ENRON CORPORATION
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All Employee Meeting
PROCEEDINGS

KEN LAY: Good morning. Good morning. There it is. We've got a packed house again, and we appreciate that. But I think we've got an overflow crowd outside. And some of you apparently because of fire marshals and other people like that may have to go back to your desks and watch this on the webcast. But I'm sorry again we didn't have quite enough space, but this is the biggest place we've got close by. Probably in more normal circumstances I would have had a few more words to say about September the eleventh because it obviously has changed our world forever, probably forever. And horrendous acts of terrorism, needless loss of lives, I think we've now seen who the true heroes in our country are. And again, men and women of character and people willing to run into burning buildings and give their lives for other people or try to save other people. Somebody commented recently that I think we're looking to that event and the very courageous behavior during that event for heroes a lot more than we're looking at Hollywood today, and that's probably not all bad.

But, of course, today we're going to talk about Enron because just like America's under attack by terrorism, I think we're under attack. And we're going to talk about that today.

I said we, in my phonemail and my e-mail we do have a lot.
to talk about. I've been reading your questions. You particularly want to hear more about LJM, the related party transaction which involved our chief financial officer. And, of course, now we've got the SEC inquiry, informal inquiry, underway. And I'm going to talk about all of that. And I'm going to try to talk about anything else you want to talk about in the Q and A.

I will say that there are going to be some limitations given we do have the SEC request. And that's what it is right now, a request for some information. But certainly out of events like this you have lawsuits and other things that occur. And so I may, I and others in the audience might have limitations on some specific details. But we're going to be as candid as we can.

But before I discuss this I think it important that you hear an abbreviated -- of course, recently we've had a much larger and abbreviated presentation on our third quarter results from Greg Whalley, our president and chief operating officer. These results were, in fact, very strong as the company continues to perform at a very high level.

But after Greg concludes his 10 or 15 minute presentation on the highlights of our third quarter results, then I'm going to jump back in to talk about LJM and some other matters and, of course, to take your questions.

So Greg, if you'd do that, please.
(Applause)

GREG WHALLEY: Okay, good morning. I want to thank everybody for coming today. And I do want to address our third quarter results. I'll try to be quick, there are a lot of issues to get to. It shouldn't take me more than about ten minutes. Despite the fact that we've done some resegmenting and some incremental disclosures on our business, which we will, by the way, continue on through the end of the year as we try to provide balance sheets and allocated capital by these segments, we still can characterize them, at least for the time being, in these three broad groups -- the transportation distribution group, wholesale services group and the retail services group.

The overall performance of the company was to report a net income increase of thirty five percent over the prior over the relative quarter in the prior year. As you look at the numbers, the transportation distribution numbers, which includes natural gas pipelines, Portland General and the global assets, reported an IBIT of eighty seven million for the quarter compared to a hundred and seventy six million for the same period a year ago.

The primary results for the decline had to do with the earnings off of Portland General and had to do with purchased power to serve their load, which had declined in value. We'll answer questions on that to the extent
necessary. The wholesale services business also reported substantial earnings growth. Growth in IBIT of twenty-eight percent to seven hundred fifty-four million for the third quarter of two thousand and one compared to the five hundred and eight-nine for the prior year. This increase is attributed to extremely strong growth throughout the business segment, especially in the energy businesses in Enron Americas.

The retail services business also reported positive quarterly IBIT of seventy-one million, a hundred and sixty-three percent increase over a year ago.

The profitability continues to accelerate very quickly in the business and we're very pleased with those results.

Enron's broadband segment reported a loss of eighty million, which is, substantially exceeded the prior year. And we'll address some of the issues associated with broadband.

In total we had a total IBIT of seven hundred and seventy-three million resulting in a net income of three hundred and ninety-three million. There were non-recurring items written off of about one point oh one billion dollars. Two hundred and eight seven million dollars of the write-down was related to the sale of Azurix and the write-down of certain Azurix's assets in North America. A hundred and eighty-three million was associated with Enron broadband services primarily associated with severance costs, write-down of inventory costs as well as the write-down of content. Five hundred forty-four million related to investments primarily in new power and other broadband investments and technology investments in the underlying of the facility that held them.
To talk more specifically in transportation distribution. Our natural gas pipeline system is one of the largest and most cost-effective in North America. Total combined it means approximately fifteen percent of the total natural gas in the United States with a peak capacity of about ten point eight BCF a day.

The outlook for the pipelines is excellent. Gas demand in the United States continues to grow primarily due to new gas-fired power generation. And a majority of our capacity is contracted under long-term contracts and no new rate cases until the end of two thousand and three. We do continue to expand into high-growth markets to a total of approximately two point two BCF a day into Florida by two thousand and three. Transwestern is also expanding in Arizona and California. As well as Northern Border is finding new markets with more gas-fired power generation.

The growth in this business and the cashflow in this business is very strong and stable and provides a solid base of cashflows for the corporation.

I do want to talk about global assets. The largest assets as listed here are Elektro in Brazil, Dabhol in India and Cuiaba also in Brazil. You can see the asset mix by location. We have talked over a period of time about scaling back these assets.

The global assets group has been moved in with Stan
Horton, who's been managing our assets on the pipeline side for some time. Hopefully we'll be able to make them more efficient, reduce the cost and increase the IBIT that we actually get out of these assets.

As to asset dispositions, we have this quarter closed a number of transactions which -- or inked a number of transactions where we should be receiving the cash in the near future to include the power plant assets in Puerto Rico, gas distribution assets in South America, ENPS that's in India and Portland General. And to the extent we want to talk about balance sheets later, we'll talk a little bit more about that.

Suffice to say, just to address that issue up front, despite the downgrade or the review for downgrade by Moodys, there are sufficient inked transactions to take our debt to total cap ratio after these asset sales to a level that's lower, in fact, than they were before we took the write-offs.

