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**ENRON Corp.
Third Quarter Earnings Release**

Conference Call Information

Time: 9:00am (Central)
10:00am (Eastern)

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Replay: (719) 457-0820 Code 636246 (available until midnight on October 23)

Introductions

- Ken Lay, Chairman and Chief Executive Officer
- Mark Frevert, Vice Chairman
- Greg Whalley, President & Chief Operating Officer
- Mark Koenig, Executive VP, Investor Relations
- Paula Rieker, Managing Director, Investor Relations
- Rick Causey, Executive VP and Chief Accounting Officer
- Andy Fastow, Executive VP and CFO
- Steve Kean, Executive VP and Chief of Staff

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Thank you for joining us on the call and web broadcast this morning. Earlier today, we reported our third quarter results.

I will provide a brief overview of our quarterly results and, then, open the call for your questions.

Summary of Earnings

For the third quarter of 2001, Enron reported strong recurring operating performance, which included:

- a 35 percent increase in recurring net income to \$393 million (vs. \$292 million a year ago), and
- a 26 percent increase in diluted recurring earnings per share to \$0.43 (compared to \$0.34 a year ago).

As these numbers show, Enron's core energy business fundamentals are excellent.

We also recorded non-recurring charges of \$1.01 billion this quarter. The recognition of these charges is the result of a thorough review of each of our businesses. We are committed to making the results of our core energy businesses more transparent to

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investors and not clouded by non-core activities. I will provide detail on these charges later in the call.

Today, we also reaffirmed that we are on track to meet our previously stated targets for recurring earnings per diluted share. Those targets include \$0.45 for the fourth quarter of 2001, \$1.80 for the full year 2001, and \$2.15 for the full year 2002.

We have also provided significantly more visibility into our earnings. We have changed our segments to be more reflective of our businesses.

- **Wholesale Services** is now reported in two new segments:
 - Americas, which consists primarily of our gas and power market-making operations and merchant energy activities in North America and also includes our merchant activities in South America, and
 - Europe and Other Commodity Markets, which includes our European gas and power operations and our other commodity businesses such as metals, coal, crude and liquids, weather, LNG, forest products and steel.
- **Retail Services** continues to be reported separately.
- **Transportation and Distribution** is reported in three segments:
 - Our Natural Gas Pipelines,
 - Portland General, an electric utility and
 - Global Assets, which include primarily international utility operations.
- **Broadband Services** and **Corporate and Other** also each continue to be reported separately.

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

Wholesale Services

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

Americas

Our Americas business uses its broad scale and scope to package and reliably deliver energy commodities and provide price risk management services at the lowest available cost.

- Third quarter IBIT for the Americas increased 31 percent to \$701 million from \$536 million a year ago, driven by strong results from the North American natural gas and power businesses.
- Total physical volumes increased 35 percent to 58 Bcfe/d (versus 43 Bcfe/d a year ago).
 - Power volumes increased 77 percent to 290 million megawatt hours (versus 164 million megawatt hours a year ago). Both our East and West Regions were strong contributors to profitability this quarter. We have become the leading power merchant in the eastern U. S., which makes up about two-thirds of our total power volumes. Our unmatched market-making capabilities and structuring expertise allow us to provide to customers higher-value transactions.
 - We structure commodity transactions custom-tailored to customer-specific load requirements, which may include peaking services and load shaping;
 - We also leverage our market knowledge and our plant development expertise to site, permit and selectively develop generation projects, which we may retain or we may sell to independent power producers and generators.
- Natural gas volumes increased 6 percent to 27 Bcf/d (versus 25 Bcf/d a year ago). Our U.S. natural gas business was a significant contributor to profitability in the third quarter. Enron's physical volume activity, which is almost three times the size of our nearest competitor, allows us to understand supply and demand across the entire U.S. on a real-time basis. As a result, we are best positioned to provide structured transactions to meet our customers' specific needs. Some examples of structured transactions that we have offered to date include:
 - Utility Outsourcing arrangements, where we manage all aspects of our customer's gas needs;
 - Operational Outsourcing services, where we manage the commodity as well as the entire back-office for our customers; and
 - Term capacity products for customers desiring the transport of natural gas.

Europe and Other Commodity Markets

Physical volumes increased dramatically for each commodity in the segment.

- European gas and power volumes more than tripled to 21 Bcfe/d (from 5 Bcfe/d last year).
- Metals volumes increased 144% to 2,362 thousand tons (from 969 thousand last year).
- Coal volumes increased 150% to 25 million tons (from 10 million tons last year).
- Crude oil and liquids volumes increased 50% to 157 million barrels (from 105 million last year).
- Forest Products volumes increased eight-fold to 899 thousand tons (from 101 thousand last year).
- Steel volumes were 648 thousand tons in our first year of operation.

In Europe, we expect Enron's most profitable opportunities to come from our unique ability to package customized products from our broad slate of skills (commodity risk management, asset expertise, cross-commodity and weather products and renewable energy products). Although recent deal flow continues to be very strong, volatility in the European energy markets has been relatively low. Our new businesses in other commodity markets are experiencing rapid growth and are contributing positively to our growth. For the third quarter of 2001, IBIT for the segment remained unchanged at \$53 million as compared to last year.

