converted into common stock.

In 1999, all outstanding shares of Series A Preferred Stock held by Whitewing were exchanged for 250,000 shares of Enron Mandatorily Convertible Junior Preferred Stock, Series B (Series B Preferred Stock). Also in 1999, Enron entered into a Share Settlement Agreement under which Enron could be obligated, under certain circumstances, to deliver additional shares of common stock or Series B Preferred Stock to Whitewing for the amount that the market price of the converted Enron common shares is less than \$28 per share. In 2000, Enron increased the strike price in the Share Settlement Agreement to \$48.55 per share in exchange for an additional capital contribution in Whitewing by third-party investors. The number of shares of Series B Preferred Stock authorized equals the number of shares necessary to satisfy Enron's obligation under the Share Settlement Agreement. Absent certain defaults or other specified events, Enron has the option to acquire the third-party investors' interests. If Enron does not acquire the third-party investors' interests before January 2003, or earlier upon certain specified events, Whitewing may liquidate its assets and dissolve. At December 31, 2000, Enron had outstanding 250,000 shares of Series B Preferred Stock with a liquidation value of \$1.0 billion. The Series B Preferred Stock pays semi-annual cash dividends at an annual rate of 6.50%. Each share of Series B Preferred Stock is mandatorily convertible into 200 shares of Enron common stock on January 15, 2003 or earlier upon the occurrence of certain events.

In connection with the 1998 financial restructuring (yielding proceeds of approximately \$1.2 billion) of Enron's investment in Azurix, Enron committed to cause the sale of Enron convertible preferred stock, if certain debt obligations of the related entity which acquired an interest in Azurix, are defaulted upon, or in certain events, including, among other things, Enron's credit ratings fall below specified levels. If the sale of the convertible preferred stock is not sufficient to retire such obligations, Enron would be liable for the shortfall. Such obligations will mature in December 2001. The number of common shares issuable upon conversion is based on future common stock prices.

Company-Obligated Preferred Securities of Subsidiaries

Summarized information for Enron's company-obligated preferred securities of subsidiaries is as follows:

(In millions, except per share amounts and shares)	Liquidation		
	December 31, 2000	December 31, 1999	Value Per Share
Enron Capital LLC			
8% Cumulative Guaranteed Monthly Income Preferred Shares (8,550,000 shares) ^(a)	\$214	\$ 214	\$ 25
Enron Capital Trust I			
8.3% Trust Originated Preferred Securities (8,000,000 preferred securities) ^(a)	200	200	25
Enron Capital Trust II			
8 1/8% Trust Originated Preferred Securities (6,000,000 preferred securities) ^(a)	150	150	25
Enron Capital Trust III			
Adjustable-Rate Capital Trust Securities (200,000 preferred securities)	-	200	1,000
LNG Power II L.L.C.			
6.74% Preference Units (105,000 shares) ^(b)	105	-	1,000
Enron Equity Corp.			
8.57% Preferred Stock (880 shares) ^(a)	88	88	100,000
7.39% Preferred Stock (150 shares) ^{(a)(c)}	15	15	100,000
Enron Capital Resources, L.P.			
9% Cumulative Preferred Securities, Series A (3,000,000 preferred securities) ^(a)	75	75	25
Other	57	58	
	\$904	\$1,000	

(a) Redeemable under certain circumstances after specified dates.

(b) Initial rate is 6.74% increasing to 7.79%.

(c) Mandatorily redeemable in 2006.

11 COMMON STOCK

Earnings Per Share

The computation of basic and diluted earnings per share is as follows:

(In millions, except per share amounts)	Year Ended December 31,		
	2000	1999	1998
Numerator:			
Basic			
Income before cumulative effect of accounting changes	\$ 979	\$ 1,024	\$ 703
Preferred stock dividends:			
Second Preferred Stock	(17)	(17)	(17)
Series A Preferred Stock	-	(30)	-
Series B Preferred Stock	(66)	(19)	-
Income available to common shareholders before cumulative effect of accounting changes	896	958	686
Cumulative effect of accounting changes	-	(131)	-
Income available to common shareholders	\$ 896	\$ 827	\$ 686
Diluted			
Income available to common shareholders before cumulative effect of accounting changes	\$ 896	\$ 958	\$ 686
Effect of assumed conversion of dilutive securities(a):			
Second Preferred Stock	17	17	17
Income before cumulative effect of accounting changes	913	975	703
Cumulative effect of accounting changes	-	(131)	-
Income available to common shareholders after assumed conversions	\$ 913	\$ 844	\$ 703
Denominator:			
Denominator for basic earnings per share - weighted-average shares	736	705	642
Effect of dilutive securities:			
Preferred stock	35	36	36
Stock options	43	28	17
Dilutive potential common shares	78	64	53
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	814	769	695
Basic earnings per share:			
Before cumulative effect of accounting changes	\$ 1.22	\$ 1.36	\$ 1.07
Cumulative effect of accounting changes	-	(0.19)	-
Basic earnings per share	\$ 1.22	\$ 1.17	\$ 1.07
Diluted earnings per share:			
Before cumulative effect of accounting changes	\$ 1.12	\$ 1.27	\$ 1.01
Cumulative effect of accounting changes	-	(0.17)	-
Diluted earnings per share	\$ 1.12	\$ 1.10	\$ 1.01

(a) The Series A Preferred Stock and the Series B Preferred Stock were not included in the calculation of diluted earnings per share because conversion of these shares would be antidilutive.

Derivative Instruments

At December 31, 2000, Enron had derivative instruments (excluding amounts disclosed in Note 10) on 54.8 million shares of Enron common stock, of which approximately 12 million shares are with JEDI and 22.5 million are with related parties (see Note 16), at an average price of \$67.92 per share on which Enron was a fixed price payor. Shares potentially deliverable to counterparties under the contracts are assumed to be outstanding in calculating diluted earnings per share unless they are antidilutive. At December 31, 2000, there were outstanding non-employee options to purchase 6.4 million shares of Enron common stock at an exercise price of \$19.59 per share.

Stock Option Plans

Enron applies Accounting Principles Board (APB) Opinion 25 and related interpretations in accounting for its stock option plans. In accordance with APB Opinion 25, no compensation expense has been recognized for the fixed stock option plans. Compensation expense charged against income for the restricted stock plan for 2000, 1999 and 1998 was \$220 million, \$131 million and \$58 million, respectively. Had compensation cost for Enron's stock option compensation plans been determined based on the fair value at the grant dates for awards under those plans, Enron's net income and earnings per share would have been \$886 million (\$1.09 per share basic, \$1.01 per share diluted) in 2000, \$827 million (\$1.08 per share basic, \$1.01 per share diluted) in 1999 and \$674 million (\$1.02 per share basic, \$0.97 per share diluted) in 1998.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with weighted-average assumptions for grants in 2000, 1999 and 1998, respectively: (i) dividend yield of 2.4%, 2.4% and 2.5%; (ii) expected volatility of 22.3%, 20.0% and 18.3%; (iii) risk-free interest rates of 5.8%, 5.6% and 5.0%; and (iv) expected lives of 3.2 years, 3.7 years and 3.8 years.

Enron has four fixed option plans (the Plans) under which options for shares of Enron's common stock have been or may be granted to officers, employees and non-employee members of the Board of Directors. Options granted may be either incentive stock options or nonqualified stock options and are granted at not less than the fair market value of the stock at the time of grant. Under the Plans, Enron may grant options with a maximum term of 10 years. Options vest under varying schedules.

Summarized information for Enron's Plans is as follows:

	2000	1999		1998		
(Shares in thousands)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	93,531	\$26.74	79,604	\$19.60	78,858	\$17.89
Granted	39,167	70.02	35,118	37.49	15,702	24.99
Exercised ^(a)	(32,235)	24.43	(19,705)	18.08	(13,072)	15.70
Forfeited	(4,358)	35.68	(1,465)	24.51	(1,498)	19.77
Expired	(42)	23.75	(21)	18.79	(386)	19.76
Outstanding, end of year	96,063	\$44.24	93,531	\$26.74	79,604	\$19.60
Exercisable, end of year	46,755	\$29.85	52,803	\$22.56	45,942	\$18.16
Available for grant, end of year ^(b)	22,066		24,864		10,498	
Weighted average fair value of options granted		\$13.35		\$ 7.24		\$ 4.20

(a) In 2000, Enron recorded tax benefits related to stock options exercised by employees of approximately \$390 million reflected in shareholders' equity.