I want to talk about the wholesale services group, which has experienced substantial growth. Just to give you a couple of general items, physical settlements were up sixty five percent. Income before interest and taxes was up twenty eight percent. We had substantial increase in physical settlements, substantial increase in transactions and our franchise in energy wholesale markets in North America continues to
increase its lead in terms of physical volumes settled.
financial settlements and transactions completed. And it
continues to extend that.
In Europe we've also begun to have some substantial
penetration on the continent with the number of transactions
increasing. And we're hoping to expand that business well
into the future. In the new markets, which we can talk about
at some time and I'd like to get everyone together for --
separate groups together for presentations on the markets
that we're getting into, we're having substantial penetration
in getting some real traction on some of the new markets that
we're moving into. The results were very strong, and I
expect them to continue. In the retail services business income
before interest and taxes was up substantially to a hundred and
seventy one million, seventy one million actually being done in
this quarter.
We're having significant penetration in this market and
significant growth in a number of new transactions, especially as
we take the model in the United States for the large consumer
complete out-sourcing and begin migrating that to Europe. And we
take the small consumer model established with Enron Direct in
Europe and begin applying it in the United States.
The number of customers that we're achieving there
is beginning to grown and our ability to penetrate downstream
to further expand our presence in the energy markets in the
United States is absolutely critical to our continued growth and our strong position in franchise in both North American energy as well as European energy. Very pleased with these results. We're looking for strong growth into the future. Enron broadband services -- were missing a couple of slides, okay. Enron broadband services was not the best quarter. We have had some difficulty there related to the continued deterioration of the credit quality in the industry and certain consolidation there reducing the number of counterparties to be transacted with and the number of credit-worthy counterparties which can be transacted with in the future. As such, we've stated a quarter ago that we would begin scaling down this operation. We've done so, and we'll continue to try and size this operation to fit whatever opportunity is available in the future. We would expect that in some period of time there would, in fact, be a substantial business available in broadband and bandwidth intermediation as well as network services around that. Given the current condition of the telecom industry it's unclear at what point that will occur and we'll have to scale this business down to a size where we can maintain the option to move into that business in the future. We are considering all alternatives available to try to preserve this option to participate in the market which could be growing and
expanding at some point in the future.

With those as results we'll be happy to answer questions on those results later. And I will turn the presentation over to Mr. Lay.

KEN LAY: Did you say anything at all about New Point?

GREG WHALLEY: What's that?

KEN LAY: Did you say anything at all about New Power?

GREG WHALLEY: Yeah.

KEN LAY: You did?

GREG WHALLEY: Yeah, you missed it.

KEN LAY: Thank you, Greg.

As you can of course see, the underlying fundamentals of our businesses are very strong, in deed the strongest they've ever been. But regrettably, that's not what Wall Street is focusing on; and I doubt that's what you're focusing on.

And let me say right up front, I am absolutely heartbroken about what's happened, both the last few months and more importantly the last several days. Having said that, and I'll say this probably once more, maybe twice more today, what was done a couple of years ago was done very appropriately.

It was approved or reviewed and approved by inside auditors and accountants and outside auditors and inside and outside lawyers and, of course, the Board of Directors and all the appropriate procedures were put in place to; in fact,
make sure that Enron and its shareholders' best interest was
served. It was appropriately disclosed.

But certainly the one thing I think nobody
understood two years ago was how difficult it was to explain
it, the perception of it. And certainly if we knew back then
what we knew today we wouldn't have done it. And we'll never
do it again anything like it.

Now, let me start off by giving just a little bit
of history because I think we need to put this and everything
else this year in some kind of context. I was fortunate to
be involved in forming the modern day Enron in nineteen eighty
five when two large pipeline companies, Internorth in Omaha,
Nebraska and Houston Natural Gas here in Houston were merged
together. We've had difficulties since nineteen eighty five. As a
matter of fact, the merger was concluded in July of eighty five.
The day after Christmas in eighty five the Peruvian armed forces
marched in and took control of one of our largest assets, an
off-shore oil and gas operation. One of the company's largest
income producers and one of the company's largest cashflow
producers was expropriated.

In nineteen eighty six, oil and gas prices collapsed from
anywhere from two-thirds to three-quarters, we had a very
high debt to total cap ratio, about seventy percent, over seventy
percent. And then we had a couple of raiders come in and try
to buy us. And we had a difficult time finding any other
good alternatives. Now, we finally worked that through and
got rid of them and moved ahead.
In nineteen eighty seven we had a rogue oil trader in New York. I
believe there were two of them, a trader and the treasurer.
And, indeed, they went way beyond the limits that were
imposed on them exposing the company. And those exposures
were so great that they could have taken the company down.
And it took us three weeks to unravel those.
Now, that's right in the middle also when there's a
lot of gunfire in the Persian Gulf, to unravel those in such
a way that we could, in fact, protect the company. And we
still took about a hundred and eighty million dollar write-off
when the company was pretty small.

Nineteen ninety seven we had a big gas contract in the North Sea
that in fact had gotten out of the money because of some
changes in policies in Great Britain. And we took a very
large write-off on that, I think about six hundred and fifty
million. But let me say in each and every case the company
has come back and its come back stronger than it was before
these incidents. And that's exactly what I think is going to
happen here. And in the intervening years since nineteen eighty
five we've transformed what was basically a very traditional,
regulated, natural gas pipeline company with some other energy
assets into today what is the world's largest provider of natural
gas and electricity and recognized generally, although a
little tarnished right now, as the preeminent company in our
space. And, in deed, we will return that that preeminence
and we'll take that tarnish away with a little time.
And as sad as the current market price is, and
certainly I've lost a substantial portion of my net worth and
my family's net worth, at current prices the market value is
about seventeen or eighteen billion dollars. It was two billion
when we started in eighty five.
But I also know that many of you who were a lot
wealthier six to nine months ago are now concerned about the
college education for your kids, maybe the mortgage on your
house, maybe your retirement. And for that I am incredibly
sorry. But we're going to get it back.
Let me get into the LJM issue and then I'll share
with you some ways we can reduce the pain and hopefully
restore Enron to its greatness, which I am fully committed to do.
LJM. First, what was it? It was primarily a
private equity fund formed by Andy Fastow with Enron's
approval. Again, after all the necessary approvals. It was
formed in order to provide Enron an additional source of
equity funding for projects and investments that would not
otherwise be available to the company and with a management
structure that could provide reasonably quick approval of
projects and investments because of Andy's familiarity with
these projects and with the company.