EnronOnline continues to be an enormous accelerator for our wholesale businesses and a very important tool for our customers. With Enron's very competitive pricing and the ease of use of our system, we are attracting an increasing number of both existing and new customers. Activity on EnronOnline includes:

- Inception-to-date notional value of \$860 billion,
- An average of 4,000 customers logged onto our site each day,
- 1,800 products currently online, and
- 5,000 transactions per day

Retail Services

Retail Services product offerings include pricing and delivery of natural gas and power, as well as demand side management services to minimize energy costs for business consumers in North America and Europe. Retail Services had an outstanding third quarter, with IBIT of \$71 million representing more than two and a half times that of the third quarter last year. We continue to experience high demand for our retail products and are expanding our market share at a very rapid pace as the only nationwide provider of energy management services to commercial and industrial consumers of all sizes. We have very successfully penetrated the large consumer market. On a year-to-date basis, we have completed over 50 large consumer transactions, including the recent signing of contracts with Wal-Mart, Northrop Grumman, the City of Chicago, Equity Office Properties and Wendy's in the U. S. and with Sainsbury and Guinness Brewery in the U.K.

We are also significantly expanding our retail business in the U.S. by implementing the "Enron Direct" model that we have used so successfully in Europe. In the U.S., we completed over 12,000 transactions in the third quarter of this year with small businesses, compared to 1,800 in the same quarter last year. Including our well-established operations in the U.K., we have completed over 95,000 transactions with these small customers year-to-date. With shorter sales cycles and standardized products, this part of our business is poised to scale rapidly with commensurate increases in profitability.

In total, we added over 5,000 facilities to our service portfolio during the quarter, for a total of over 40,000 facilities under management. Enron is the largest manager of customer energy assets, with more than 4 billion square feet of facilities under management.

We are no longer reporting the total contract value (or TCV) for our retail business. This metric was an important measure at the inception of this business to demonstrate success

in acquiring new contracts, but is no longer how we manage our business or incentivize our workforce. As contract upsells, restructurings, and Enron Direct become significant contributors to profits, and with the commodity portion of our retail contracts being managed by Wholesale and reflected in their results, more traditional measures like gross margin and earnings are better indicators of this business's success. These financial measures are included in the tables attached to today's earnings release.

Transportation and Distribution

Our Transportation and Distribution business is comprised of three segments: Natural Gas Pipelines, Portland General and Global Assets.

Natural Gas Pipelines

This segment provided \$85 million of IBIT in the current quarter, which is up slightly from last year's results. This business continues to experience strong demand for our natural gas pipeline services, which transport approximately 15% of U.S. gas demand. We continue to expand in the fast growing Florida area and plan to complete another expansion in April 2002, which will bring our Florida Gas Transmission capacity to 2.1 Bcf/d. We also plan to complete an expansion by our Transwestern Pipeline in June 2002, which will increase capacity by 150 MMcf/d in the rapidly growing Arizona market.

Portland General

Portland General reported an IBIT loss of \$(17) million in the current quarter, compared to IBIT of \$74 million in same quarter a year ago. In prior periods, Portland General entered into power contracts to ensure adequate supply for the recent quarter at prices that were significantly higher than the actual settled prices during the third quarter of 2001. Although the rate mechanism in place anticipated and substantially mitigated the effect of the higher purchased power costs, only the amount in excess of a defined baseline was recoverable from ratepayers. Increased power cost recovery was incorporated into Portland General's new fifteen-month rate structure, which became effective October 1, 2001 and included an average 40% rate increase.

Last week, we announced a definitive agreement to sell Portland General to Northwest Natural Gas for approximately \$1.9 billion and the assumption of approximately \$1.1 billion in Portland General debt. The proposed transaction, which is subject to customary regulatory approvals, is expected to close by late 2002.

Global Assets

The Global Assets segment includes other assets not part of Enron's wholesale or retail energy operations. Major assets included in this segment are Elektro, an electric utility in Brazil; Dabhol, a power plant in India; TGS, a natural gas pipeline in Argentina; Azurix; and our Wind operations. For the third quarter of 2001, IBIT for the segment remained unchanged at \$19 million as compared to last year.

Broadband Services

Enron makes markets for bandwidth, IP and storage products and bundles such products for comprehensive network management services. IBIT losses were \$(80) million in the current quarter compared to a \$(20) million loss in the third quarter of last year. This quarter's results include significantly lower investment-related income and lower operating costs. We continue to actively participate in the intermediation market. Although the overall market has contracted recently, we entered into 405 intermediation transactions during the quarter. We are reducing our cost structure to be more properly sized for the current environment. We continue to see long-term opportunities in this business and are exploring alternatives to preserve the business's option value at reasonable costs.

Corporate and Other

Corporate and Other reported an IBIT loss of \$(59) million for the quarter compared to \$(106) million a year ago. Corporate and Other represent the unallocated portion of expenses related to general corporate functions.