(b) Includes up to 20,707,969 shares, 22,140,962 shares and 10,497,670 shares as of December 31, 2000, 1999 and 1998, respectively, which may be issued either as restricted stock or pursuant to stock options.

The following table summarizes information about stock options outstanding at December 31, 2000 (shares in thousands):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/00	Weighted Average Remaining Contractual	Weighted Average Exercise Price	Number Exercisable at 12/31/00	Weighted Average Exercise Price
		Life			
\$ 6.88 to \$ 20.00	15,368	4.7	\$16.72	14,001	\$16.54
20.06 to 34.81	24,091	6.8	24.79	18,304	24.13
35.03 to 47.31	21,520	6.8	40.52	8,731	40.27
50.48 to 69.00	13,965	6.5	60.18	4,072	61.81
71.06 to 86.63	21,119	5.6	79.69	1,647	72.36
	96,063	6.2	\$44.24	46,755	\$29.85

Restricted Stock Plan

Under Enron's Restricted Stock Plan, participants may be granted stock without cost to the participant. The shares granted under this plan vest to the participants at various times ranging from immediate vesting to vesting at the end of a five-year period. Upon vesting, the shares are released to the participants. The following summarizes shares of restricted stock under this plan:

(Shares in thousands)	2000	1999	1998
Outstanding, beginning of year	6,781	6,034	5,074
Granted	2,243	2,672	2,122
Released to participants	(2,201)	(1,702)	(1,064)
Forfeited	(1,444)	(223)	(98)
Outstanding, end of year	5,379	6,781	6,034
Available for grant, end of year	20,708	22,141	10,498
Weighted average fair value of restricted stock granted	\$57.69	\$37.38	\$23.70

12 PENSION AND OTHER BENEFITS

Enron maintains a retirement plan (the Enron Plan) which is a noncontributory defined benefit plan covering substantially all employees in the United States and certain employees in foreign countries. The benefit accrual is in the form of a cash balance of 5% of annual base pay.

Portland General has a noncontributory defined benefit pension plan (the Portland General Plan) covering substantially all of its employees. Benefits under the Portland General Plan are based on years of service, final average pay and covered compensation.

Enron Facility Services has a noncontributory defined benefit pension plan (the EFS Plan) covering substantially all of its

employees. Benefits under the EFS Plan are based on years of service, final average pay and covered compensation.

Enron also maintains a noncontributory employee stock ownership plan (ESOP) which covers all eligible employees. Allocations to individual employees' retirement accounts within the ESOP offset a portion of benefits earned under the Enron Plan. All shares included in the ESOP have been allocated to the employee accounts. At December 31, 2000 and 1999, 12,600,271 shares and 17,241,731 shares, respectively, of Enron common stock were held by the ESOP, a portion of which may be used to offset benefits under the Enron Plan.

Assets of the Enron Plan, the Portland General Plan and the EFS Plan are comprised primarily of equity securities, fixed income securities and temporary cash investments. It is Enron's policy to fund all pension costs accrued to the extent required by federal tax regulations.

Enron provides certain postretirement medical, life insurance and dental benefits to eligible employees and their eligible dependents. Benefits are provided under the provisions of contributory defined dollar benefit plans. Enron is currently funding that portion of its obligations under these postretirement benefit plans which are expected to be recoverable through rates by its regulated pipelines and electric utility operations.

Enron accrues these postretirement benefit costs over the service lives of the employees expected to be eligible to receive such benefits. Enron is amortizing the transition obligation which existed at January 1, 1993 over a period of approximately 19 years.

The following table sets forth information related to changes in the benefit obligations, changes in plan assets, a reconciliation of the funded status of the plans and components of the expense recognized related to Enron's pension and other postretirement plans:

(In millions)	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
Change in benefit obligation				
Benefit obligation, beginning of year	\$708	\$687	\$120	\$134
Service cost	33	32	2	2
Interest cost	53	49	10	9
Plan participants' contributions	-	-	4	3
Plan amendments	-	6	-	-
Actuarial loss (gain)	9	(51)	10	(12)
Acquisitions and divestitures	-	36	-	-
Effect of curtailment and settlements(a)	(2)	(8)	-	-
Benefits paid	(55)	(43)	(22)	(16)
Benefit obligation, end of year	\$746	\$708	\$124	\$120
Change in plan assets				
Fair value of plan assets, beginning of year(b)	\$853	\$774	\$ 68	\$ 60
Actual return on plan assets	41	80	(4)	7
Acquisitions and divestitures	-	37	-	-
Employer contribution	19	5	7	6
Plan participants' contributions	-	-	4	3
Benefits paid	(55)	(43)	(11)	(8)
Fair value of plan assets, end of year(b)	\$858	\$853	\$ 64	\$ 68
Reconciliation of funded status, end of year				
Funded status, end of year	\$112	\$145	\$ (60)	\$ (52)
Unrecognized transition obligation (asset)	(6)	(13)	44	48
Unrecognized prior service cost	25	32	12	14
Unrecognized net actuarial loss (gain)	55	11	(17)	(29)
Prepaid (accrued) benefit cost	\$186	\$175	\$ (21)	\$ (19)
Weighted-average assumptions at December 31				
Discount rate	7.75%	7.75%	7.75%	7.75%
Expected return on plan assets (pre-tax)	(c)	(c)	(d)	(d)
Rate of compensation increase	(e)	(e)	(e)	(e)
Components of net periodic benefit cost				
Service cost	\$ 33	\$ 32	\$ 2	\$ 2
Interest cost	53	49	10	9
Expected return on plan assets	(75)	(70)	(4)	(4)
Amortization of transition obligation (asset)	(6)	(6)	4	4
Amortization of prior service cost	5	5	1	1
Recognized net actuarial loss (gain)	-	3	(1)	-
Effect of curtailment and settlements(a)	-	(6)	-	6
Net periodic benefit cost	\$ 10	\$ 7	\$ 12	\$ 18

(a) Represents one-time nonrecurring events including the exchange and sale of EOG (see Note 2) and certain employees ceasing participation in the Portland General Plan as a result of union negotiations.

(b) Includes plan assets of the ESOP of \$116 million and \$121 million at December 31, 2000 and 1999, respectively.

(c) Long-term rate of return on assets is assumed to be 10.5% for the Enron Plan, 9.0% for the Portland General Plan and 9.5% for the EFS Plan.

(d) Long-term rate of return on assets is assumed to be 7.5% for the Enron assets and 9.5% for the Portland General assets.

(e) Rate of compensation increase is assumed to be 4.0% for the Enron Plan, 4.0% to 9.5% for the Portland General Plan and 5.0% for the EFS Plan.

Included in the above amounts are the unfunded obligations for the supplemental executive retirement plans. At both December 31, 2000 and 1999, the projected benefit obligation for these unfunded plans was \$56 million and the fair value of assets was \$1 million.

The measurement date of the Enron Plan and the ESOP is September 30, and the measurement date of the Portland General Plan, the EFS Plan and the postretirement benefit plans is December 31. The funded status as of the valuation date of the Enron Plan, the Portland General Plan, the ESOP and the postretirement benefit plans reconciles with the amount detailed above which is included in "Other Assets" on the Consolidated Balance Sheet.

For measurement purposes, 6% and 10% annual rates of increase in the per capita cost of covered health care benefits were assumed for the period 2000 to 2001 for the Enron and Portland General postretirement plans, respectively. The rates were assumed to decrease to 5% by 2002 and 2010 for the Enron and Portland General postretirement plans, respectively. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

(In millions)	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	\$0.4	\$(0.3)
Effect on postretirement benefit obligation	\$4.4	\$(3.8)

Additionally, certain Enron subsidiaries maintain various incentive based compensation plans for which participants may receive a combination of cash or stock options, based upon the achievement of certain performance goals.