But you should know Enron did not have to offer any
projects to LJM. It had to be in the company's best interest
to offer the projects and investments to LJM. Transactions
were offered to LJM only when it was in Enron's and its
shareholders' best interest and because it was fully
recognized from the beginning by Enron management and Board
that there was an inherent conflict of interest in Andy
investing in LJM, along with a number of significant other
investors I might add, major banks.

And being general manager of LJM at the same time,
he was CFO of Enron, the Enron Board put in place specific
controls and procedures to protect Enron and its
shareholders' interest.

I have reconfirmed over just the last few days that
these controls and procedures have been adhered to. Both the
structure of LJM as well as the controls and procedures were
approved by Enron's accountants and our outside auditors, our
inside and outside lawyers and, of course, approved by the
Board and then, of course, subsequently appropriately disclosed
in all of our SEC filings for over two years.

I know there's a lot of speculation about Andy's
involvement. As I said, management and the Board recognized
there was a potential conflict of interest. It was because
of this that some very strict governance and control
procedures were put in place to make sure the best interest
of Enron and its shareholders were always protected. And
despite what you've read in the Wall Street Journal and
probably elsewhere, I'm sure that, in fact, these interests
have been protected.
I and the Board are also sure that Andy has
operated in the most ethical and appropriate manner possible.
But I will say here today in Andy's presence that if anything
comes up indicating to the contrary then a totally different
decision would be made, just like it would for anybody else
in a senior management job.
Let me make a few comments about the SEC
investigation. This is what is referred to as an informal
inquiry. It is voluntary. It's a voluntary request for
information, what it technically is. It is not considered a
material event, and thus, not necessarily discloseable.
In deed, about eighty percent of the companies that
receive these informal requests do not disclose them. And we
did not have to. But given the white hot spotlight on Enron,
and it is white hot spotlight, we decided we should disclose
it and the Board agreed last Friday.
This inquiry will take a lot of time on the part of
our accountants and lawyers and others. But it will finally
put these issues to rest. This is the final and best arbitor
to put these issues that have been talked about to rest.
Now, what does all this mean for the future?

First, although the financial structures were approved by the inside and outside lawyers and all the rest of that, they just created way too much noise and way too bad a perception. And thus, I and I'm sure several others are very sorry that this incredibly complicated thing ever happened and the damage it's done to our image.

But more than being sorry, going forward we will be much more interested in simplicity. As I've said many times over the last several days, vanilla is just fine, vanilla is just fine. Now, not to discourage creativity and innovation.

That's what we're all about as a company, but don't get too fancy, don't get too complicated.

Also as you know, Andy disposed of his management and economic interest in June of this year. So he's no longer involved in LJM and LJM is no longer a related party vehicle. In our third quarter report just one week ago, and, of course, not it seems like a lifetime ago, we terminated a number of arrangements in which LJM had some involvement, some investment. And again, these vehicles also made sense at the time they were entered into but do not make sense now. So we terminated them, so there are no similar vehicles now in the company.

We also need to realize that although these vehicles may have made a lot of sense when they were set up,
many of the investments did not work out well. And that was
a bigger problem here than the fact that the structures were
set up. And, of course, among those new power company,
broadband and technology, other technology stocks, as part of
that transaction, that termination, that early termination we did,
in fact, take a reduction in equity of one point two billion
dollars that was talked about explicitly on the conference call
Tuesday morning. There was no attempt to conceal that.
That again, was something that did not have to be
disclosed until the 10Q was filed in mid-November. But
again, in the interest of trying to get everything out, we
put it in the conference call. And then, of course, a couple
of days later it got beat up because we didn't more
prominently highlight it.
But that also resulted in about a sixty two million share
reduction in our diluted share account, which obviously is a
big positive for shareholders.
Now, let me conclude by saying a few other things
that may be of some interest. I'll start off with bonuses.
Is that of any interest? And, I know there's been some concern
about it. If we make our targets on a recurring basis, if we
make our targets, bonuses will be full, full amount based
upon recurring earnings.
And we, Greg and I have already, and Mark, have
already gone through this with the compensation committee and
the Board, and they totally agree. They also agree that
we've got to do whatever is necessary to retain our talent,
particularly in these turbulent times, because our talent is
our franchise. And we will do everything we can to make sure
that that talent is protected.

These are very turbulent and very tough times. And
I expect we still have quite a bit more to come. I will do
everything I can to turn it around. Certainly our management
committee and MDs who met yesterday morning for about three
hours came out of that room unified. And, in fact, they're
going to do everything they can to turn it around. It's okay
to be mad. It's okay to be frustrated. It's okay to kind of
feel the world's not fair. And probably all of those are
very legitimate sentiments right now.

But the company is doing well despite the rumors,
despite the speculation. The company is doing well both
financially and operationally. And, in fact, we expect it to
continue doing well. Our liquidity is fine. As a matter of
fact, it's better than fine; it's strong. We went through
that on the conference call this morning. And our balance
sheet is strong even with the write-off.

As Jeff said, with the transactions that are
already under contract, indeed, by year end next year the
balance sheet will have a lower debt to total cap ratio than
it did before this write-off. And it will be the strongest
balance sheet that certainly we've had since the merger in eighty
five. I don't know how far back you might go to find a stronger
one. But now is our testing time. These are tough
times. Will we measure up to the challenge or will we not?
True character is born in times of crisis. I commented earlier
about the true heroes that we saw on September the eleventh.
That was real character. But true character is born
in times of crisis. We need to show our character as an
organization. And I will say also, this may be good news and
may be bad news, that I am here until the Board throws me out
or until we restore Enron to its greatness that most of us
have experienced.

