



# Enron Corp. (ENE)

## Gas & Power Convergence

October 9, 2001

Recommended List

Large-Cap Growth

Price: US\$33.45

Target price: US\$48

S&P 500: 1051

United States

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Important disclosures  
appear at the back of  
this report.

**Still the best of the best.** With perceptions far below reality, we see major catalysts in third-quarter results and increased disclosure in coming months. We strongly reiterate our Recommended List rating and our conviction in high and sustained growth prospects, even though we have cut 2002 EPS to \$2.15 and our price target to \$48.

### We expect Enron shares to recover dramatically in the coming months

We view the current period as an extremely rare opportunity to purchase the shares of a company that remains extremely well positioned to grow at a substantial rate and earn strong returns in the still-very-young and evolving energy convergence space. We strongly reiterate our Recommended List rating on Enron stock.

### We spoke recently with most of top management; our confidence level is high

We spoke recently with top management including the CEO, CFO, chief accounting officer, and the head of wholesale services. We challenged top management on the wide range of investor concerns that have weighed heavily on the shares and believe that the majority of market speculation is groundless, and that which has some truth to it, to be exaggerated.

### Misconceptions abound and perceptions are far below reality, in our view

We believe that investors have virtually given up on Enron (down 60% year to date) and its prospects based on the long list of extremely negative stories about the company and its financial condition. The company's limited transparency on its sources of earnings, its cash flow, and financials in general has hurt investor perceptions as management has declined to be more specific in refuting outrageous claims that have assumed a life of their own.

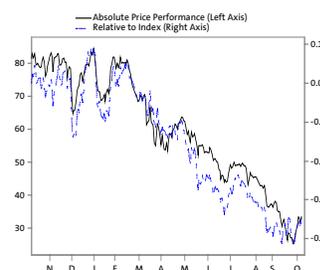
### We believe Enron's fundamentals are still strong despite the weak economy

We view Enron as one of the best companies in the economy, let alone among the companies in our energy convergence space. We are confident in the company's ability to grow earnings more than 20% annually for the next five years, despite its already large base. Despite superior long-term growth prospects, Enron stock trades at only 15.6X our recently reduced \$2.15 2002 EPS estimate.

Stock data		Price performance		
		1M	3M	12M
52-week range	\$86.44-\$25.15	-6%	-32%	-59%
Yield	1.5%	-8%	-21%	-34%

Capitalization		Forecasts/valuation		
		2001E	2002E	
Market cap	\$29,807mn	EPS	\$1.85	\$2.15
Latest net debt/(cash)	\$11,965mn	P/E	18.1	15.6
Free float	—	ROE	13.8%	13.5%
Derivatives	—			
Shares outstanding	891.1mn	Long-term EPS growth	23%	

### Price performance chart



## In our view, still the best of the best

**With perceptions far below reality, we see major catalysts in third-quarter results and increased disclosure in coming months. We strongly reiterate our Recommended List rating and our conviction in high and sustained growth prospects, even though we have cut our 2002 EPS estimate to \$2.15 from \$2.25 and our 12-month price target to \$48 from \$63.**

### Perception is not reality

Perceptions toward Enron have fallen as dramatically over the past 18 months as we have seen for any major company. However, the major disconnect is that, unlike many technology and other (former) high-growth companies, Enron is still—in our view—far and away the best-in-class company in its major business segments, and has company-making growth prospects with a high probability of success in huge new markets. Only 18 months ago, Enron was perceived as a company that could do no wrong. Its wholesale marketing operation (currently 77% of earnings) was viewed as having virtually limitless potential, and its retail marketing business was just beginning to emerge as a business that could even surpass wholesale.

### Telecommunications hype began the fall

Management presented its telecommunication strategy to Wall Street in January 2000 to great fanfare. It was this raising of expectations to (in hind sight) unreasonable levels and management's failure to reset expectations for telecommunications when this business clearly was falling far short of the objectives set by management that set the stage for investors to lose trust in management and to discount other statements because disclosure and transparency of information was so limited.

### Perceptions have hit bottom and are likely to turn with coming disclosures

**We have cut our price target to \$48, still representing 43% appreciation, based on 18X forward earnings; we believe this target could easily be exceeded.**

We believe perceptions have gone to such a negative extreme that a major uptick is likely in the near and intermediate term given actions we expect to be taken by management and new disclosures we expect with the third-quarter report and at year-end. We do not intend to completely dismiss investor concerns or all of the negative stories that are circulating about Enron. Some appear to have validity. However most appear to represent major exaggeration or misinformation, and even these are difficult to effectively debunk given Enron's limited financial disclosure.

### We recently spoke with most of top management; our confidence level is high

We are convinced that the bulk of the negative stories surrounding Enron are false or without substantial merit. Most others appear exaggerated. We strongly believe that Enron shares now discount investors' worst fears, and as these are allayed in coming months, we fully expect the shares to rise substantially.