13 RATES AND REGULATORY ISSUES

Rates and regulatory issues related to certain of Enron's natural gas pipelines and its electric utility operations are subject to final determination by various regulatory agencies. The domestic interstate pipeline operations are regulated by the Federal Energy Regulatory Commission (FERC) and the electric utility operations are regulated by the FERC and the Oregon Public Utility Commission (OPUC). As a result, these operations are subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," which recognizes the economic effects of regulation and, accordingly, Enron has recorded regulatory assets and liabilities related to such operations.

The regulated pipelines operations' net regulatory assets were \$290 million and \$250 million at December 31, 2000 and 1999, respectively, and are expected to be recovered over varying time periods.

The electric utility operations' net regulatory assets were \$450 million and \$494 million at December 31, 2000 and 1999, respectively. Based on rates in place at December 31, 2000, Enron estimates that it will collect substantially all of its regulatory assets within the next 11 years.

Pipeline Operations

On April 16, 1999, Northern Natural Gas Company (Northern) filed an uncontested Stipulation and Agreement of Settlement (Settlement) with the FERC and an order approving the Settlement was issued by the FERC on June 18, 1999. The rates effectuated by Northern on November 1, 1999 remain in effect. On May 1, 2000, Northern filed to implement an optional volumetric firm throughput service. An order approving such service was issued November 8, 2000 with effectiveness November 1, 2000; a rehearing request is pending. On November 1, 2000, Northern filed to increase its rates for the recovery of return and taxes on its System Levelized Account.

On November 22, 2000, the FERC issued an order approving the rates, subject to refund.

On November 1, 2000, Transwestern Pipeline Company implemented a rate escalation of settled transportation rates in accordance with its May 1995 global settlement, as amended in May 1996. On August 23, 1999, Transwestern filed for a new service, Enhanced Firm Backhaul. An order by the FERC was issued February 23, 2000, approving the service.

Electric Utility Operations

On October 2, 2000 PGE filed a restructuring plan with the OPUC that implements the provisions of the State Senate Bill SB1149, signed into law in July 1999. The new law provides industrial and commercial customers of investor-owned utilities in the state direct access to competing energy suppliers by October 1, 2001. As filed, PGE's plan also proposes an increase in base rates, with new tariffs effective on October 1, 2001. PGE is a 67.5% owner of the Trojan Nuclear Plant (Trojan). In September 2000, PGE entered into an agreement with the OPUC related to Trojan. See Note 14. At December 31, 2000, PGE's regulatory asset related to recovery of Trojan decommissioning costs from customers was \$190 million.

Enron believes, based upon its experience to date and after considering appropriate reserves that have been established, that the ultimate resolution of pending regulatory matters will not have a material impact on Enron's financial position or results of operations.

14 LITIGATION AND OTHER CONTINGENCIES

Enron is a party to various claims and litigation, the significant items of which are discussed below. Although no assurances can be given, Enron believes, based on its experience to date and after considering appropriate reserves that have been established, that the ultimate resolution of such items, individually or in the aggregate, will not have a material adverse impact on Enron's financial position or results of operations.

Litigation

In 1995, several parties (the Plaintiffs) filed suit in Harris County District Court in Houston, Texas, against Intratex Gas Company (Intratex), Houston Pipe Line Company and Panhandle Gas Company (collectively, the Enron Defendants), each of which is a wholly-owned subsidiary of Enron. The Plaintiffs were either sellers or royalty owners under numerous gas purchase contracts with Intratex, many of which have terminated. Early in 1996, the case was severed by the Court into two matters to be tried (or otherwise resolved) separately. In the first matter, the Plaintiffs alleged that the Enron Defendants committed fraud and negligent misrepresentation in connection with the "Panhandle program," a special marketing program established in the early 1980s. This case was tried in October 1996 and resulted in a verdict for the Enron Defendants. In the second matter, the Plaintiffs allege that the Enron Defendants violated state regulatory requirements and certain gas purchase contracts by failing to take the Plaintiffs' gas ratably with other producers' gas at certain times between 1978 and 1988. The trial court certified a class action with respect to ratability claims. On March 9, 2000, the Texas Supreme Court ruled that the trial court's class certification was improper and remanded the case to the trial court. The Enron Defendants deny the Plaintiffs' claims and have asserted various affirmative defenses, including the statute of limitations. The Enron Defendants believe that they have strong legal and factual defenses, and intend to vigorously contest the claims. Although no assurances can be given, Enron believes that the ultimate

resolution of these matters will not have a material adverse effect on its financial position or results of operations.

On November 21, 1996, an explosion occurred in or around the Humberto Vidal Building in San Juan, Puerto Rico. The explosion resulted in fatalities, bodily injuries and damage to the building and surrounding property. San Juan Gas Company, Inc. (San Juan Gas), an Enron affiliate, operated a propane/air distribution system in the vicinity, but did not provide service to the building. Enron, San Juan Gas, four affiliates and their insurance carriers were named as defendants, along with several third parties, including The Puerto Rico Aqueduct and Sewer Authority, Puerto Rico Telephone Company, Heath Consultants Incorporated, Humberto Vidal, Inc. and their insurance carriers, in numerous lawsuits filed in U.S. District Court for the District of Puerto Rico and the Superior Court of Puerto Rico. These suits seek damages for wrongful death, personal injury, business interruption and property damage allegedly caused by the explosion. After nearly four years without determining the cause of the explosion, all parties have agreed not to litigate further that issue, but to move these suits toward settlements or trials to determine whether each plaintiff was injured as a result of the explosion and, if so, the lawful damages attributable to such injury. The defendants have agreed on a fund for settlements or final awards. Numerous claims have been settled. Although no assurances can be given, Enron believes that the ultimate resolution of these matters will not have a material adverse effect on its financial position or results of operations.

Trojan Investment Recovery

In early 1993, PGE ceased commercial operation of the Trojan nuclear power generating facility. The OPUC granted PGE, through a general rate order, recovery of, and a return on, 87 percent of its remaining investment in Trojan.

The OPUC's general rate order related to Trojan has been subject to litigation in various state courts, including rulings by the Oregon Court of Appeals and petitions to the Oregon Supreme Court filed by parties opposed to the OPUC's order, including the Utility Reform Project (URP) and the Citizens Utility Board (CUB).

In August 2000, PGE entered into agreements with CUB and the staff of the OPUC to settle the litigation related to PGE's recovery of its investment in the Trojan plant. Under the agreements, CUB agreed to withdraw from the litigation and to support the settlement as the means to resolve the Trojan litigation. The OPUC approved the accounting and ratemaking elements of the settlement on September 29, 2000. As a result of these approvals, PGE's investment in Trojan is no longer included in rates charged to customers, either through a return on or a return of that investment. Collection of ongoing decommissioning costs at Trojan is not affected by the settlement agreements or the September 29, 2000 OPUC order. With CUB's withdrawal, URP is the one remaining significant adverse party in the litigation. URP has indicated that it plans to continue to challenge the OPUC order allowing PGE recovery of its investment in Trojan.

Enron cannot predict the outcome of these actions. Although no assurances can be given, Enron believes that the ultimate resolution of these matters will not have a material adverse effect on its financial position or results of operations.

Environmental Matters

Enron is subject to extensive federal, state and local environmental laws and regulations. These laws and regulations require expenditures in connection with the construction of new facilities, the operation of existing facilities and for remediation at various operating sites. The implementation of the Clean Air Act Amendments is expected to result in increased operating

expenses. These increased operating expenses are not expected to have a material impact on Enron's financial position or results of operations.

Enron's natural gas pipeline companies conduct soil and groundwater remediation on a number of their facilities. Enron does not expect to incur material expenditures in connection with soil and groundwater remediation.