(Applause)

And now let me ask you to do the same. Commit
yourself that you're going to redouble everything you do.
You're going to focus harder. You're going to work harder.
You're going to be more committed than you've ever been
before. And we will come through this and we will be
stronger and better on the other side. And we will again be
recognized by everyone as the greatest company in the energy
business.

Thank you.

(Applause)

All right, we're down to questions. And I've got a
few up here. But now, I think there's usually -- you've got
cards. I hope people have been jotting down some thoughts or
will jot down some thoughts. And I've got, of course, Greg
and I've got really the whole management team here in front.
So I think we can answer -- among us hopefully we can answer
most of them.
(Question read) "In two sentences can you please
define Enron's business strategy?"
I probably could do it in even one sentence. But
basically our business strategy today is to identify energy
and commodity markets where we think we could apply our
skills, including obviously our intellectual capital, our
skills and, in fact, become the lead participant in those
markets.
And, of course, we have extended that beyond energy
as you well know into things like pulp and paper and lumber
and, of course, coal and many other areas. And thus far that
business model is working very well, very well. We've had
some really great successes in areas outside of our
traditional electricity and natural gas businesses. And I
think we'll continue to see other successes.
Now, I know there's been a lot of interest, and I'm
not going to answer this one today, but there's been a lot of
interest in the company's vision and whether, in fact, we
need a new vision. And I can't answer that today. That's
going to be something that the management committee is going
to give a lot of thought to over the next few weeks. And there's,
we will see because we are becoming quite a different company.
But, indeed, whatever the vision is we will be the premier
company in that space. And I think we've got some good ideas
on that.
(Question read) "Having worked for ten years and
showing very little in my 401(k) and Enron being my primary
stock, is there any speculation in the future to guarantying
a pension for those that have put in ten to twenty years or more?"
Of course, you have the regular pension as it is.
And 401(k)s are supplemental to that. And, in deed, I think
we do have some options where you can put up to five percent of
your salary into investments, into retirement-type
investments and earn on that kind of a ten year federal funds --
not ahh ahh the bond rate, ten year government bond rate.
So those that want to kind of be risk averse in
this environment after the last few months can, in fact, at
least get cash in and pretty good return on that cash over
some period of time to be supplemental to your retirement
too.
Now from the standpoint of Enron stock, we're going
to bring it back. We're going to bring it back. We're going
to do everything we can to get it back as quickly as we can.
But we're going to bring it back. There are a lot of
believers out there as well as a lot of disbelievers.

(Question read) "Our group recently requested
permission to start working on the Enron-approved nine eighty
flexible work schedules." And I'm going to summarize this a
little bit. "But after only three weeks the vice president
of our group decided that we could not continue on the nine eighty
schedules. Since our group was extremely happy with the
schedule, we were very disappointed when it was taken away,
even when it appeared to be working successfully."

Well, we do give individual working groups a lot of
flexibility in setting things such as hours and work
schedules as well as how they organize the space where they
work and so forth. But in that case I would suggest first
that go talk to your supervisor. And, you know,
communications is another one our values.

And in the alternative or in addition to that, we've
got Cindy Olson, who is now head of among other things
employee relations and really responsible for trying to take
care of concerns and problems among other people, but
cconcerns and problems of employees. So that will give you
still one more avenue.

(Question read) "Recently a Merrill Lynch report
upgraded Enron stock to a good long-term investment. Part of
this is a result of Enron's efforts to minimize debt. Will
minimizing debt be the Enron strategy over the near term, and
will this mean a moratorium of long-term investments and
large capital assets like power plants?"

We'll continue to look for good investments in
power plants, pipelines, gas distribution systems. We will
look a lot less aggressively for those in developing
countries. And we've already made that decision a long time
ago. We're going to de-emphasize these big infrastructure
projects in developing countries. We're going to sell a lot
of those off. Greg gave you a list there of where they are,
at least regionally.

But certainly we will still continue to make good
investments in our core businesses wherever we need to make
those where we see are the good opportunities. And the core
business, basically wholesale, retail and pipelines.

Now, that can also include LNG facilities in some
cases. We're developing a large LNG facility off the shore
of Florida. And we're going to build a pipeline into Florida
to bring that into the U.S. That can also include other
related type investments. And, of course, increasingly now
we're looking at things like pulp mills and paper mills and
some other things if we get these new businesses moving.

Let me make another comment. I made this yesterday
I think at the managing directors' meeting. But clearly some
of our big investments have not paid off. Some of that was
shown in the third quarter results. Some of that's shown
with the very low return we're getting from many of our large international assets in developing countries. I think if we're to be faulted, first of all, I also made the point that we weren't in the wholesale business a little over ten years ago. And now that's an enormous and highly profitable business. And, of course, we weren't in the retail business as little as about five years. And we think we have a business model there today where that can be a huge and highly profitable business. Of course, we weren't on line two years ago. And, of course, that has become a very key part of our success in wholesale. So we've had failures. We've also had successes along the way. We need more successes and probably fewer failures. But I think if we've made a mistake in some of these new ideas and we don't want to cut off creativity or innovation. We probably threw too much capital at them too soon. I think the truly great company of the future is going to be the one that can be really nimble. They can change direction quickly. They can be creative and innovative. But they are very disciplined in not committing too much capital to move new concepts, new ideas, new businesses to pan out. And I hope we can all take that to heart as we kind of look forward in our businesses.

(Question read) "Despite the lowest interest
rates" -- I'm kind of waiting until we get the cards up here from the floor because I think those are more current. Not more current but I'll take this next one.

Greg, I might ask you to come up here too and take a few of these. And Mark, do you want to come up too? I always kind of like to see, I like to have somebody to kind of lay the tough ones off on. Here, you can take that one. I'll answer this next one here on the sheet first and I'll sift through these.