In the following pages, we comment on each of the major concerns surrounding Enron:

### Exhibit 1: Gas and Power companies - Valuation

\$\$ in millions except per share data

Energy Convergence			Price		Performance			EPS				P/E			LT Estd	P/E-Growth			EBITDA	EV-EBITDA	Market	Ind.Divid.		ROE	2Q01 net
NYSE	Rating		10/8/01	12/31/00	YTD	00	99	99	00	01E	02E	00	01E	02E	Growth	00	01E	02E	01E	01E	Cap	\$/Sh.	Yield	01E	debt-cap
Duke Energy	DUK	RL	\$40.01	\$42.63	-6%	70%	-61%	\$1.80	\$2.10	\$2.50	\$2.80	19.1	16.0	14.3	13%	1.5	1.2	1.1	--	--	\$31,006	\$1.10	2.7%	--	49%
Dynegy Inc.	DYN	RL	39.99	56.06	-29%	218%	122%	NA	1.43	2.10	2.60	28.0	19.0	15.4	23%	1.2	0.8	0.7	1,351	13.1	13,557	0.30	0.8%	18.1%	34%
El Paso Corp.	EPG	MO	48.38	71.63	-32%	85%	11%	NA	2.57	3.30	3.60	18.8	14.7	13.4	15%	1.3	1.0	0.9	4,935	8.9	25,738	0.85	1.8%	21.7%	54%
Enron Corp.	ENE	RL	33.45	83.13	-60%	87%	56%	1.18	1.47	1.85	2.15	22.7	18.0	15.5	23%	1.0	0.8	0.7	4,130	10.3	29,871	0.50	1.5%	13.8%	44%
Kinder Morgan, Inc.	KMI	RL	50.40	52.19	-3%	159%	-17%	0.72	1.28	1.90	2.55	39.4	26.5	19.7	30%	1.3	0.9	0.7	727	13.6	6,240	0.20	0.4%	11.1%	52%
Williams	WMB	RL	29.35	39.94	-27%	31%	-2%	0.80	2.33	2.50	2.75	12.6	11.8	10.7	15%	0.8	0.8	0.7	3,553	6.8	13,188	0.72	2.5%	18.5%	65%
<b>Average Energy Convergence</b>					<b>-26%</b>	<b>108%</b>	<b>18%</b>					<b>23.4</b>	<b>17.7</b>	<b>14.8</b>	<b>20%</b>	<b>1.2</b>	<b>0.9</b>	<b>0.8</b>		<b>10.5</b>	<b>\$19,933</b>	<b>1.6%</b>	<b>16.6%</b>	<b>50%</b>	
Diversified Gas-Mixed Asset Utility			Price		Performance			EPS				P/E			LT Estd	P/E-Growth			EBITDA	EV-EBITDA	Market	Ind.Divid.		ROE	2Q01 net
NYSE	Rating		10/8/01	12/31/00	YTD	00	99	99	00	01E	02E	00	01E	02E	Growth	00	01E	02E	01E	01E	Cap	\$/Sh.	Yield	01E	debt-cap
Dominion	D	MP	\$61.52	\$67.00	-8%	71%	-16%	\$3.01	\$3.33	\$4.15	\$4.90	18.5	14.8	12.6	10%	1.8	1.5	1.3	--	--	\$15,261	\$2.58	4.2%	--	63%
Equitable Resources	EQT	RL	31.56	33.38	-5%	100%	15%	1.06	1.32	2.30	2.60	24.0	13.7	12.1	15%	1.6	0.9	0.8	377	7.3	2,049	0.64	2.0%	21.0%	35%
KeySpan Energy	KSE	MO	34.88	42.38	-18%	83%	-25%	1.62	2.41	2.55	3.00	14.5	13.7	11.6	10%	1.4	1.4	1.2	1,349	7.6	4,848	1.78	5.1%	12.8%	62%
Kinder Morgan Mgmt	KMR	RL	35.40	--	--	--	--	1.21	1.34	1.57	1.75	26.4	22.5	20.2	15%	1.8	1.5	1.3	791	10.8	5,856	2.10	5.9%	9.4%	39%
NISource	NI	MO	23.79	30.75	-23%	72%	-41%	NA	1.87	1.90	2.65	12.7	12.5	9.0	8%	1.6	1.6	1.1	1,842	6.8	4,918	1.16	4.9%	11.4%	67%
National Fuel Gas	NFG	MO	23.87	31.47	-24%	35%	-7%	1.48	1.61	2.15	2.10	14.9	11.1	11.3	6%	2.5	1.9	1.9	584	6.0	1,894	0.96	4.0%	17.9%	59%
Questar Corp.	STR	MP	21.58	30.06	-28%	100%	-23%	1.38	1.74	2.00	2.10	12.4	10.8	10.3	7%	1.8	1.5	1.5	493	5.9	1,768	0.68	3.2%	15.7%	45%
Sempra Energy	SRE	MO	26.24	23.25	13%	34%	-32%	1.71	2.20	2.70	2.80	11.9	9.7	9.4	9%	1.3	1.1	1.0	1,842	5.0	5,369	1.00	3.8%	19.1%	53%
Western Gas Resources	WGR	MO	28.15	33.69	-16%	155%	129%	(0.15)	1.27	2.65	1.95	22.2	10.6	14.4	12%	1.8	0.9	1.2	246	6.1	1,041	0.20	0.7%	22.4%	32%
<b>Average Diversified Gas-Mixed Asset Utility</b>					<b>-14%</b>	<b>81%</b>	<b>0%</b>					<b>17.5</b>	<b>13.3</b>	<b>12.3</b>	<b>10%</b>	<b>1.7</b>	<b>1.4</b>	<b>1.3</b>		<b>6.9</b>	<b>\$4,778</b>	<b>3.8%</b>	<b>16.2%</b>	<b>51%</b>	