15 COMMITMENTS

Firm Transportation Obligations

Enron has firm transportation agreements with various joint venture and other pipelines. Under these agreements, Enron must make specified minimum payments each month. At December 31, 2000, the estimated aggregate amounts of such required future payments were \$91 million, \$88 million, \$89 million, \$85 million and \$77 million for 2001 through 2005, respectively, and \$447 million for later years.

The costs recognized under firm transportation agreements, including commodity charges on actual quantities shipped, totaled \$68 million, \$55 million and \$30 million in 2000, 1999 and 1998, respectively.

Other Commitments

Enron leases property, operating facilities and equipment under various operating leases, certain of which contain renewal and purchase options and residual value guarantees. Future commitments related to these items at December 31, 2000 were \$123 million, \$98 million, \$69 million, \$66 million and \$49 million for 2001 through 2005, respectively, and \$359 million for later years. Guarantees under the leases total \$556 million at December 31, 2000.

Total rent expense incurred during 2000, 1999 and 1998 was \$143 million, \$143 million and \$147 million, respectively.

Enron has entered into two development agreements whereby Enron is required to manage construction of a certain number of power projects on behalf of third-party owners. Under one development agreement, where construction is expected to be completed on or before March 31, 2004, Enron has agreed to enter into power offtake agreements for varying portions of the offtake from each facility. Under both development agreements, Enron maintains purchase options, which may be assigned to a third party. In addition to the purchase option under the other development agreement, Enron maintains lease options on the power projects. If upon completion, which is expected to occur on or before August 31, 2002, Enron has failed to exercise one of its options, Enron may participate in the remarketing of the power projects which Enron has guaranteed the recovery of 89.9 percent of certain project costs, of which approximately \$140 million has been incurred through December 31, 2000.

Enron guarantees the performance of certain of its unconsolidated equity affiliates in connection with letters of credit issued on behalf of those entities. At December 31, 2000, a total of \$264 million of such guarantees were outstanding, including \$103 million on behalf of EOTT Energy Partners, L.P. (EOTT). In addition, Enron is a guarantor on certain liabilities of unconsolidated equity affiliates and other companies totaling approximately \$1,863 million at December 31, 2000, including \$538 million related to EOTT trade obligations. The EOTT letters of credit and guarantees of trade obligations are secured by the assets of EOTT. Enron has also guaranteed \$386 million in lease obligations for which it has been indemnified by an "Investment Grade" company. Management does not consider it likely that Enron would be required to perform or otherwise incur any loss-

es associated with the above guarantees. In addition, certain commitments have been made related to capital expenditures and equity investments planned in 2001.

On December 15, 2000, Enron announced that it had entered into an agreement with Azurix under which the holders of Azurix's approximately 39 million publicly traded shares would receive cash of \$8.375 in exchange for each share. The agreement, which is subject to the approval of Azurix shareholders, is expected to close in early 2001.

16 RELATED PARTY TRANSACTIONS

In 2000 and 1999, Enron entered into transactions with limited partnerships (the Related Party) whose general partner's managing member is a senior officer of Enron. The limited partners of the Related Party are unrelated to Enron. Management believes that the terms of the transactions with the Related Party were reasonable compared to those which could have been negotiated with unrelated third parties.

In 2000, Enron entered into transactions with the Related Party to hedge certain merchant investments and other assets. As part of the transactions, Enron (i) contributed to newly-formed entities (the Entities) assets valued at approximately \$1.2 billion, including \$150 million in Enron notes payable, 3.7 million restricted shares of outstanding Enron common stock and the right to receive up to 18.0 million shares of outstanding Enron common stock in March 2003 (subject to certain conditions) and (ii) transferred to the Entities assets valued at approximately \$309 million, including a \$50 million note payable and an investment in an entity that indirectly holds warrants convertible into common stock of an Enron equity method investee. In return, Enron received economic interests in the Entities, \$309 million in notes receivable, of which \$259 million is recorded at Enron's carryover basis of zero, and a special distribution from the Entities in the form of \$1.2 billion in notes receivable, subject to changes in the principal for amounts payable by Enron in connection with the execution of additional derivative instruments. Cash in these Entities of \$172.6 million is invested in Enron demand notes. In addition, Enron paid \$123 million to purchase share-settled options from the Entities on 21.7 million shares of Enron common stock. The Entities paid Enron \$10.7 million to terminate the share-settled options on 14.6 million shares of Enron common stock outstanding. In late 2000, Enron entered into share-settled collar arrangements with the Entities on 15.4 million shares of Enron common stock. Such arrangements will be accounted for as equity transactions when settled.

In 2000, Enron entered into derivative transactions with the Entities with a combined notional amount of approximately \$2.1 billion to hedge certain merchant investments and other assets. Enron's notes receivable balance was reduced by \$36 million as a result of premiums owed on derivative transactions. Enron recognized revenues of approximately \$500 million related to the subsequent change in the market value of these derivatives, which offset market value changes of certain merchant investments and price risk management activities. In addition, Enron recognized \$44.5 million and \$14.1 million of interest income and interest expense, respectively, on the notes receivable from and payable to the Entities.

In 1999, Enron entered into a series of transactions involving a third party and the Related Party. The effect of the transactions was (i) Enron and the third party amended certain forward contracts to purchase shares of Enron common stock, resulting in Enron having forward contracts to purchase Enron common shares at the market price on that day, (ii) the Related Party received 6.8 million shares of Enron common stock subject to certain restrictions and (iii) Enron received a note receivable, which

was repaid in December 1999, and certain financial instruments hedging an investment held by Enron. Enron recorded the assets received and equity issued at estimated fair value. In connection with the transactions, the Related Party agreed that the senior officer of Enron would have no pecuniary interest in such Enron common shares and would be restricted from voting on matters related to such shares. In 2000, Enron and the Related Party entered into an agreement to terminate certain financial instruments that had been entered into during 1999. In connection with this agreement, Enron received approximately 3.1 million shares of Enron common stock held by the Related Party. A put option, which was originally entered into in the first quarter of 2000 and gave the Related Party the right to sell shares of Enron common stock to Enron at a strike price of \$71.31 per share, was terminated under this agreement. In return, Enron paid approximately \$26.8 million to the Related Party.

In 2000, Enron sold a portion of its dark fiber inventory to the Related Party in exchange for \$30 million cash and a \$70 million note receivable that was subsequently repaid. Enron recognized gross margin of \$67 million on the sale.

In 2000, the Related Party acquired, through securitizations, approximately \$35 million of merchant investments from Enron. In addition, Enron and the Related Party formed partnerships in which Enron contributed cash and assets and the Related Party contributed \$17.5 million in cash. Subsequently, Enron sold a portion of its interest in the partnership through securitizations. See Note 3. Also, Enron contributed a put option to a trust in which the Related Party and Whitewing hold equity and debt interests. At December 31, 2000, the fair value of the put option was a \$36 million loss to Enron.

In 1999, the Related Party acquired approximately \$371 million of merchant assets and investments and other assets from Enron. Enron recognized pre-tax gains of approximately \$16 million related to these transactions. The Related Party also entered into an agreement to acquire Enron's interests in an unconsolidated equity affiliate for approximately \$34 million.

17 ASSET IMPAIRMENT

In 1999, continued significant changes in state and federal rules regarding the use of MTBE as a gasoline additive have significantly impacted Enron's view of the future prospects for this business. As a result, Enron completed a reevaluation of its position and strategy with respect to its operated MTBE assets which resulted in (i) the purchase of certain previously-leased MTBE related assets, under provisions within the lease, in order to facilitate future actions, including the potential disposal of such assets and (ii) a review of all MTBE-related assets for impairment considering the recent adverse changes and their impact on recoverability. Based on this review and disposal discussions with market participants, in 1999, Enron recorded a \$441 million pre-tax charge for the impairment of its MTBE-related assets.

18 ACCOUNTING PRONOUNCEMENTS

Cumulative Effect of Accounting Changes

In 1999, Enron recorded an after-tax charge of \$131 million to reflect the initial adoption (as of January 1, 1999) of two new accounting pronouncements, the AICPA Statement of Position 98-5 (SOP 98-5), "Reporting on the Costs of Start-Up Activities" and the Emerging Issues Task Force Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The 1999 charge was primarily related to the adoption of SOP 98-5.