(Question read) "Despite the last interest rates on treasuries in my lifetime, Enron's internally reported cost to capital remains very high. What tangible steps has the executive committee taken to reduce the huge default premium built into our debt's price? Andy?"

ANDY FASTOW: (Inaudible)

KEN LAY: Yeah, in internal. I think it is.

ANDY FASTOW: Is this on?

KEN LAY: There you go.

ANDY FASTOW: Okay. Is this working? Okay. I think the relevant cost of capital that everybody should be looking at for any investment they're making is what is the cost of capital that compensates Enron for the risks that Enron will then own when they make the investment.

It is irrelevant in my opinion what our weighted average cost of capital is, what our cost of equity is or what our marginal cost of debt is. If we are not going to get compensated for the risks that we're buying, then we
shouldn't be making the investment.

So I think that's why the RAC process,

which is probably the best point to evaluate that, is so

important. But it's up to any commercial person as well

who's making an investment to make this evaluation

themselves. It's not enough to just say, "I have an opportunity,

and I'm going to make this investment if it gets approved."

I think everyone has to take responsibility for

making that determination that, in fact, when we make an

investment the assumptions we use when we make that

investment are going to come true. And so did that answer

the question?

KEN LAY: okay. Thank you, Andy.

GREG WALLEY: (Question read) "Will EBS continue or

will broadband continue as a market for Enron?" As well as

three or four questions regarding the outsourcing of it, et.
cetera.

Yes, at this point in time we are considering whatever

strategic alternatives are available. We believe that

over time there should be the establishment of a viable and

vibrant bandwidth and broadband marketplace. I will say that

there are certain areas of uncertainty in the company, and

this is certainly one where we're going to have to continue

to evaluate that market as we go forward.
Needless to say, as we've moved over the course of
the past six to nine months the continued deterioration in
that industry has extended out the date at which we believe
there would be such a market established. And we'll continue
to try and size our organization appropriately to make sure
that we're not spending too much money in that regard and
going forward.

We'll make all of these decisions as we go but as
you can see from the credit quality and the continued
deterioration of the company in the telecom space, it is
pretty dire out there in the telecom space, and we'll
continue to evaluate all of our options. Some more broadband?

KEN LAY: (looking at question cards) If you don't want to, not
yet. Why don't you take one of yours?

MARK FREVERT: A couple of questions here.

(Question read) "What is my recourse, my real
recourse, when my supervisor does not respect my team ideas
and threatens to redeploy us if we do not do what he asks?"

Well first of all, you know, you probably ought to talk to that
supervisor and see if you can work it out yourself. But it
looks like that might not be possible here. So as Kên said,
you did have recourse in a couple of different ways.

Talk to your HR rep. If that doesn't lead to any sort of
solution or towards any solution, Cindy and her team are
available. And, you know, we're free in the office of the
chairman also, are very available to talk to people if you
have problems with supervisors and problems with the
organizational structure there.

So a number of recourses. And we do want to
identify those types of supervisors that are providing that
feedback because that's just not something we're going to
tolerate. It's not consistent with our values. And we'll
take care of those problems as they arise.

KEN LAY: A lot of these I think I'm going to need
to handle. Like this one.

(Question read) "I would like to know if you are
on crack." I'll come back with the answer. "If so, that
would explain a lot. If not, you may want to start because
it's going to be a long time before we trust you again."

I think that's probably not a very happy employee.
And that's understandable. I mean, I'm sure a lot of you
have some hatred. Though I'm not on crack. It might have been
a lot easier to take the last few days if I was.

(Question read) "In the past we have made certain
projections regarding our stock price based on different
Enron business valuations. Based on the outlook today what
do you think is a fair price for our stock?"

Well, let me say that probably the lowest valuation
out there, and this is one that just came out recently from
John Olson who is over at Sanders here in Houston, but he is
a well-respected analyst, a very respected analyst. His
price is forty two dollars a share. And we have others as high
still as eighty dollars a share or more.
My personal view, if you kind of look at what would
be fair given our performance but also given what's happened
to broadband, what’s happened to the markets, what’s
happened to multiple compression, everything else and, you
know, take into account some other uncertain like Dabhol and
California, I think certainly we ought to be somewhere in the
fifties. That would be kind of a fair value today. You might
even be able to argue for something in the low sixties.
But indeed, if we can get these uncertainties
removed and get back to somewhat more normal markets, that
doesn’t mean we can’t get back up to the eighties or nineties in
the not-too-distant future. But we've got to first kind of get
through this mess now. Yeah?
ENRON EMPLOYEE: (Inaudible) How is this different from Jeff
knowing that the investment structures were falling apart, walked
around the company knowing that he was selling his own
personal shares and his options and saying that Enron plans
to go to a hundred per share (inaudible)?
MR. LAY: That's fair. That's very fair. And Jeff
did have some very aggressive numbers out there, including at
the analysts' meeting in January. But I will also say really
up to the first quarter, even into the first quarter, I mean,
even then it appeared that everything was on track to keep it
in probably the seventies or eighties at least. I would have been
surprised if anybody had been talking about the fifties,
certainly not forties.
But there has been quite a shift including
September eleventh. I mean, we've had an enormous shift in
psychology, among other things, over the last several months.
Now, we've got a lot of Enron-specific issues to deal with.
And we started dealing with some of those a week ago with the
write-offs.
And I think with that we had three major
uncertainties still left. You've got broadband and that's on
the books net today for about six hundred million dollars, not an
unreasonable valuation. You can always justify something
less than that. We've got California where we are -- we think
fully reserved, could be more than adequately reserved.
And again, the regulatory decisions, the
settlements, et cetera out there are beginning to move our
direction. And then you've got India. And we're doing both.
We're still working to try to get a settlement out of India.
But at the same token, we're aggressively pursuing all of our
legal remedies. And just like they were in ninety five those are
very significant.
So yeah, we've got to solve our internal issues.
But if we keep performing like we've been performing, we can get
this stock value back. Now, I don't want to be unrealistic about
you know getting it you know back to eighty in three months or
six months. But we can certainly get it back into the forties
or fifties. And then, of course, from there we'll see how the
market is doing and everything else is going.
Let me just run through a few if you don't mind.
(Question read) "In the past we have made certain"
-- I've got that one.
(Question read) "Any layoffs planned for Enron
Houston office?"
And let me say, no. I mean, I say no. We can, we always
have attrition. And probably the workforce is coming down a
little bit right now and it has been this whole year. And I
would expect that to continue. But there are no big,
significant layoffs planned in any group that I'm aware of.
So I think it's mainly just a matter that we'll keep fine-tuning
the workforce and try to make sure that you've always got it
right just like they are in Europe, right now except they've
got more significant attrition and layoffs over there. But
just trying to make sure we've got the cost structure right.
These are tough times, and we're going to have to make sure
that we're just as efficient and effective as we can be. You want
to take one?
GREG WALLEY: There's one question that came up a
number of times I understand because of how it was written up
in a report that had to do with --
-- what was the IR strategy and the reason for not
including the one point two billion dollar hit directly to equity
in the release. I know Ken addressed this point already. And I
want to say also that given the difficulties that -- the
comments that have been made, I wish we had put it in the
release. There was no requirement to place it in the release.
It was in that, the designing an earnings release we designed a
release about earnings. In reading the earnings release we
attempted to track down in the conference call every one of
the questions that would be asked about those earnings, which
included this write-down of one point two billion in equity.
And there was no strategy, conspiracy or anything
to not place this one point two billion equity in the release. We
thought it was appropriately placed in the conference call.