<b>Average Diversified Gas-Mixed Asset Utility excl. WGR&amp;SRE</b>					<b>-18%</b>	<b>77%</b>	<b>-16%</b>					<b>17.6</b>	<b>14.2</b>	<b>12.4</b>	<b>10%</b>	<b>1.8</b>	<b>1.5</b>	<b>1.3</b>		<b>7.4</b>	<b>\$5,228</b>	<b>4.2%</b>	<b>14.7%</b>	<b>53%</b>	
Canadian Diversified Gas (CS)			Price		Performance			EPS				P/E			LT Estd	P/E-Growth			EBITDA	EV-EBITDA	Market	Ind.Divid.		ROE	2Q01 net
TSE/NYSE	Rating		10/8/01	12/31/00	YTD	00	99	99	00	01E	02E	00	01E	02E	Growth	00	01E	02E	01E	01E	Cap	\$/Sh.	Yield	01E	debt-cap
Enbridge	ENB/ENBRF	RL	\$27.48	\$43.70	-37%	53%	-19%	\$1.75	\$2.13	\$2.50	\$2.80	12.9	11.0	9.8	11%	1.2	1.0	0.9	\$1,422	7.6	\$4,320	\$1.40	5.1%	16.4%	70%
TransCanada PipeLines	TRP/TRP	MO	13.05	17.20	-24%	38%	-44%	1.08	1.22	1.40	1.50	10.7	9.3	8.7	6%	1.8	1.6	1.4	3,220	6.0	6,192	0.90	6.9%	10.2%	60%
Westcoast Energy	W/W	MO	26.85	36.20	-26%	56%	-24%	1.66	2.39	2.70	2.75	11.2	10.0	9.8	8%	1.4	1.2	1.2	1,468	7.6	3,157	1.28	4.8%	11.0%	63%
<b>Average Canadian Diversified Gas</b>					<b>-29%</b>	<b>49%</b>	<b>-29%</b>					<b>11.6</b>	<b>10.1</b>	<b>9.4</b>	<b>8%</b>	<b>1.5</b>	<b>1.3</b>	<b>1.2</b>		<b>7.1</b>	<b>\$4,556</b>	<b>5.6%</b>	<b>12.5%</b>	<b>64%</b>	
IPPs			Price		Performance			EPS				P/E			LT Estd	P/E-Growth			EBITDA	EV-EBITDA	Market	Ind.Divid.		ROE	2Q01 net
NYSE	Rating		10/8/01	12/31/00	YTD	00	99	99	00	01E	02E	00	01E	02E	Growth	00	01E	02E	01E	01E	Cap	\$/Sh.	Yield	01E	debt-cap
AES	AES	RL	\$13.30	\$55.38	-76%	48%	58%	\$0.96	\$1.35	\$1.35	\$1.75	9.9	9.9	7.6	30%	0.3	0.3	0.3	--	--	\$7,080	\$0.00	0.0%	--	--
Aquila, Inc.	ILA	RL	23.81	--	--	--	--	0.98	2.30	2.00	2.43	10.4	11.9	25%	1.0	0.4	0.5	--	--	2,381	0.00	0.0%	--	--	
Calpine	CPN	RL	25.15	45.06	-44%	182%	407%	0.44	1.11	2.00	2.60	22.7	12.6	9.7	45%	0.5	0.3	0.2	--	--	7,670	0.00	0.0%	--	--
Mirant	MIR	RL	24.30	28.31	-14%	--	--	--	1.08	1.95	2.60	22.5	12.5	9.3	25%	0.9	0.5	0.4	--	--	8,230	0.00	0.0%	--	--
NRG Energy	NRG	RL	17.15	27.81	-38%	--	--	0.37	1.10	1.35	1.65	15.6	12.7	10.4	25%	0.6	0.5	0.4	--	--	3,087	0.00	0.0%	--	--
Reliant Resources, Inc.	RRI	NR	17.51	--	--	--	--	--	0.84	1.70	2.15	20.8	10.3	8.1	25%	0.8	0.4	0.3	--	--	5,235	0.00	0.0%	--	--
<b>Average IPPs</b>					<b>-43%</b>	<b>115%</b>	<b>232%</b>					<b>19.3</b>	<b>11.4</b>	<b>9.5</b>	<b>29%</b>	<b>0.7</b>	<b>0.4</b>	<b>0.3</b>			<b>\$5,614</b>	<b>0.0%</b>			
Market and Sector Averages			Price		Performance			EPS				P/E			LT Estd	P/E-Growth			EBITDA	EV-EBITDA	Market	Ind.Divid.		ROE	2Q01 net
			10/8/01	12/31/00	YTD	00	99	99	00	01E	02E	00	01E	02E	Growth	00	01E	02E	01E	01E	Cap	\$/Sh.	Yield	01E	debt-cap
S&P 500	SP 500		\$1,062.4	\$1,320.3	-20%	-10%	20%	\$51.0	\$52.8	\$47.0	\$52.0	20.1	22.6	20.4	7%	2.9	3.2	2.9	--	--	--	\$17	1.6%	--	--
S&P Natural Gas	SP NG		973.9	1,687.8	-42%	73%	17%	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
S&P Electric Utilities	SP UE		227.2	350.6	-35%	54%	-12%	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
TSE 300 Composite	TSE 300		8,413.8	8,933.7	-6%	6%	30%	306.0	420.0	441.0	485.0	20.0	19.1	17.3	--	--	--	--	--	--	--	--	--	--	--
TSE Pipelines	TSE 900		4,206.9	6,167.4	-32%	47%	-34%	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