Recently Issued Accounting Pronouncements

In 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was subsequently amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 must be applied to all derivative instruments and certain derivative instruments embedded in hybrid instruments and requires that such instruments be recorded in the balance sheet either as an asset or liability measured at its fair value through earnings, with special accounting allowed for certain qualifying hedges. Enron will adopt SFAS No. 133 as of January 1, 2001. Due to the adoption of SFAS No. 133, Enron will recognize an after-tax non-cash loss of approximately \$5 million in earnings and an after-tax non-cash gain in "Other Comprehensive Income," a component of shareholders' equity, of approximately \$22 million from the cumulative effect of a change in accounting principle. Enron will also reclassify \$532 million from "Long-Term Debt" to "Other Liabilities" due to the adoption.

The total impact of Enron's adoption of SFAS No. 133 on earnings and on "Other Comprehensive Income" is dependent upon certain pending interpretations, which are currently under consideration, including those related to "normal purchases and normal sales" and inflation escalators included in certain contract payment provisions. The interpretations of these issues, and others, are currently under consideration by the FASB. While the ultimate conclusions reached on interpretations being considered by the FASB could impact the effects of Enron's adoption of SFAS No. 133, Enron does not believe that such conclusions would have a material effect on its current estimate of the impact of adoption.

19 QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data is as follows:

(In millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year (a)
2000					
Revenues	\$13,145	\$16,886	\$30,007	\$40,751	\$100,789
Income before interest, minority interests and income taxes	624	609	666	583	2,482
Net income	338	289	292	60	979
Earnings per share:					
Basic	\$ 0.44	\$ 0.37	\$ 0.37	\$ 0.05	\$ 1.22
Diluted	0.40	0.34	0.34	0.05	1.12
1999					
Revenues	\$ 7,632	\$ 9,672	\$11,835	\$10,973	\$ 40,112
Income before interest, minority interests and income taxes	533	469	520	473	1,995
Net income	122	222	290	259	893
Earnings per share:					
Basic	\$ 0.17	\$ 0.29	\$ 0.38	\$ 0.33	\$ 1.17
Diluted	0.16	0.27	0.35	0.31	1.10

(a) The sum of earnings per share for the four quarters may not equal earnings per share for the total year due to changes in the average number of common shares outstanding.

20 GEOGRAPHIC AND BUSINESS SEGMENT INFORMATION

Enron's business is divided into operating segments, defined as components of an enterprise about which financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources to an individual segment and in assessing performance of the segment. Enron's chief operating decision-making group is the Office of the Chairman.

Enron's chief operating decision-making group evaluates performance and allocates resources based on income before interest, minority interests and income taxes (IBIT) as well as on net income. Certain costs related to company-wide functions are allocated to each segment. However, interest on corporate debt is primarily maintained at Corporate and is not allocated to the segments. Therefore, management believes that IBIT is the dominant measurement of segment profits consistent with Enron's consolidated financial statements. The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies in Note 1.

Beginning in 2000, Enron's communications business is being managed as a separate operating segment named Broadband Services and therefore, based on criteria set by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," is reported separately.

Enron has divided its operations into the following reportable segments, based on similarities in economic characteristics, products and services, types of customers, methods of distributions and regulatory environment.

Transportation and Distribution – Regulated industries. Interstate transmission of natural gas. Management and operation of pipelines. Electric utility operations.

Wholesale Services – Energy commodity sales and services, risk management products and financial services to wholesale customers. Development, acquisition and operation of power plants, natural gas pipelines and other energy-related assets.

Retail Energy Services – Sales of natural gas and electricity directly to end-use customers, particularly in the commercial and industrial sectors, including the outsourcing of energy-related activities.

Broadband Services – Construction and management of a nationwide fiber optic network, the marketing and management of bandwidth and the delivery of high-bandwidth content.

Exploration and Production – Natural gas and crude oil exploration and production primarily in the United States, Canada, Trinidad and India until August 16, 1999. See Note 2.

Corporate and Other – Includes operation of water and renewable energy businesses as well as clean fuels plants.

Financial information by geographic and business segment follows for each of the three years in the period ended December 31, 2000.

Geographic Segments

(In millions)	Year Ended December 31,		
	2000	1999	1998
Operating revenues from unaffiliated customers			
United States	\$ 77,891	\$30,176	\$25,247
Foreign	22,898	9,936	6,013
	\$100,789	\$40,112	\$31,260
Income before interest, minority interests and income taxes			
United States	\$ 2,131	\$ 1,273	\$ 1,008
Foreign	351	722	574
	\$ 2,482	\$ 1,995	\$ 1,582
Long-lived assets			
United States	\$ 10,899	\$ 8,286	\$ 9,382
Foreign	844	2,395	1,275
	\$ 11,743	\$10,681	\$10,657

Business Segments

(In millions)	Transportation and Distribution	Wholesale Services	Retail Energy Services	Broadband Services	Corporate and Other (d)	Total
2000						
Unaffiliated revenues (a)	\$2,742	\$93,278	\$3,824	\$ 408	\$ 537	\$100,789
Intersegment revenues (b)	213	1,628	791	-	(2,632)	-
Total revenues	2,955	94,906	4,615	408	(2,095)	100,789
Depreciation, depletion and amortization	278	343	38	77	119	855
Operating income (loss)	565	1,668	58	(64)	(274)	1,953
Equity in earnings of unconsolidated equity affiliates	65	486	(60)	1	(405)	87
Gains on sales of assets and investments	25	9	74	-	38	146
Gain on the issuance of stock by TNPC, Inc.	-	-	121	-	-	121
Interest income	6	171	5	3	27	212
Other income, net	71	(74)	(33)	-	(1)	(37)
Income (loss) before interest, minority interests and income taxes	732	2,260	165	(60)	(615)	2,482
Capital expenditures	270	1,280	70	436	325	2,381
Identifiable assets	7,509	43,920	4,266	1,313	3,201	60,209
Investments in and advances to unconsolidated equity affiliates	774	4,014	104	24	378	5,294
Total assets	\$8,283	\$47,934	\$4,370	\$1,337	\$ 3,579	\$ 65,503

(In millions)	Transportation and Distribution	Wholesale Services	Retail Energy Services	Exploration and Production (c)	Corporate and Other (d)	Total
1999						
Unaffiliated revenues (a)	\$2,013	\$35,501	\$1,518	\$ 429	\$ 651	\$ 40,112
Intersegment revenues (b)	19	786	289	97	(1,191)	-
Total revenues	2,032	36,287	1,807	526	(540)	40,112
Depreciation, depletion and amortization	247	294	29	213	87	870
Operating income (loss)	551	889	(81)	66	(623)	802
Equity in earnings of unconsolidated equity affiliates	50	237	-	-	22	309
Gains on sales of assets and investments	19	11	-	-	511	541
Interest income	20	126	5	-	11	162
Other income, net	45	54	8	(1)	75	181
Income (loss) before interest, minority interests and income taxes	685	1,317	(68)	65	(4)	1,995
Capital expenditures	316	1,216	64	226	541	2,363
Identifiable assets	7,148	18,501	956	-	1,740	28,345
Investments in and advances to unconsolidated equity affiliates	811	2,684	-	-	1,541	5,036
Total assets	\$7,959	\$21,185	\$ 956	\$ -	\$ 3,281	\$ 33,381
1998						
Unaffiliated revenues (a)	\$1,833	\$27,220	\$1,072	\$ 750	\$ 385	\$ 31,260
Intersegment revenues (b)	16	505	-	134	(655)	-
Total revenues	1,849	27,725	1,072	884	(270)	31,260
Depreciation, depletion and amortization	253	195	31	315	33	827
Operating income (loss)	562	880	(124)	133	(73)	1,378
Equity in earnings of unconsolidated equity affiliates	33	42	(2)	-	24	97
Gains on sales of assets and investments	31	4	-	-	21	56
Interest income	9	67	-	1	11	88
Other income, net	2	(25)	7	(6)	(15)	(37)
Income (loss) before interest, minority interests and income taxes	637	968	(119)	128	(32)	1,582
Capital expenditures	310	706	75	690	124	1,905
Identifiable assets	6,955	12,205	747	3,001	2,009	24,917
Investments in and advances to unconsolidated equity affiliates	661	2,632	-	-	1,140	4,433
Total assets	\$7,616	\$14,837	\$ 747	\$ 3,001	\$ 3,149	\$ 29,350

(a) Unaffiliated revenues include sales to unconsolidated equity affiliates.

