

Diversified Natural Gas & Power

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Enron Corp.

Reports Solid Q2 Results

Investment Conclusion

- Enron delivered another quarter of solid performance driven by strong results from wholesale energy activities. Enron reported an increase in 2Q01 fully diluted EPS (recurring) of 32% to \$0.45, up from \$0.34 in 2Q00. We are maintaining our Buy rating; our 12-month target price is \$65 per share. Management also reiterated its confidence in meeting the guidance of \$1.80 in earnings for the full year 2001 and provided new guidance on 2002 of \$2.15 per share. We are increasing our estimates to reflect management's guidance and the prospects in wholesale and retail energy markets.

Highlights for the quarter included:

- ⇒ *Wholesale Energy Operations & Services*—EBIT was up 93% to \$803 million on an 81% increase in EBIT for the Commodity Sales and Services segment to \$762 million. Natural gas and electricity volumes increased 21% and 108%, respectively. The success of Enron Online continues to have a positive impact on market share. According to company estimates, \$685 billion in notional value has been transacted on the trading platform since its inception in late 1999—with more than a million transactions conducted on the platform. Enron has further reduced its asset base through the sale of approximately 1,710 MW of peaking capacity this quarter. The Commodity Sales and Services segment includes the gains on the sale of the peaker assets. The EBIT from development of assets and investments increased to \$134 million due to a higher valuation and some sales.
- ⇒ *Enron Energy Services*—Reported EBIT of \$60 million, up 30% from 2Q00. Revenue for this high-growth segment was \$557 million, up from \$420 million a year ago. Total contracting in the second quarter increased to \$7.2 billion in new transactions and approximately 3 billion square feet of facility space under management.
- ⇒ *Transportation and Distribution*—Reported EBIT of \$77 million from natural gas pipeline transpiration services.

Rating: BUY

ENE-NYSE (7/11/2001):	\$49.10
52-week Range:	\$90.75-42.35
Shares Outstanding:	882 Million
Float:	700 Million Shares
Market Capitalization:	\$43 Billion
Dividend/Yield:	\$0.50/1.0%
Fiscal Year Ends:	December
Book Value:	\$15.29 per Share
2001E ROE:	11.7%
LT Debt:	\$8.6 Billion
Preferred:	\$1 Billion
Common Equity:	\$11.5 Billion

Earnings per Share*	Prior	Current
2000	---	\$1.47
2001E	\$1.78	\$1.80
2002E	\$2.05	\$2.15
P/E Ratio		
2000	---	33.4X
2001E	27.6X	27.3X
2002E	24.0X	22.8X

*Fully diluted.

Company Description:

Enron is a global company focused on delivery of energy and communication services.

EBIT for Portland General was \$65 million for this quarter compared to \$62 million a last quarter.

Enron Broadband Services - The company reported a \$102 million EBIT loss for this segment. The management cited significantly lower revenues due to the slowdown in the telecomm sector for the losses. EBS has completed 759 transactions, with 165 customers in total and 45 new customers this quarter. Management indicated that it will lower the burn-rate for the Broadband division over the course of next few months in light of the slowdown in the sector.

Impact of California Price Caps

With regards to California, management believes that the meaningful reduction in demand coupled with forecasts for cooler regional summer weather should moderate prices. Management believes the outlook for lower regional power prices will mitigate any effect from the recently enacted FERC price mitigation program in the west. As for the impact of the price ceilings on Enron's transaction portfolio, the company's emphasis on term transactions reduces the impact of spot price caps on operations.

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Our quarterly EPS estimates are shown below.