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**Rating Codes**  
 RL = Recommended List  
 TB = Trading Buy  
 MO = Market Outperformer  
 MP = Market Performer  
 MU = Market Underperformer  
 NR = Not rated

Notes: KMI - estimates do not include accretive acquisitions at its MLP (KMP) that we expect to be completed.  
 KMR earnings, cash flow, net debt-cap ratio and market cap reflect KMP as underlying security  
 DUK, DYN, and NI - jointly covered with our electric utilities research group.  
 EQT, KSE and SRE - covered by our LDC research group.  
 AES, ILA, CPN, D, MIR, NRG, and RRI - covered by our electric utilities research group.  
 Source: Company reports, GS estimates and Fame Information Services Inc.

Source: Company data and Goldman Sachs Research estimates.

## Addressing the major concerns about Enron

### 1. Have earnings been invented writing up assets using fair value accounting?

#### Market speculation

Enron uses fair value accounting and has “created” the bulk of its earnings in recent years by writing up assets to market value (and above market value in today's world) and now faces huge charges as it attempts to sell these assets.

#### Our comments

**Earnings and losses from Merchant Investments have appeared in the asset and investment category of Wholesale Services, the (by far) smallest piece of Wholesale's earnings in recent years.**

Enron does use fair value accounting, but only in its merchant investment portfolio. This portfolio totaled as much as \$2 billion at its peak and is currently valued at approximately \$1 billion. Any net gains in our view have been a modest portion of earnings over the years and a negative in 2001. This criticism of Enron's past earnings, which some have used to discount past and current levels of earnings as proper numbers to value the company, appears to be totally off base. We believe that some small portion of past earnings can be categorized by investors as non-recurring, but the great bulk of past earnings are real and recurring, and the proper starting point in forecasting future earnings.

### 2. Are there billions in forthcoming write-offs?

#### Market speculation

Enron has indicated that many billions of dollars of assets that earn low returns are for sale, and investors are concerned about major write-offs that some believe could run into billions of dollars.

#### Our comments

Management does not deny that certain assets when sold could incur losses. However, others are likely to be sold at gains. No assets on the balance sheet are classified by accountants as impaired, which would require that write-offs be taken. Rumors of an \$850-million charge at the company's Dabhol, India power project appear off base, and we expect Enron to suffer no loss given its strong contract position. Although certain Brazilian assets could be sold at losses, Enron does not have the problem of having financed the Brazilian assets with US debt; all were financed with local currency.

**We doubt that major charges are likely on any assets to be sold. We expect management to better define this issue on October 16 with its earnings release.**

**Concern about multibillion dollar charges in telecommunications and elsewhere appear grossly inaccurate.**

On October 8, 2001 Enron announced the long-awaited sale of its Portland General Electric subsidiary to Northwest Natural Gas for \$1.8 billion plus debt assumption. The deal is expected to garner Enron \$1.5 billion of cash when it closes near the end of 2002 and should not generate a significant gain or loss for Enron. Most importantly, we see this asset sale as a first step in the direction of selling slower-growing and underperforming assets. This sale has been expected and therefore is not likely to have a major (positive) impact on the share price, although we do view it favorably. The true measure of success in Enron's strategy will be in its ability to successfully sell the balance of \$6 billion of assets designated for sale while booking losses less than those expected by investors. Enron is committed to selling more than \$1 billion of assets over the next two years.

### 3. Are customers and competitors concerned about credit exposure?

#### Market speculation

Capital requirements are substantial in the company's marketing operations, and both customers and competitors are concerned about credit exposure to Enron.

#### Our comments

Moody's upgraded Enron's credit earlier this year to BAA1, and rating agency discussions have been routine according to management, given Enron's best-ever funds flow ratios. Management indicated that speculation of certain counterparties not extending credit are "absolutely false."

### 4. Why does cash flow lag earnings?

#### Market speculation

Cash flow from operations has lagged earnings, and the company has been a consumer of cash.

#### Our comments

Management indicates that it will be cash positive in the second half of 2001 and in future years. This is perhaps the most difficult or impossible claim to confirm. Management claims that margin activity distorted cash flow in the first half of 2001; in 2000 there was \$1.8 billion of customer inflows to cover margin requirements, and in the first half of 2001, \$2 billion of deposits were returned. Enron has made many billions of dollars of investment in past years as it sought to build its various businesses. In the past, financial discipline did not appear to be a top priority as the company spent whatever it took to rapidly build its industry-leading capabilities. It now appears that financial discipline is dramatically improved.