(b) Intersegment sales are made at prices comparable to those received from unaffiliated customers and in some instances are affected by regulatory considerations.

(c) Reflects results through August 16, 1999. See Note 2.

(d) Includes consolidating eliminations.

Selected Financial and Credit Information (Unaudited)

The following review of the credit characteristics of Enron Corp. and its subsidiaries and affiliates should be read in conjunction with the Consolidated Financial Statements. The credit information that follows represents management's calculation of certain key credit ratios of Enron.

(In millions)	2000	1999	Source
Total Obligations			
Balance sheet debt (short- and long-term)	\$10,229	\$ 8,152	Balance Sheet
Items added to liability profile:			
Guarantees ^(a)	213	180	Note 15
Residual value guarantees of synthetic leases	556	715	Note 15
Net liability from price risk management activities ^(b)	-	-	Balance Sheet
Debt exchangeable for EOG Resources, Inc. shares ^(c)	(532)	(239)	Note 7
Debt of unconsolidated equity affiliates ^(d)	-	-	Note 9
Firm transportation obligations ^(e)	-	-	Note 15
Total Obligations	\$10,466	\$ 8,808	
Shareholders' Equity and Certain Other Items			
Shareholders' Equity	\$11,470	\$ 9,570	Balance Sheet
Items added to shareholders' equity:			
Minority interests	2,414	2,430	Balance Sheet, Note 8
Company-obligated preferred securities of subsidiaries	904	1,000	Balance Sheet, Note 10
Total Shareholders' Equity and Certain Other Items	\$14,788	\$13,000	
Funds Flow from Operations			
Net cash provided by operating activities	\$ 4,779	\$ 1,228	Cash Flow Statement
Changes in working capital	1,769	(1,000)	Cash Flow Statement
Funds Flow from Operations	\$ 3,010	\$ 2,228	
Interest and Estimated Lease Interest Expense			
Interest incurred	\$ 876	\$ 710	
Capitalized interest	(38)	(54)	Management's Discussion and Analysis
Interest and Related Charges, net	\$ 838	\$ 656	Income Statement
Estimated Lease Interest Expense^(f)	\$ 106	\$ 124	
Adjusted Earnings for Credit Analysis			
Income before interest, minority interests and income taxes	\$ 2,482	\$ 1,995	Income Statement
Adjustments to IBIT:			
Gain on sales of non-merchant assets	(146)	(541)	Cash Flow Statement
Impairment of long-lived assets (including equity investments)	326	441	Cash Flow Statement
Distributions in excess of (less than) earnings of unconsolidated equity affiliates	(276)	173	Note 9
Estimated lease interest expense ^(f)	106	124	
Total Adjusted Earnings for Credit Analysis	\$ 2,492	\$ 2,192	
Key Credit Ratios			
Funds flow interest coverage ^(g)	4.07	3.67	
Pretax interest coverage ^(h)	2.54	2.63	
Funds flow from operations/Total obligations	28.8%	25.3%	
Total obligations/Total obligations plus Total shareholders' equity and certain other items	41.4%	40.4%	
Debt/Total Capital ⁽ⁱ⁾	40.9%	38.5%	

(a) Management estimates Enron's risk adjusted exposure on uncollateralized guarantees is approximately 10% of the total nominal value of the guarantees issued.

(b) Excess of price risk management liabilities over price risk management assets.

(c) Enron expects to extinguish this obligation by delivering shares of EOG Resources, Inc. stock.

(d) Debt of unconsolidated equity affiliates is non-recourse and therefore is excluded from Enron's obligations.

(e) Firm transportation obligations are excluded, as contracted capacity has market value.

(f) Management estimates Enron's lease interest expense for the year based on the average minimum lease payment or commitment (excluding principal repayments and other items).

(g) Calculated as funds flow from operations plus interest incurred and estimated lease interest expense, divided by interest incurred and estimated lease interest expense.

(h) Calculated as total adjusted earnings divided by interest incurred and estimated lease interest expense.

(i) Total capital includes debt, minority interests, company-obligated preferred securities of subsidiaries and shareholders' equity.

OUR VALUES

Communication

We have an obligation to communicate. Here, we take the time to talk with one another... and to listen. We believe that information is meant to move and that information moves people.

Respect

We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment.

Integrity

We work with customers and prospects openly, honestly and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, then we won't do it.

Excellence

We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be.



Board of Directors



ROBERT A. BELFER (1, 3)
New York, New York
Chairman, Belco Oil & Gas Corp.

NORMAN P. BLAKE, JR. (3, 4)
Colorado Springs, Colorado
Chairman, President and CEO,
Comdisco, Inc., and Former CEO
and Secretary General, United States
Olympic Committee

RONNIE C. CHAN (2, 3)
Hong Kong
Chairman, Hang Lung Group

JOHN H. DUNCAN (1*, 4)
Houston, Texas
Former Chairman of the Executive
Committee of Gulf & Western Industries, Inc.

WENDY L. GRAMM (2, 5)
Washington, D.C.
Director of the Regulatory Studies
Program of the Mercatus Center at
George Mason University
Former Chairman, U.S. Commodity Futures
Trading Commission

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Portland, Oregon
Former Chairman and CEO, Portland
General Electric Company

ROBERT K. JAEDICKE (2*, 4)
Stanford, California
Professor of Accounting (Emeritus) and
Former Dean, Graduate School of Business,
Stanford University

KENNETH L. LAY (1)
Houston, Texas
Chairman, Enron Corp.

CHARLES A. LEMAISTRE (1, 4*)
San Antonio, Texas
President Emeritus, University of Texas
M.D. Anderson Cancer Center