KEN LAY: Mark?

MARK FREVERT: A couple more questions here.

(Question read) "In the future looking forward to
two thousand two, would Enron start to decrease benefits such as
severance pay, vacation, medical, dental and office space?"
I think we did have a revision to the severance
policy last year just to get us more in line with what other
companies are paying severance-wise. So there shouldn't be
any changes going forward there. Really no plans to
decrease vacation. I'm sure that's what people are concerned
about. So I think we'll continue forward on that basis.
As far as the medical and dental premiums, I think right now Enron pays for about ninety-five percent of the overall cost of the benefits to employees. And the company norm in the industry is about eighty percent. I think we recently announced that this year we were going to maintain that payout from the company covering about ninety-five percent of the medical and dental costs.

But the next year and the following years we're going to look to shift a little bit more of that back to the employees. So we wanted to give you a year's notice. Didn't want to do it in this type of environment, but we will be shifting some additional costs to the employees over the next several years starting with the two thousand three plan.

And as far as office space goes, I don't think there's really any changes there. I think everybody -- you know, some of you have seen the new building. We are moving to a very open floor plan concept. I think that's working very well. We haven't heard a lot of complaints here recently.

And the second question, (question read) "What are some of the new markets that Enron is considering venturing into?"

We've already made a great head start, as Greg mentioned, in a number of areas. I think our European business continues to be very strong. That's a relatively
new business over the last few years for Enron. And moving
aggressively into new markets in continental Europe in both
gas and power.

A lot of the businesses that Mike McConnell and his
team are focused on in global markets show tremendous
promise also. Our weather business is taking off. Our coal
business is growing very rapidly. We're making good progress
in our food and products area. And a number of other
businesses in Mike's shop I think are showing some
tremendous potential going forward.

Another area that we have very high hopes for is
Jeffrey Mann's (phonetic) and Ray Bowen's
industrial markets group. That's the effort that really for
the first time is trying to take our wholesale business model
and extend it into new non-energy markets. And they're getting
very good traction in the paper and pulp businesses, very
good traction in the steel business. And we think those will
be significant businesses going forward for it.

And all those businesses, I mentioned, are
already profitable. So we're not going to have the same
issues that we've had with broadband and retail early on in
terms of incurring big losses versus the same periods of
time. So I think as these businesses kick in we're going to
see some tremendous upside as far as earnings go.

KEN LAY: (Question read) "Given Enron's current
credibility issues with the investment community, shouldn't
Enron fill its top management positions from outside the
company, I guess outsource management or bring in other
management?"

That's a fair question. That's a fair question.
Let me say, I think, in fact, we've got a very strong senior
leadership group. As I said we met yesterday as a group yesterday
morning for about three hours. I did make a comment to them
yesterday in reference to your question I think it was. But, you
know, this management team wasn't probably as good as it appeared
a year ago. But it's sure not as bad as it appears today.
And, in deed, this is the team --
(Applause)
-- but this is the team that can lead this company
forward. And as you saw earlier in Greg's presentation, the
operations, the financial performance and the operations are
superb and strong, particularly strong for a recessionary
economy. Few, if any, companies our size can show that
kind of performance. We do have some credibility issues and
they're not brand new.
They've had some time to, you know, to percolate
here. And we're addressing them as best we can. We
addressed a few more this morning and we're going to keep
addressing them until they're all gone. And then, of course,
they'll go onto the next target and start attacking that
target.

(Question read) "Will Mr. Fastow and his partners get to keep the money or perhaps should they consider finding a better place for it, for example, investing in Enron stock or funding the Enron families who lose their jobs, as a consequence of our stock falling?"

(Applause)

I think I'll answer that for Andy. I expect, first of all, what he does with that money is his own business. I will say Andy did buy some shares here not too long ago to show his, at least his confidence in the company. But, indeed, whatever happened on the other side of that wall was, in fact, as I said, it was approved. And whatever happened on the other side of that wall was up to Andy and his partners.

(Question read) "Are we ripe for a takeover or merger?"

Certainly the price is low enough, the price is low enough. And I'm sure that even at a pretty good premiums to this price there's some people that might have some interest. We've not been contacted. But, indeed, another reason to try to get this all turned around.