		1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Year
2000	Actual	\$0.40	\$0.34	\$0.34	\$0.41	\$1.47
2001E	Prior	\$0.47A	\$0.41E	\$0.43E	\$0.47E	\$1.78E
2001E	Current	\$0.47A	\$0.45E	\$0.42E	\$0.46E	\$1.80E
2002E	Prior	---	---	---	---	\$2.05E
2002E	Current	---	---	---	---	\$2.15E

Wholesale Energy Services (EBIT)	1999	Qtr-1	Qtr-2	Qtr-3	Qtr-4	2000	Qtr-1 01	Qtr-2 01
Commodity Sales & Services	\$628	\$246	\$442	\$404	\$538	\$1,630	\$785	\$762
Energy Assets & Investments	\$850	\$220	\$55	\$305	\$309	\$889	\$59	\$134
Unallocated Expenses	(\$161)	(\$47)	(\$60)	(\$82)	(\$70)	(\$259)	(\$89)	(\$94)
Reported EBIT	\$1,317	\$419	\$437	\$627	\$777	\$2,260	\$755	\$802
Period-to-Period Growth Rate	36%	31%	23%	66%	195%	72%	80%	84%
Qtrl. Sequential Growth Rate		59%	4%	43%	24%		-3%	6%
Percent of Gross Margin								
Commodity Sales & Services	42%	53%	89%	57%	64%	65%	93%	85%
Energy Assets & Investments	58%	47%	11%	43%	36%	35%	7%	15%
Physical Volumes (Bbtue/d)								
Gas:								
United States	8,981	16,217	15,851	17,176	21,417	17,674	20,898	24,585
Canada (1)	4,398	4,389	6,587	7,449	6,993	6,359	6,358	
Europe (1)	1,549	2,469	3,593	3,605	4,866	3,637	8,699	7,290
Other (2)	24	-				-	-	
Total Physical	14,952	23,075	26,031	28,230	33,276	27,670	35,955	31,875
Transport Volumes	575	456	595	618	925	649	506	458
Total Physical Gas Volumes	15,527	23,531	26,626	28,848	34,201	28,319	36,461	32,333
Oils (2)	5,407	6,134	5,048	5,754	7,406	6,088	6,836	
Liquids - combined with oils	753	-				-	-	10,054
Electricity	10,742	12,170	15,056	18,857	23,068	17,307	25,732	31,337
Total Physical Volumes	32,430	41,835	46,730	53,459	64,675	51,715	69,029	73,724
Europe:								
Physical Volumes - Gas	1,549	2,469	3,593	3,605	4,866	3,637	8,699	7,290
Physical Volumes - Electricity	305	862	1,419	1,144	2,542	305	3,993	11,853
	1,855	3,331	5,012	4,749	7,408	3,942	12,692	19,143
Gas Volumes	22%	53%	87%	86%	102%	82%	37%	12%
Electricity Volumes	-3%	27%	42%	52%	124%	61%	71%	66%
Total Physical Volumes -	19%	43%	39%	64%	90%	59%	48%	38%
North America	30,880	39,366	43,137	49,854	59,809	48,078	60,330	66,434
North America Gas	13,954	21,062	23,033	25,243	29,335	24,683	27,762	25,043
/(Thousand MWh)								
United States	380,518	102,903	124,089	162,963	188,832	578,787	195,246	212,464
Europe	11,143	7,844	12,912	10,525	23,389	11,143	36,339	109,043
Other	326					-	-	
Transaction Volumes Marketed	391,987	110,747	137,001	173,488	212,221	589,930	231,585	321,507
BBtued	10,739	12,170	15,055	18,857	23,068	16,162	25,449	34,946
Physical Volumes - Implied Margins \$/Mmbtue	\$0.053	\$0.065	\$0.104	\$0.082	\$0.090	\$0.086	\$0.125	\$0.112
Financial Settlements (Notional)(Bbtue/d)	99,293	141,865	152,627	212,174	276,865	196,149	302,694	258,443
MMBTU	11,837	3,807	4,252	4,918	5,950	18,876	6,282	6,783

Source: Company data, CIBC World Markets Corp. estimates

1) Now reported as Europe and Other

2) Now reported as Crude Oil and Liquids

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