### 5. Is California a huge liability for Enron?

#### Market speculation

- California generated huge profits for Enron.
- California represents substantial potential liabilities.

#### Our comments

This is another difficult topic to prove or disprove. Detractors can (and have) made many unsubstantiated claims. The recent agreement for SoCalEdison to avoid bankruptcy appears to confirm the validity of contracts and likelihood of Enron being paid for past power sales. Enron earlier identified nearly \$600 million of receivables and has indicated, similar to other convergence companies, that it has recognized limited profits in California and has created substantial reserves.

## 6. What is Enron hiding in its black box?

### Market speculation

Disclosure is sketchy. The company must be hiding something.

### Our comments

Enron had substantially more complete disclosure a decade ago when it was forming its natural gas business and found that competition intensified and margins were held down as competitors took advantage of the information. Management has steadily reduced the disclosure of information even as the company's businesses and products have become dramatically more complex. Investors have begun to call Enron's earnings a "black box" as they began to doubt their ability to analyze and predict future earnings. When management began to lose credibility with investors, this turned into a total loss in confidence in reported and potential future results, which was a very high price to be paid. Enron management is now committed to improving disclosure, even at the expense of competitive issues. (The number of true competitors has already declined dramatically).

**We expect additional disclosure with the third-quarter report, but substantially more at year-end. Management now recognizes that limited disclosure and loss of confidence has been very detrimental to the share price.**

## 7. Will recent transaction require substantial new share issuance?

### Market speculation

Recent 10K and 10Q disclosure of transactions may require substantial new share issuance, given the current weak share price, that will appear in fully diluted shares.

### Our comments

These shares represent collateral to backstop off-balance-sheet transactions. Net exposure and the transactions themselves are not well defined and disclosed. Management has indicated to us that the company is working to restructure these transactions and that investors will see results on this score "fairly soon."

## 8. Are the fundamentals really as strong as the numbers?

### Market speculation

Businesses are not doing as well as the numbers make them appear to be doing.

### Our comments

Our trade checks convince us that Enron remains an extremely well respected and capable competitor with broad and deep capabilities. Competitors like to throw criticism at Enron because of the company's aggressiveness and perceived arrogance, perhaps creating some of the uncertainty in investors. Customers find Enron's service and products to be top flight and, in many cases, unique. Following the tragic events of September 11, business at both Wholesale and Retail has, according to management, returned to prior levels.

## 9. Can earnings continue to grow as rapidly as they have in the past?

### Market speculation

Earnings cannot continue their past rate of growth.

### Our comments

**A renewed financial discipline is likely to be the major positive surprise as asset sales are completed and the proceeds applied to debt reduction or share repurchases.**

Although we have lowered our long-term growth rate to 23% from 25% (we have lowered our expectations for all convergence shares because of the more uncertain economic environment), and reduced our 2002 EPS estimate \$0.10 to \$2.15, we believe that the market opportunities in Wholesale and Retail are undiminished.

Telecommunications appears unlikely to contribute positively over the next year; however, neither do we expect it to be an incremental drag on earnings. We expect the telecommunications loss to shrink in the year ahead as costs are reduced. We do not believe that Enron will complete substantial new investments.

## 10. Why does it seem that top managers are running for the door?

### Market speculation

Many top managers have left, leaving a vacuum at the senior levels of Enron. Insiders have been heavy sellers of Enron shares.

### Our comments

For the first time in Enron's 16-year history, a number of executives have left in the past year. However, in each case, an extremely capable successor has stepped in to fill the hole. The departure of CEO Jeff Skilling in our view is related to credibility issues he had with investors and with the very weak share price. We consider his departure a significant loss because it was his vision that created the wholesale natural gas and electricity marketplace as it exists today. However, Enron as a company could do even better over the next several years with its newfound financial discipline since Mr. Skilling's departure. The CEO and CFO have recently become net buyers of shares.