And I think that when we talked about this two months ago, I mean, the problem that many companies have is that they understand that the value of Enron is in its intellectual capital. And that goes up and down the
elevator every day. And so unless it's a company that
believes they can maintain or sustain this culture and keep
this talent base, they would be buying an empty suit.
So we'll see. But we'll deal with that if and when
it happens. Right now we just need to be thinking about how
we just continue to make the company stronger. I'll take one
more, Greg, and I'll let you.
I think that's the same thing.
(Question read) "What is the status of the parking subsidy?"
You know, were getting down to something maybe -- what is
the status of the parking subsidy? Anybody on the front row
know? Parking subsidy. We've stumped the whole group. Mark
Prevert said "Not enough."
UNIDENTIFIED MALE: fifty dollars a month like it always has been.
KEN LAY: Always been? It's fifty dollars a month. Now,
there's a good, clean, crisp answer, fifty dollars a month.
All right, Greg.
GREG WHALLEY: Um, do you want to (inaudible) another
one. (Inaudible) No, go ahead.
KEN LAY: (Inaudible) (Question read) "What other Enron
employees are invested in LJM?"
To my knowledge, none. I mean, at least when you
were invested in LJM you were the only, only person, only Enron
employee that invested in LJM.
ANDY FASTOW: Michael Kopper who is no longer an employee at Enron
and he's at LJM (Inaudible - no mike.)
KEN LAY: Michael Kopper now has an interest?

ANDY FASTOW: He's no longer at Enron.

KEN LAY: He's no longer at Enron. But he now, he was at Enron and now has an investment in LJM.

SCHWIEGER: (unintelligible) about LJM. Did the partnership have anything at risk, did they loose money?

KEN LAY: Ah, I think they could. You want to answer that?

SCHWIEGER: We lost one point two billion dollars, so what did the partnership loose?

KEN LAY: Now, we didn't lose one point two billion dollars.

Now, let's -- let's not -- not confuse those two. Ah --

SCHWIEGER: Well, we adjusted our equity in the investment that was a guarantee for the partnership.

KEN LAY: We adjusted our equity. But we also took fifty five -- I mean, as far as the diluted share count, we took fifty five million dollars, or fifty five million shares, out of the diluted share account as well as canceling a -- a note receivable.

SCHWIEGER: Alright let me repeat the first question:

How could the partnership loose money? And then, two, if it did not loose money, how do you convince the lawyers of that, isn't that like giving away money?

MR. LAY: Ah Boy. I mean, it -- it was risk capital on the other side, including the banks.

SCHWIEGER: We guaranteed the other side, how could --

MR. LAY: We didn't guaranty it.
1 SCHWIEGGER: How could they loose money?
2 KEN LAY: We didn't guaranty it. I mean, it was risk capital.
3 SCHWIEGGER: How could they loose money?
4 KEN LAY: Well, I suppose if the investments were bad they lost some money too. Of course, they invested in a lot of different entities.
5 (Question read) "Are there any more off-balance sheet special SPVs like Raptor or funds like LJM that need to be written down? Was this, one point two billion dollar write-down all or are there more hidden problems?"
Well first, again, this one point two billion dollar was not a
write-down. There wasn't a problem. It was a matter of --
Rick, do you want to explain that? Let's get our chief accounting
officer up here to explain that.
RICK CAUSEY: The adjustment to equity, the one point two
billion dollar adjustment to equity, related to an increase, in
fact, of equity that we had recorded associated with shares
that we were committed to deliver in future that we never
delivered. So once the -- we were going to deliver shares in the
future. We recorded an increase in equity appropriately to
reflect that, that commitment. When that commitment was
terminated as a part of terminating these, that
increase in equity was reversed.
As Ken said, it was actually sixty two million shares that
were reflected in our third quarter fully diluted share
calculation. It goes down by sixty two million shares. Our third
quarter diluted share number was around nine hundred twelve
million shares. Our fourth quarter number will be around eight
hundred fifty million shares reflecting that decrease.
And so the one point, just to be clear again, the one point two
billion reduction in equity did not relate to losses we took or
certainly losses we covered related to LJM, rather related to
shares we will never issue but we had reflected as
potentially issuable when we set these up.
GREG WALLEY: (Question read). "Are we going to
provide balance sheets on the various businesses to Wall Street?"

I made that comment earlier. And we are going to

attempt at the end of this year and perhaps going forward on

an annualized basis to provide a balance sheet breakdown by

business segment.

Now, that involves some pretty detailed things as

far as attributing long-term debt that's on the balance sheet
to the various segments, assessing how much leverage is there
and how much equity is there. But it is something that
people want on incremental disclosure to be able to look at
return on capital, return on equity associated with the
various businesses. We're going to try to break that down
and give that incremental disclosure.

Also, a question about the survey results, several
questions about the lay-it-on-the-line survey and actions
that are being taken. We did put out a memorandum the other
day talking about some of the actions that are being taken.

We are making some modifications to the PRC.

We do believe, as we stated in the memorandum that
went out on e-mail, that we do believe that a relative
evaluation of people for the purposes of determining what
skillsets you have, the quality of the talent base you have,
what management gaps that you may have is absolutely
critical.
We do know that it has led to some discomfort in how the process was handled, and we're looking at how we can make that a little bit easier. And as we've said, the process that we're asking for at this point in time requires the identification of the top and bottom ten percent. And I believe we're only asking that the mandatory delivery of that occur once a year.

To the extent the business unit finds the need to do something greater than that, that will be up to the heads of the various business units. There will be more information coming on this. If you want some more information on what's going on regarding the results, please speak to Cindy Olson.

MARK FREVERT: A couple more questions here. (Question read) "Please explain why we are redeploying American citizens and leaving foreign nationals employed in the U.S."

As far as redeployment goes, I think redeployment is really driven almost exclusively by business unit needs. If we're oversized or overstaffed, or our businesses aren't performing well, we're going to move people out of those. So it really has nothing to do with whether somebody's an American or a foreign national.

We're redeploying people in some of our U.S. businesses. We're also redeploying people in our European
business. And some of you read about some of the cut-backs
that are going on in Europe. That's really a normal course
of business cut-back. We are trying to cut about five to ten
percent of the overall employee base because certain
businesses just weren't going to generate the returns that we
had expected.

