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2Q01 Conf Call

– CONFIDENTIAL – as of Wednesday, July 11, 2001 –10:00 pm

**ENRON Corp.
Second Quarter Earnings Release**

Conference Call Information

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

Dial In: (719) 457-2649
Website: www.enron.com; Reference Investor Relations
Replay: (719) 457-0820; Code 406160 (available until July 19th)

Introductions

Jeff Skilling, President and CEO
Mark Koenig, Executive VP, Investor Relations
Paula Rieker, Managing Director, Investor Relations
Rick Causey, Executive VP and Chief Accounting Officer
Steve Kean, Executive VP and Chief of Staff

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

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

Summary of Earnings

For the second quarter of 2001, Enron reported outstanding results, including:

- a 40 percent increase in net income to \$404 million (vs. \$289 million a year ago) and
- a 32 percent increase in diluted earnings per share to \$0.45 (compared to \$0.34 a year ago).

As the numbers show, Enron's energy business fundamentals are excellent. Today we also announced our confidence in achieving recurring earnings per diluted share for the full year 2001 of \$1.80 and \$2.15 per diluted share for 2002.

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Wholesale Services

Wholesale Services, Enron's 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 increased 93 percent to \$802 million from \$415 million a year ago, marking Wholesale Services' 22nd consecutive period of year-over-year quarterly earnings growth.

These earnings are primarily attributable to Enron's leading role worldwide in our Commodity Sales and Services business, where we market and reliably deliver energy and other commodities.

Second quarter IBIT for the commodity business increased 81 percent to \$762 million.

In the second quarter:

- total volumes increased 58 percent to 74 Bcfe/d (versus 47 Bcfe/d a year ago);
- natural gas volumes increased 21 percent to 32 Bcf/d (versus 27 Bcf/d a year ago);
- power volumes increased 108 percent to 285 million megawatt hours (versus 137 million megawatt hours a year ago); and
- in our new businesses - weather, metals, lumber and steel - volumes doubled in comparison to a year ago.

North America

Our North American energy volumes increased 32 percent in the quarter to 48.4 Bcfe/d, which is comprised of 52% gas and 48% power. The overall increase is a direct result of Enron's leading role in expanding liquidity at all major physical locations. Enron continues as the most reliable provider of gas and power-related services. In addition, EnronOnline has allowed us to show our price competitiveness more broadly. An increasing number of customers are now able to transact in larger volumes with us more quickly and efficiently.

For example, in the northeastern U.S., our physical power deliveries have increased over 150% from a year ago. This increase equates to about 50 million MWh.

We are not a large generator, but our insight into the gas and power markets enables us to actively participate in the development of power generation. In the second quarter, we sold three peaker plants totaling 1,710 megawatts, which had previously directly supported commodity sales contracts. In a market with little liquidity, these plants have quite simply been substitutes for contractual supplies. Because the plants have been integral to our commodity business, the plants' earnings are recognized within our Commodity Sales & Services segment, just as those related to contracts providing similar supply functions are reflected. Earnings from the plant sales also offset costs associated with unwinding any associated contract commitments. With the enormous access to liquidity created by the success of EnronOnline, we can support our sales commitments with market-based contracts and free up the capital associated with asset ownership.

Europe and Other

Our European energy businesses continue to grow.

- Total volumes in Europe increased 205% to 15.3 Bcfe/d (from 5 Bcfe/d last year).
- Natural gas volumes increased 103% to 7.3 Bcf/d (from 3.6 Bcf/d a year ago).
- European power volumes increased 463% from a year ago to 73 million megawatt hours (from 13 million MWh a year ago).
- We are building liquidity at key hubs on the continent and expanding Enron's franchise in the developing continental energy markets.

EnronOnline

We are seeing increased activity across the company, with an almost 200% increase in transaction count in the second quarter relative to a year ago. EnronOnline continues to play an important role in our business expansion and accounts for about 60% of our total transactions. The 40% not transacted online reflects both our longer-dated structured transactions that will always require commercial negotiation as well as opportunities to migrate to the online platform. Since inception in November 1999, over \$685 billion of total gross value has been transacted online. EnronOnline has added tremendous scale to our wholesale business, integrating our core strengths in credit, risk management and logistics.

In addition, we recently announced that EnronOnline would list real-time price quotes on Reuters. This increases the value of EnronOnline to our customers as they utilize this tool for historical analytics and direct pricing comparison to other online services.