Non-recurring Charges

Non-recurring charges totaled \$1.01 billion consisting of:

- \$287 million related to asset impairments recorded by Azurix Corp., primarily reflecting Azurix's planned disposition of its North American and certain South American service-related businesses, and goodwill associated with these assets. Upon completion of these sales, Azurix's assets will consist of water and wastewater operations in the U. K. and Argentina;
- \$180 million associated with the restructuring of Broadband Services, including severance costs, loss on the sale of inventory and an impairment to reflect the reduced value of Enron's content services business. After these charges, we have a remaining net investment in our broadband business of approximately \$600 million, primarily associated with our network; and
- \$544 million related to losses associated with certain investments, principally Enron's interest in The New Power Company; broadband and technology investments; and early termination during the third quarter of certain structured finance arrangements with a previously disclosed entity.

In connection with the early termination, shareholders' equity will be reduced by approximately \$1.2 billion, with a corresponding significant reduction in the number of diluted shares outstanding.

Let me also address some other areas.

Handwritten notes and calculations at the top of the page, including numbers like 2, 200, and 2000, and some illegible text.

Operating Cash Flow

We expect reported cash flow from operations to be approximately \$350 million positive for the third quarter bringing the year-to-date cash flow from operations to a negative \$1 billion. As a reminder, our deposit and margin activity for the first nine months of this year is estimated to be a net outflow of \$2.6 billion. This is primarily a timing difference, as the fourth quarter of last year included \$1.9 billion of net cash inflow from deposit and margin activity. Excluding deposits, cash flow from operations for the first nine months of this year is expected to be approximately \$1.6 billion. With additional estimated cash flow of \$1.4 billion in the fourth quarter, we expect total operating cash flow **excluding deposits** to be approximately \$3 billion for the entire year. The estimated significant cash inflow in the fourth quarter represents primarily the timing of settlement of our net price risk management assets.

Liquidity/Funding Needs/Rating Agencies

We have worked closely with the rating agencies, and we are committed to keeping our current investment grade rating. [S&P and Fitch have reviewed today's announcement and have confirmed our BBB+ rating with a Stable outlook.] When we publish our third quarter 10Q in a few weeks, you will see that our debt-to-total capital ratio is about 50%. With the announced asset sales, we would expect the debt ratio to be close to 40% by year-end 2002.

We are very comfortable with our current liquidity position, even in these difficult capital markets. We are actively issuing commercial paper for our current short-term needs, and our \$3 billion committed revolver remains undrawn.

Capital Spending

Year-to-date, our capital expenditures and equity investments are estimated to be \$2.7 billion, with the majority being in our Wholesale Services group. Including proceeds from sales, the estimated "net" spending amount is \$1.3 billion for the first nine months of this year.

Asset Sales

We continually review our portfolio of assets to determine whether the greatest long-term value lies in selling the assets or continuing to operate them. In addition to the sale of Portland General for about \$1.9 billion (plus \$1.1 billion in debt reduction), we are currently negotiating to sell other assets, primarily located overseas. ~~Two of the sales that~~ we expect to close by year-end are CEG -Rio for approximately \$250 million and the India E&P properties for approximately \$390 million. Each of these sales is subject to the customary regulatory approvals.

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Goodwill and our outside auditors

We have recently completed our preliminary evaluation of goodwill. Enron has \$5.7 billion of goodwill currently in two places on our balance sheet – on the Goodwill line, separately reported in our balance sheet, and in our equity investments. Our goodwill is concentrated in three major areas – Portland General, Wessex Water and Elektro. We currently estimate up to a \$200 million goodwill adjustment (to be recorded as a change in accounting principle) in the first quarter of 2002.

Equity Issuance “Triggers” in Certain Financing Arrangements

There has been quite a bit of discussion, and perhaps misinformation, about two of our financings. Each of the financings is backed first by underlying assets, and we anticipate sales of assets to be the primary source of repayments. These financings include terms that, if a combination of certain conditions is met, could result in funding obligations by Enron.

- The first financing is Whitewing, an unconsolidated equity affiliate, which has raised capital based upon the value of the underlying assets. We anticipate sale of the assets will be the primary source of repayment of this financing. In addition, Whitewing owns 250,000 shares of Series B Preferred Stock convertible into 50 million common shares of Enron, which is reflected in our recurring earning per share calculation. The financing includes terms that obligate Enron to issue shares in an amount sufficient to repay the related debt if our credit rating is downgraded to “Below Investment Grade” AND if the market price of the converted Enron common share is less than about \$60.
- The other financing relates to our investment in Azurix, where Enron is committed, under certain conditions, to issue Enron convertible preferred stock if our credit rating is downgraded to “Below Investment Grade” AND if Enron’s stock price is below about \$34.

It is important to note that each of the financings include double triggers. So, although our stock has dropped below the specified levels, we have not had the changes in our credit rating that would require the issuance of additional shares. Furthermore,

- We expect no credit downgrades. We have discussed the quarterly results with the credit rating agencies.
- Enron also has the option to settle both of these obligations in cash.

Conclusion

In summary, our third quarter recurring operating results were outstanding and our business fundamentals remain very strong. We hope our expanded disclosures help you to better understand our operations. Our new businesses are expanding and adding to our earnings power and valuation, and we are well positioned for continued success.

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