**Exhibit 2: Enron statement of cash flows, 1994-2002E**  
 \$ millions except per share data

	FullYear 1994	FullYear 1995	FullYear 1996	FullYear 1997	FullYear 1998	FullYear 1999	2000				FullYear 2000	2001		FullYear	
							1Q	2Q	3Q	4Q		1Q	2Q	2001E	2002E
Income from continuing operations	\$453	\$520	\$584	\$105	\$703	\$893	\$338	\$289	\$292	\$60	\$979	\$425	\$404	\$1,675	\$1,968
<b>Adjustments</b>															
Depreciation, depletion&amort.	441	432	474	600	827	870	172	192	256	235	855	213	240	855	918
Deferred income taxes	93	216	207	(174)	87	21	30	1	(9)	185	207	113	75	354	416
Cash flow bef. WC & other	987	1,168	1,265	531	1,617	1,784	540	482	539	480	2,041	751	719	2,884	3,302
<b>Per share</b>	<b>\$1.86</b>	<b>\$2.18</b>	<b>\$2.34</b>	<b>\$0.90</b>	<b>\$2.33</b>	<b>\$2.32</b>	<b>\$0.63</b>	<b>\$0.56</b>	<b>\$0.62</b>	<b>\$0.61</b>	<b>\$2.51</b>	<b>\$0.86</b>	<b>\$0.81</b>	<b>\$3.23</b>	<b>\$3.61</b>
Oil & gas exploration expense	84	79	89	102	121	49	0	0	0	0	0	0	0	0	0
Change in accounting principle	--	--	--	--	--	131	0	0	0	0	0	(19)	0	--	--
Asset impairment	--	--	--	--	--	441	0	0	0	326	326	0	0	--	--
Gain on sales of non-merchant assets and inv.	(91)	(530)	(274)	(195)	(82)	(541)	(18)	(72)	(45)	(11)	(146)	(32)	(18)	(100)	--
Unrealized gains-price risk mgmt.	(153)	(98)	15	201	350	(395)	(52)	(747)	(153)	189	(763)	(270)	1,052	200	--
Merchant Assets and Investments															
Realized gains & losses	--	--	--	(136)	(628)	(756)	(31)	60	(14)	(119)	(104)	26	(69)	(100)	(100)
Proceeds from sales	--	--	--	339	1,434	2,217	199	354	130	1,155	1,838	135	344	600	300
Additions and unrealized gains	--	--	(192)	(308)	(721)	(827)	(517)	(578)	(319)	119	(1,295)	(74)	(101)	(400)	(200)
Other	(225)	200	(161)	(258)	(218)	125	(265)	622	173	583	1,113	(382)	(257)	0	0
Cash flow before working cap	602	819	742	276	1,873	2,228	(144)	121	311	2,722	3,010	135	1,670	3,084	3,302
Per share	\$1.13	\$1.53	\$1.37	\$0.47	\$2.69	\$2.90	(\$0.17)	\$0.14	\$0.36	\$3.46	\$3.70	\$0.15	\$1.87	\$3.45	\$3.61
Change in working capital	(142)	(834)	142	(65)	(233)	(1,000)	(313)	(211)	336	1,957	1,769	(599)	(2,543)	(1,500)	(200)
Net cash flow from operating activities	460	(15)	884	211	1,640	1,228	(457)	(90)	647	4,679	4,779	(464)	(873)	1,584	3,102
<b>Requirements</b>															
Sale-PP&E & other non-merchant investments	440	996	477	473	239	294	17	88	117	272	494	339	1,084	2,123	200
Additions to PP&E	(669)	(777)	(864)	(1,392)	(1,905)	(2,363)	(496)	(513)	(540)	(832)	(2,381)	(382)	(818)	(2,000)	(2,000)
Other investing activities	(59)	(36)	(68)	(445)	(356)	(405)	(69)	(48)	(30)	(35)	(182)	(332)	70	(400)	(400)
Equity Investments	(272)	(170)	(619)	(700)	(1,659)	(722)	(316)	(74)	(480)	(63)	(933)	(716)	(372)	(1,500)	(1,200)
Acquisitions	0	0	0	(82)	(104)	(311)	(144)	(358)	(733)	458	(777)	(33)	(1)	0	0
Acquisition of subsidiary stock	0	0	0	0	(180)	0	(485)	0	0	0	(485)	0	0	0	0
Total	(560)	13	(1,074)	(2,146)	(3,965)	(3,507)	(1,493)	(905)	(1,666)	(200)	(4,264)	(1,124)	(37)	(1,777)	(3,400)
<b>Cash from financing activities</b>															
Long-term debt issuance	190	967	369	1,817	1,903	1,776	1,361	1,118	246	1,269	3,994	1,747	1,117	2,864	--
Decrease in LTD & pfd. stk	(162)	(448)	(294)	(607)	(870)	(1,837)	(393)	(38)	(114)	(1,792)	(2,337)	(996)	(786)	(1,782)	--
Change in short-term debt	115	(250)	217	464	(158)	1,565	962	339	393	(3,289)	(1,595)	799	370	(400)	800
Issue of common stock by subsidiary	163	0	215	372	8	568	--	--	--	500	500	0	0	--	--
Issuance of treasury and common stock	26	(44)	97	(422)	880	991	249	(114)	401	98	634	(107)	83	(24)	--
Issue of preferred stock by subsidiary	0	0	0	555	828	--	--	(95)	--	(1)	(96)	0	0	--	--
Dividends paid	(231)	(254)	(281)	(354)	(414)	(467)	(156)	(109)	(131)	(127)	(523)	(143)	(113)	(531)	(542)
Other financings	(9)	14	8	24	89	(140)	105	2	(115)	2	(6)	0	0	--	--
Total	92	(15)	331	1,849	2,266	2,456	2,128	1,103	680	(3,340)	571	1,300	671	128	259
Net increase(decrease) in cash	(\$8)	(\$17)	\$141	(\$86)	(\$59)	\$177	\$178	\$108	(\$339)	\$1,139	\$1,086	(\$288)	(\$239)	(\$66)	(\$39)

Source: Company data and Goldman Sachs Research estimates.

