

Enron's Net Increased 30% in 2nd Quarter Loop State Fron

Online Energy Trading Gave Profit Big Boost As Revenue Grew 75%

By REBECCA SMITH
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Enron Corp.'s transition from a natural-gas company to a racy provider of energy and telecommunications services took a big leap forward in the second quarter, with profit getting a kick from an increase in online energy trading.

Houston-based Enron said its electricity and natural-gas trading volumes jumped by 40% in the second quarter, helping to push net income up by 30% to \$289 million from \$222 million a year earlier. Per-share earnings of 34 cents handily beat already bullish analyst estimates published by First Call/Thomson Financial by 70 cents a share. A year earlier, Enron earned 27 cents a share.

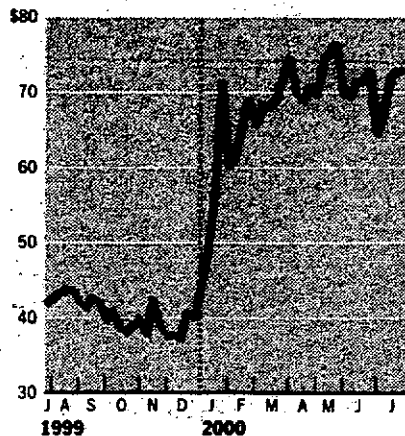
Revenue grew 75% for the second quarter to \$16.88 billion from \$9.67 billion a year earlier. In afternoon trading, Enron stock was unchanged at \$73 on the New York Stock Exchange.

Analysts said strong growth in Enron's Web-based trading platform, EnronOnline, moved the whole company forward. Volume at EnronOnline, which trades some 800 contracts for commodities including oil, natural gas, electricity and telecommunications capacity, grew by 92% from the first quarter and now accounts for 60% of Enron's total trading volume.

"EnronOnline is in its hypergrowth stage," said Donato Essey, gas analyst for Merrill Lynch Global Securities. "It seems like all the traders are using it for price discovery and to cut a deal" giving Enron

High Energy

Enron's weekly closing share price



Source: Tradeline.com

transaction fees as well as profits on goods traded.

Growth at the unit is especially impressive, analysts said, since EnronOnline is just eight months old. In that time, traders have used it to execute more than 200,000 transactions with a face value exceeding \$100 billion. Some of that business was taken away from competitors, but much of it represents new business stimulated, in part, by the ease of online trading.

For the quarter, Enron's natural-gas trading volumes jumped by 77% in North America from a year earlier as power-plant owners moved to lock up fuel supplies in a rising-cost market. Analysts said the increase in gas volumes—in a supposedly mature market—showed the spillover impact of electric-industry deregulation and unease about gas-storage levels, which are lower this year than last.

Enron's electricity trading volumes in North America grew by 31% from a year earlier, partly reflecting nervousness about dwindling electricity reserves in many major markets and growing price volatility.

Enron President Jeffrey Skilling said huge swings in energy prices do more than help the energy trading business. They also push big companies to sign long-term power-supply contracts with Enron's retail services unit. For the quarter, the unit signed contracts to supply \$3.8 billion of energy and energy services to customers. The unit produced a pretax profit of \$24 million for the quarter, compared with a \$26 million loss a year earlier, as it ramped up production.

Although most customers continue to sign 10-year purchase contracts, "we've seen more interest in fixed prices as the market has gotten more volatile," Mr. Skilling said. Contract prices generally have ranged from \$40 to \$130 per megawatt hour, he said, far above the prices many analysts expected to see in deregulated markets.

Mr. Skilling said Enron's European trading business showed growth that surprised him, principally in Germany and surrounding countries that recently have liberalized their markets and are encouraging bilateral energy trading.

Analysts said investors should expect greater volatility in Enron's stock price now that the company is increasingly perceived as a technology play. Roughly a third of Enron's market value is attributable to EnronOnline and Enron Broadband Services, its coast-to-coast telecommunications unit that said this week it will deliver movies on demand to homes in partnership with Viacom Inc. unit Blockbuster Inc. The remainder is Enron's more traditional energy businesses, including gas pipelines and generating plants.

By Staff Reports
WASHINGTON

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Components Combo

As Nortel and Corning discuss a possible components combination, here's what each company could gain.

- **Market Cap:** High valuation for components division
- **Growth:** Stake in bigger components company with strong growth potential
- **Supply:** Secure source of components used in Nortel's optical transmission systems

- **Scale:** Corning must grow fast to match key competitors, especially JDS Uniphase
- **Product breadth:** Helps fulfill Corning's goal of becoming a one-stop shop for components
- **Brainpower:** Matching Corning's powerful R&D with Nortel's would aid rapid growth

- **High price tag** could lead to dilution of Corning's earnings
- **Nortel competitors** could be reluctant to deal with Nortel/Corning components business
- **Lofty stock valuations** could tumble if growth expectations not met

Possible Nortel-Corning Deal Could Cost