So we cut back a little bit there. Virtually all
of those employee cut-backs were done voluntarily. I think
we had over three hundred people that accepted the voluntary
severance plan, which means that virtually nobody is going to be
asked to move out that didn't want to.

So I think it's important also to keep in mind that
as we continue to grow we are a global company. We've got
tremendous talent in Europe. We've got tremendous talent in
North America, in our South American operations, our Asian
operations. And we're always going to want to move people
around.

So hopefully we're going to continue to have people
from Europe and South America in North America and vice-a-
versa. I think that's going to be a real key to continuing to
grow on a global basis.

Second question, (question read) "Please comment
on considerations given to repricing employee options."

I think we talked about this a little bit before.

It's really not something that we would consider, or the
board would consider or the Comp. committee would consider.

We think there's other ways we can continue to get equity out
into people's hands and help people share in the upside as
the stock price rebounds.

But repricing options would destroy credibility
entirely with our shareholder base, our outside investors.
And it's just not something we could really do at this time
or probably in the future either.

And then finally (question read) "Any truth to the
rumor that the Christmas party will be a company-wide event
at Enron field?"

Yes.

KEN LAY: And let me say on the stock option
question, of course this year we had a special one-year stock
option award. And we have not made any decisions for next
year. We'll certainly look at it. But hopefully the next
year it will become a lot less of an issue. I think we got
time for just a few more.

(Question read) "You say that earnings are strong
and we are performing well, but how much of this is actually
realized? Are we going to be more conservative in the future
in determining the fair value of some of our transactions and
investments?"

We've gone through this, and for the most part we
think we've been pretty conservative. Now, in some cases, of
course, we've been surprised later. But I think the more
important question is whether we can get cash tracking the
earnings closer. And certainly we're working hard on that.
And I think, in fact, we will get there. I mean, this year a
lot of improvements have been made, and I think in future
years it will.
(Question read) "Street.com referenced two trusts, one a billion
dollar trust, two point, another two point four billion trust and
asked how we were going to cover those liabilities. And our
response has been asset sales. How are we going to improve
our debt into, asset, debt ratio of asset sales recovering
these trusts?"
Well as a matter of fact, the two trusts they're
referring to have a bunch of assets in them. And those
assets are primarily energy assets including large
power plants with long-term contracts behind them, long-term
power purchase agreements behind them. And, indeed, based
on the valuations, the most recent valuations, those assets
are adequate to cover those trusts. And those are public trusts.
I mean all of the, and that's not like
LJM and that's not like some of the others. But, indeed, it
shows how some people are using various places to try to get
people thinking about things that. We had a question like that on
the conference call this morning.
Now, I think the calculation there was if they all
went to zero and had to fund them, which is two extreme
examples, then, in fact, you've got to issue another -- I
forgot what the number was this morning, but it's probably about
twelve or fourteen percent of equity, which, you know, is quite a
bit. But that's if everything went to zero. And, of course, if
we did, if we, if both those triggers that we don't think will
trigger, happened.
That's the eighty dollar stock option.
(Question read) "According to financial reports Enron execs have
redeemed over seven hundred million dollars in stock options in
the past twelve months, and most of those executives are no
longer with the company. This is an example of executive
compensation out of control, and leaves little incentive
for those employees who actually have to work."
(Appause)
"The stock price" et cetera, et cetera, "are we
going to reconsider compensation?"
Basically the compensation -- first of all, the
compensation is not something we pull out of the air. I
mean, it's based on a lot of analysis done by outside
consultants on comparing positions, comparing compensation,
what it takes to kind of attract those kind of people in
those kinds of positions and retain them.
Now, in some cases, including the last two or three
years, our stock price went up significantly more than
probably was assumed in the models. And it was also true.
with a lot of other companies, I might add. So compensation
was somewhat greater than was expected.
And as to whether they cash in or not, that's an
individuals choice. But we will continue to be competitive
but we're not trying to be reckless. And certainly the comp.
committee is looking at that all the time to make sure that
it is reasonable.
(Question read) "What is the status of resolving
the dispute with India regarding the Dabhol project?"
I think I answered that. But I'm going to add one
more thing. The prime minister of India is coming to the
U.S. to meet with President Bush in November, I think it's
November ninth.
And so, again, there's a great push on their side
to see if they can get it resolved between now and November ninth.
Now, I've not seen them do much of anything of consequence in
two or three weeks. I'm not really expecting much. But at
least we're back at the table and trying to see what we can do.
(Question read) "Analysts have been complaining
that Enron's balance sheet looked enigmatic for some time now.
Related party transactions added more mystery to their work.
How are we going to restore our reputation on Wall Street?
What steps are we going to take?"
I think the steps like we took last week of early
termination of the Raptor events. Try to be just as
transparent and candid with Wall Street as we can as we were
this morning for about an hour on the conference call and
just keep answering their questions.
Now, we don't have any more vehicles like Raptor.
We don't have any more vehicles like LJM. We don't have any
related party transactions. We're just trying to clean it
up. As I said, vanilla is just fine, vanilla is just fine.
(Question read) "How should our bonuses this year
compare with last year?".
If on a recurring basis and a target basis we did
better last year, odds are you will get a little bit better
bonus if you performed outstandingly. But we need to -- I'm
sorry?
UNIDENTIFIED MALE 3: (Inaudible)
KEN LAY: In any event, I want to go back to what I talked
about before. These are tough times, and there's plenty of
understanding as to why some people are hostile. And you
have a reason to have some concerns. We've all been damaged.
We've all been attacked both individually and as a company
and as a group.
But what I would ask you to do is recommit to the
company and do the very best job you can in whatever group
you're in and we will come through this. As I said
earlier, we will come through this stronger. This is a time
that will build some character, and tough times always build
character. But we will come through it, and we will be even
a greater company on the other side.

    So thanks very much.

    (Applause)

    (The meeting was concluded.)

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