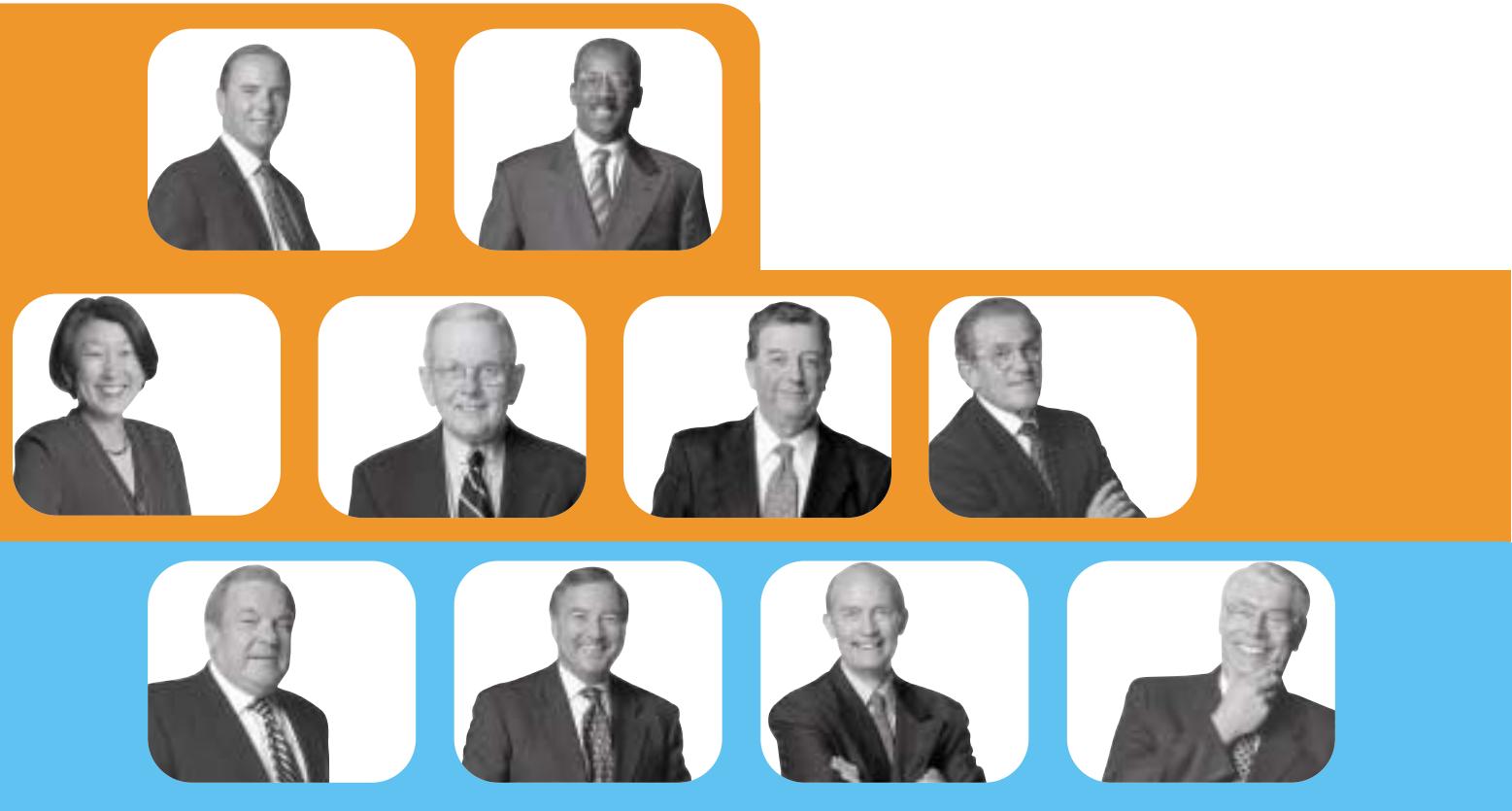
JOHN MENDELSON (2, 5)
Houston, Texas
President, University of Texas
M.D. Anderson Cancer Center

JEROME J. MEYER (3, 5)
Wilsonville, Oregon
Chairman, Tektronix, Inc.

PAULO V. FERRAZ PEREIRA (2, 3)
Rio de Janeiro, Brazil
Executive Vice President of Group Bozano
Former President and COO, Meridional
Financial Group, and Former President and
CEO, State Bank of Rio de Janeiro, Brazil

FRANK SAVAGE (3, 4)
Stamford, Connecticut
Chairman, Alliance Capital Management
International (a division of Alliance Capital
Management L.P.)

JEFFREY K. SKILLING (1)
Houston, Texas
President and CEO, Enron Corp.



JOHN A. URQUHART ⁽³⁾

Fairfield, Connecticut
 Senior Advisor to the Chairman, Enron
 Corp., President, John A. Urquhart
 Associates, and Former Senior Vice
 President of Industrial and Power Systems,
 General Electric Company

JOHN WAKEHAM ^(2, 5)

London, England
 Former U.K. Secretary of State for Energy
 and Leader of the Houses of Lords and
 Commons

HERBERT S. WINOKUR, JR. ^(1, 3)

Greenwich, Connecticut
 President, Winokur Holdings, Inc., and
 Former Senior Executive Vice President,
 Penn Central Corporation

FROM LEFT TO RIGHT:

*Top row: John Mendelsohn, Jeffrey K. Skilling and
 Frank Savage*

*Middle row: Charles A. LeMaistre, Ronnie C. Chan,
 Herbert S. Winokur, Jr., Kenneth L. Lay, Wendy L.
 Gramm, Robert K. Jaedicke, John Wakeham and
 Robert A. Belfer*

*Bottom row: John H. Duncan, Paulo V. Ferraz
 Pereira, John A. Urquhart, Norman P. Blake, Jr.,
 Ken L. Harrison and Jerome J. Meyer*

⁽¹⁾ Executive Committee

⁽²⁾ Audit Committee

⁽³⁾ Finance Committee

⁽⁴⁾ Compensation Committee

⁽⁵⁾ Nominating Committee

* Denotes Chairman

Enron Corporate Policy Committee

KEN LAY

Chairman, Enron

JEFF SKILLING

President and Chief Executive Officer,
Enron

CLIFF BAXTER

Vice Chairman &
Chief Strategic Officer, Enron

RICK CAUSEY

Executive Vice President &
Chief Accounting Officer, Enron

DAVE DELAINAY

Chairman & CEO,
Enron Energy Services

JIM DERRICK

Executive Vice President &
General Counsel, Enron

ANDY FASTOW

Executive Vice President &
Chief Financial Officer, Enron

MARK FREVERT

Chairman & CEO,
Enron Wholesale Services

KEVIN HANNON

Chief Operating Officer,
Enron Broadband Services

STAN HORTON

Chairman & CEO,
Enron Transportation Services

STEVE KEAN

Executive Vice President &
Chief of Staff, Enron

LOU PAI

Chairman & CEO,
Enron Xcelerator

KEN RICE

Chairman & CEO,
Enron Broadband Services

JOHN SHERRIFF

President & CEO,
Enron Europe

GREG WHALLEY

President & COO,
Enron Wholesale Services

Shareholder Information

TRANSFER AGENT, REGISTRAR, DIVIDEND PAYING AND REINVESTMENT PLAN AGENT (DIRECTSERVICE PROGRAM)

First Chicago Trust Company
c/o EquiServe
P.O. Box 2500
Jersey City, NJ 07303-2500
(800) 519-3111
(201) 324-1225
TDD: (201) 222-4955
For direct deposit of dividends only, call:
(800) 870-2340
Internet address:
<http://www.equiserve.com>

2000 ANNUAL REPORT

This Annual Report and the statements contained herein are submitted for the general information of the shareholders of Enron Corp. and are not intended for use in connection with or to induce the sale or purchase of securities.

ADDITIONAL INFORMATION

Enron Corp.'s Annual Report to shareholders and Form 10-K report to the Securities and Exchange Commission are available upon request on Enron's Internet address <http://www.enron.com> For information regarding specific shareholder questions, write or call the Transfer Agent.

Financial analysts and investors who need additional information should contact:

Enron Corp.
Investor Relations Dept.
P.O. Box 1188, Suite 4926B
Houston, TX 77251-1188
(713) 853-3956
Enron's Internet address:
<http://www.enron.com>