**Exhibit 3: Enron balance sheet, 1994-2002E**  
 \$ millions except per share data

	Yearend	Yearend	Yearend	Yearend	Yearend	2000			Yearend	2001		Yearend		
	12/31/94	12/31/95	12/31/96	12/31/97	12/31/98	12/31/99	3/31/00	6/30/00	9/30/00	12/31/00	3/31/01	6/30/01	12/31/01E	12/31/02E
<b>Assets</b>														
Cash & cash equivalents	\$132	\$115	\$256	\$170	\$111	\$288	\$466	\$718	\$697	\$1,374	\$1,086	\$847	\$1,308	\$1,269
Assets from price risk mgmt activities	450	580	841	1,346	1,904	3,548	3,139	5,696	7,294	12,270	12,672	8,815	11,043	13,252
Other current assets	1,327	2,032	2,882	2,597	3,918	3,419	5,728	7,956	10,815	16,737	15,409	16,662	18,411	20,252
Total current assets	1,909	2,727	3,979	4,113	5,933	7,255	9,333	14,370	18,806	30,381	29,167	26,324	30,762	34,773
Property, plant & equip., net	6,739	6,868	7,112	9,170	10,657	10,681	10,697	11,211	11,453	11,743	11,575	10,741	12,888	13,970
Investments in unconsolidated subs.	1,065	1,217	1,701	2,656	4,433	5,036	6,020	5,621	5,376	5,294	5,694	5,934	6,794	7,994
Other assets:														
Assets from price risk mgmt activities	1,028	1,197	1,632	1,038	1,941	2,929	3,428	5,228	7,367	8,988	9,998	9,023	10,786	12,943
Goodwill	67	63	87	1,910	1,949	2,799	2,905	3,408	3,646	3,638	3,609	3,527	3,800	4,180
Other	1,158	1,167	1,626	3,665	4,437	4,681	5,101	5,728	6,348	5,459	7,217	7,843	6,005	6,605
Total assets	11,966	13,239	16,137	22,552	29,350	33,381	37,484	45,566	52,996	65,503	67,260	63,392	71,035	80,465
<b>Liabilities &amp; shareholders' equity</b>														
Current portion-LTD	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Notes payable and short term debt	--	--	--	--	--	1,001	1,884	1,486	2,408	1,679	2,159	3,457	1,279	2,079
Liabilities from price risk mgmt activities	522	708	1,029	1,245	2,511	1,836	2,697	4,292	6,187	10,495	10,840	7,470	12,594	15,113
Other current liabilities	1,776	1,724	2,679	2,611	3,596	3,922	4,609	6,444	8,507	16,232	14,571	13,386	16,006	18,447
Total current liabilities	2,298	2,432	3,708	3,856	6,107	6,759	9,190	12,222	17,102	28,406	27,570	24,313	29,879	35,639
Long-term debt	2,805	3,065	3,349	6,254	7,357	7,151	8,288	10,211	10,664	8,550	9,763	9,355	9,632	9,632
Other long term obligations:														
Deferred income taxes	1,893	2,186	2,290	2,039	2,357	1,894	1,791	1,678	1,565	1,644	1,625	1,758	1,998	2,414
Liabilities from price risk mgmt activities	575	590	980	876	1,421	2,990	3,510	5,525	7,314	9,423	10,472	10,062	8,095	9,942
Other	848	875	740	1,769	1,916	1,587	1,594	2,369	2,282	2,692	2,781	2,866	3,986	2,724
Minority interests	290	549	755	1,147	2,143	2,430	1,872	1,893	1,889	2,414	2,418	2,395	2,535	2,661
Preferred stock of subsidiary	377	377	592	993	1,001	1,000	1,099	899	904	904	904	903	904	904
Convertible preferred stock	141	138	137	134	132	130	129	127	127	124	121	116	124	124
Common shareholders' equity	2,739	3,027	3,586	5,484	6,916	9,440	10,011	10,642	11,149	11,346	11,606	11,624	13,883	16,425
Total shareholders' equity	2,880	3,165	3,723	5,618	7,048	10,570	10,140	10,769	11,276	11,470	11,727	11,740	14,007	16,549
Total liab. & shareholders' equity	11,966	13,239	16,137	22,552	29,350	33,381	37,484	45,566	52,996	65,503	67,260	63,392	71,035	80,465
Net debt	2,673	2,950	3,093	6,084	7,246	7,864	9,706	10,979	12,375	8,855	10,836	11,965	9,603	10,442
Total capitalization	6,220	7,041	8,163	13,842	17,438	21,864	22,817	24,540	26,444	23,643	25,885	27,003	27,048	30,556
% Total debt/total capitalization ratio	43.0%	41.9%	37.9%	44.0%	41.6%	36.0%	42.5%	44.7%	46.8%	37.5%	41.9%	44.3%	35.5%	34.2%

Source: Company data and Goldman Sachs Research estimates.