Assets and Investments reported IBIT of \$134 million for the second quarter compared to \$55 million last year. The increase in earnings from last year is primarily due to increased valuation and sales of Enron's investments.

Retail Energy Services

Enron Energy Services had an outstanding second quarter with IBIT increasing by 30% to \$60 million. We continue to experience tremendous 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.

Contracting is accelerating, with an 89 percent increase in the current quarter activity to \$7.2 billion of new contracts. We have very successfully penetrated key customer segments with our outsource product, including new contracts with Harrah's, Park Place Entertainment, several nationwide home improvement chains and a large retail food market chain in Europe. In total, we added over 4,400 facilities to our service portfolio during the quarter for a total of 35,700 facilities under management. Enron is the largest manager of customer energy assets, with more than 3.5 billion square feet of facilities under management.

Enron Energy Services is continuing to scale its business. With shorter sales cycles and standardized products, the business is poised to expand rapidly with commensurate

increases in profitability. We are firmly on track to achieve our 2001 target of \$225 million of IBIT in our retail business.

Transportation and Distribution

Our Transportation and Distribution business is comprised of Enron Transportation Services, which includes our interstate gas pipelines, and Portland General Electric.

Both businesses reported solid earnings in the second quarter. Enron Transportation Services reported IBIT of \$77 million, which is comparable to last year's results. This business continues to experience strong demand for our natural gas pipeline services. A pipeline expansion project was recently completed in Florida that added 200 MMcf/d of new capacity in this fast growing area, and we have another 425 MMcf/d expansion underway. A 150 MMcf/d capacity addition on the Transwestern pipeline to California will be completed in 2002.

Portland General reported IBIT of \$65 million in the recent quarter, compared to \$62 million in the second quarter of 2000. Portland General serves one of the fastest growing areas in the U.S.. Portland General has over 2,000 MW of owned generation and consistently maintains a balance of supply and demand through wholesale contracts for its remaining needs.

Broadband Services:

Our broadband business reported a \$102 million IBIT loss in the second quarter compared to a loss of \$8 million a year ago. This quarter's loss reflects significantly lower revenues and comparable operating expenses as compared to the prior period.

Industry conditions in the broadband area are very weak. Enron's asset-light strategy allows us to significantly reduce costs to be more in line with revenue opportunities. Our focus going forward will be in the intermediation area, but we will retain the option value associated with our network services and content business.

In our bandwidth intermediation business, we are making good progress in creating a commodity market. We completed over 759 transactions in the second quarter, which was a 31% increase over the first quarter. We also increased our customer base during the quarter with the addition of 45 new customers, for a total of 165 customers. Carriers and network service providers represent over 70% of our customers and about a third of this quarter's transactions.

As we mentioned in the release, we have a new long-term contract to provide broadband services to MSN. Enron is combining our intermediation expertise and our network capabilities to provide MSN bandwidth on-demand. Our service enables MSN to dynamically provision and pay for bandwidth as they need it. We will provide more information along with MSN at a later date, and Enron will demonstrate the financial impact of the new contract as the service is implemented.

Corporate and Other

In Corporate and Other, we reported an IBIT loss of \$109 million for the second quarter of 2001, which includes higher unallocated corporate-wide expenses and the impact of Azurix and other non-core operating businesses.

Management Changes

Let me also update you on some recent management changes that reflect the broad, deep team that we have at Enron.

Lou Pai, former Chairman and CEO of Enron Energy Services, is no longer with Enron, and we thank him for his years of service. **Tom White**, who had served as Vice Chairman with Lou, accepted the position of Secretary of the Army.

Dave Delainey has taken over as Chairman and CEO of Enron Energy Services. Dave is extremely well prepared for this new role, and we look forward to investors getting to know him. Seven years ago, Dave joined Enron Canada, where he led the growth of our Canadian business, then led all our North American origination activity and most recently ran our entire North America wholesale business.

Many of you know **Kevin Hannon**, who had been president and COO of our broadband business. Kevin is now CEO of our global asset operations, which includes all our assets and activities outside of North America and Europe.

Jim Fallon was recently named President and Chief Operating Officer of Enron Broadband Services. Jim was instrumental in developing Enron's power marketing business. For the last year, Jim has been responsible for all of EBS' domestic and international bandwidth intermediation activities.

Conclusion

In summary, our second quarter results were outstanding and our business fundamentals remain very strong. Our new businesses are expanding and adding to our earnings power and valuation, and we are well positioned for continued growth.