ANNUAL MEETING OF SHAREHOLDERS

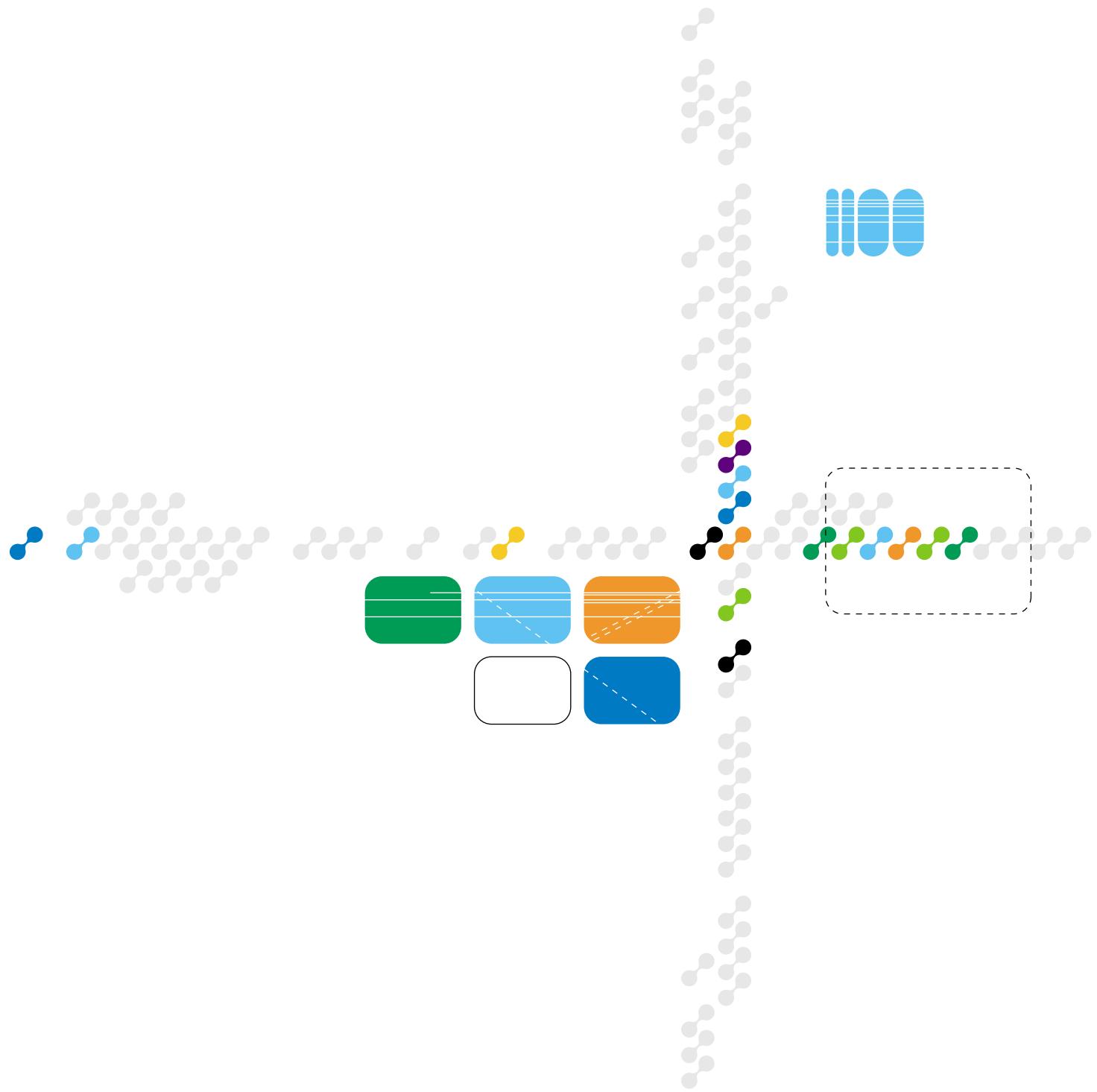
The Annual Meeting of Shareholders will be held in Houston, Texas, in the LaSalle Ballroom of the Doubletree Hotel at Allen Center, 400 Dallas Street, on Tuesday, May 1, 2001, at 10 a.m. Information with respect to this meeting is contained in the Proxy Statement sent with this Annual Report to holders of record of Enron Corp.'s Common Stock and the Cumulative Second Preferred Convertible Stock on March 2, 2001. The 2000 Annual Report is not to be considered a part of the proxy soliciting material.

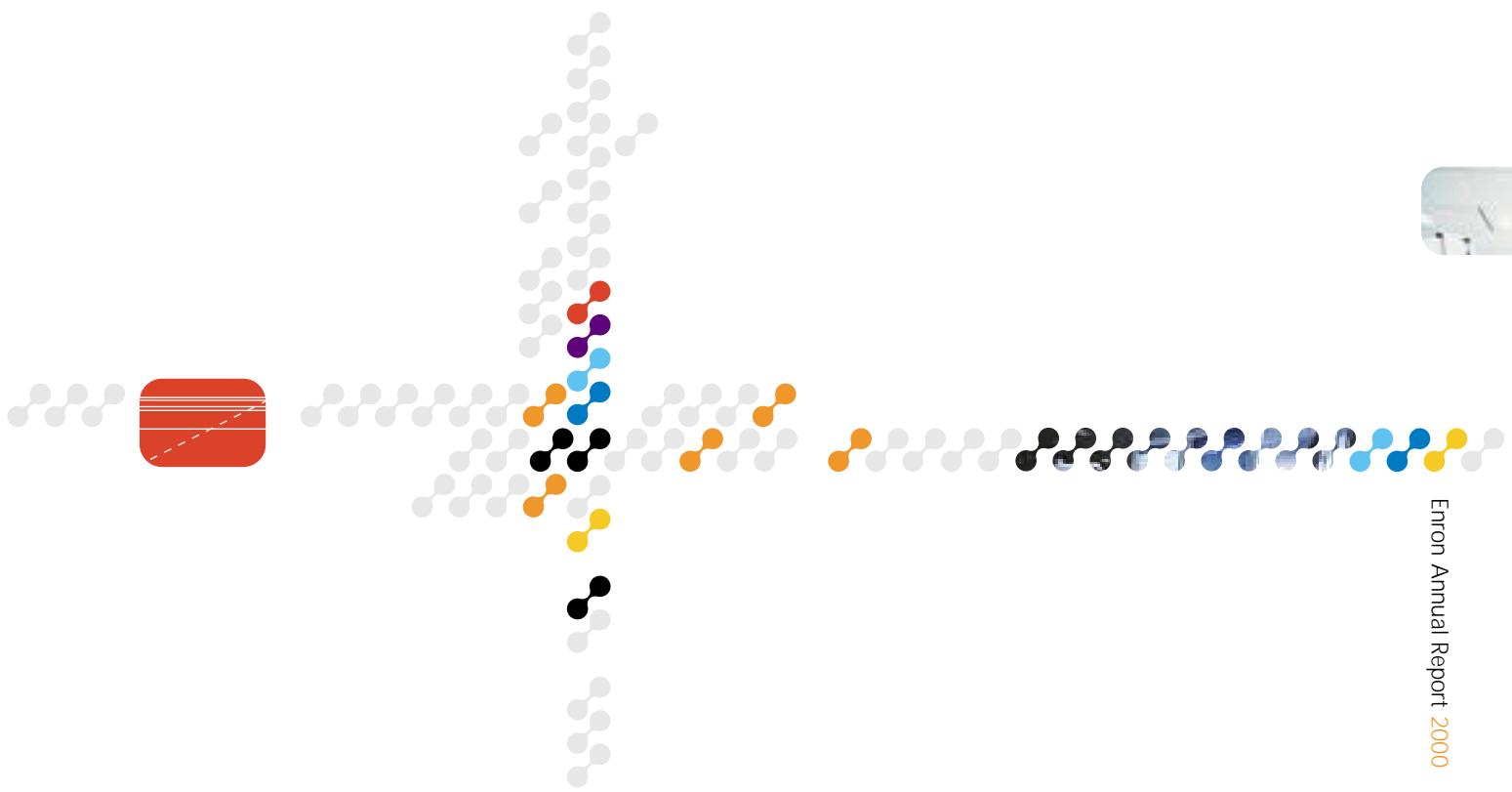
DIVIDEND REINVESTMENT

The Transfer Agent offers holders of Enron Corp. Common Stock the opportunity to reinvest part or all of their dividends in the purchase of additional shares of Common Stock by participating

in the DirectSERVICE Program for Shareholders of Enron Corp. This program gives almost everyone the opportunity to purchase additional shares of Common Stock without paying a brokerage commission. Anyone wishing to participate in the program may, upon timely application, reinvest some, all, or none of the cash dividends paid on their Common Stock, or make optional cash payments of as little as \$25, after an initial investment of \$250 for new shareholders, with a limit of \$120,000 per calendar year. Direct requests for further information to:

DirectSERVICE Program for
Shareholders of Enron Corp.
c/o First Chicago Trust Company
c/o EquiServe
P.O. Box 2598
Jersey City, NJ 07303-2598
Shareholders may call: (800) 519-3111
Non-shareholders requests for program materials:
(800) 662-7662
Internet address:
<http://www.equiserve.com>
TDD: (201) 222-4955





Enron Annual Report 2000



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