*The prices in this report are based on the market close of October 8, 2001.*

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## Enron income statement, 1994-2002E

	Full Year 1994	Full Year 1995	Full Year 1996	Full Year 1997	Full Year 1998	Full Year 1999	2000				Full Year 2000	2001			Full Year 2002E	
							1Q	2Q	3Q	4Q		1Q	2Q	3Q	2001E	2002E
Income bef.int.,taxes&min.int.																
Exploration & Production	\$194	\$241	\$200	\$183	\$128	\$65	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transportation and Distribution																
Gas Pipeline Group	367	375	416	364	351	380	128	77	83	103	391	133	77	85	400	420
Portland General Electric	--	--	--	114	286	305	105	62	74	100	341	60	65	72	295	300
Wholesale Energy Operations & Services																
Commodity Sales and Services	376	399	348	249	411	610	256	420	407	539	1,622	785	762	700	3,000	3,300
Energy Assets and Investments	128	140	263	565	709	850	220	55	305	309	889	59	134	130	450	325
Unallocated Expenses	(132)	(138)	(145)	(160)	(152)	(161)	(47)	(60)	(82)	(70)	(259)	(89)	(94)	(90)	(360)	(400)
Total Wholesale Energy Ops & Services	372	401	466	654	968	1,299	429	415	630	778	2,252	755	802	740	3,090	3,225
Enron Energy Services	--	--	--	(107)	(119)	(50)	6	46	27	32	111	40	60	70	250	417
Broadband Services	--	--	--	--	--	--	0	(8)	(20)	(32)	(60)	(35)	(102)	(75)	(275)	(100)
Corporate & Other	(8)	(35)	(22)	(31)	7	(17)	(44)	17	(128)	(134)	(289)	(158)	(109)	(110)	(485)	(460)
Non-recurring items	19	183	178	(612)	(39)	13	--	--	--	(264)	(264)	--	--	--	--	--
Income before interest, taxes & minority int.	944	1,165	1,238	565	1,582	1,995	624	609	666	583	2,482	795	793	782	3,275	3,802
Interest expense (net)	(273)	(284)	(274)	(401)	(550)	(656)	(161)	(196)	(247)	(234)	(838)	(201)	(215)	(215)	(855)	(956)
Dividends on preferred stock	(20)	(32)	(34)	(69)	(77)	(76)	(18)	(21)	(20)	(18)	(77)	(18)	(18)	(18)	(72)	(72)
Minority interest	(31)	(44)	(75)	(80)	(77)	(135)	(35)	(39)	(35)	(45)	(154)	(40)	(30)	(35)	(140)	(150)
Total income before taxes	620	805	855	15	878	1,128	410	353	364	286	1,413	536	530	514	2,208	2,625
Income tax expense	167	285	271	(90)	175	104	72	64	72	226	434	130	126	129	552	656
Net inc. from cont.ops before extra. Items	453	520	584	105	703	1,024	338	289	292	60	979	406	404	386	1,656	1,968
Change in accounting principle	--	--	--	--	--	(131)	--	--	--	--	--	19	--	--	19	--
Net income	453	520	584	105	703	893	338	289	292	60	979	425	404	386	1,675	1,968
Dividends on preferred stock	(15)	(16)	(16)	(17)	(17)	(66)	(20)	(21)	(21)	(21)	(83)	(20)	(21)	(21)	(84)	(84)
Net income avail.to common	\$438	\$504	\$568	\$88	\$686	\$827	\$318	\$268	\$271	\$39	\$896	\$405	\$383	\$365	\$1,591	\$1,884
<b>Diluted adjusted EPS</b>	<b>\$0.83</b>	<b>\$0.91</b>	<b>\$0.91</b>	<b>\$0.87</b>	<b>\$1.00</b>	<b>\$1.18</b>	<b>\$0.40</b>	<b>\$0.34</b>	<b>\$0.34</b>	<b>\$0.41</b>	<b>\$1.47</b>	<b>\$0.47</b>	<b>\$0.45</b>	<b>\$0.43</b>	<b>\$1.85</b>	<b>\$2.15</b>
Non-recurring items	\$0.02	\$0.06	\$0.17	(\$0.71)	\$0.01	(\$0.08)	\$0.00	\$0.00	\$0.00	(\$0.36)	(\$0.35)	\$0.02	\$0.00	\$0.00	\$0.02	\$0.00
Diluted: EPS cont. ops.	\$0.85	\$0.97	\$1.08	\$0.16	\$1.01	\$1.10	\$0.40	\$0.34	\$0.34	\$0.05	\$1.12	\$0.49	\$0.45	\$0.43	\$1.88	\$2.15
Wtd. avg. shares outstanding (fully diluted)	531.8	536.0	540.2	591.6	695.3	769.0	851.9	862.2	869.5	787.7	813.9	871.6	891.1	903.0	893.0	915.0
Dividends paid per common share	\$0.382	\$0.407	\$0.431	\$0.457	\$0.482	\$0.500	\$0.125	\$0.125	\$0.125	\$0.125	\$0.500	\$0.125	\$0.125	\$0.125	\$0.500	\$0.500
Book value per common share	\$5.15	\$5.65	\$6.64	\$9.27	\$9.95	\$12.28	--	--	--	--	\$13.94	--	--	--	\$15.55	\$17.95
Return on avg.com.equy (adjusted)		17.5%	15.4%	11.7%	11.5%	11.9%	--	--	--	--	12.3%	--	--	--	13.8%	13.5%

Source: Company data and Goldman Sachs Research estimates.

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