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inside

PUBLISHED FOR THE EMPLOYEES OF
ENRON WHOLESALE SERVICES

*POWERING THE
WHEELS OF SUCCESS*



From the Executive Office

WATCH US GROW!

Enron's network of wholesale services markets more products to more customers in more parts of the world than any other energy merchant, and our results show it. Last year's company revenues, which topped \$100 billion, were largely propelled by significant growth in our wholesale activities.



Enron Global Markets (EGM) is an essential part of this network. EGM was created to provide a sharpened focus on very large global markets and commodities to enable them to grow quickly. EGM operates wholesale businesses that aren't restricted by geographical confines, such as coal and emissions, LNG, crude and products, weather, insurance, freight, currency, interest rates and equities. We plan to be a major player in these huge markets. EGM provides a true network for market-making opportunities related to commodities that are highly liquid in physical and financial terms and are enormous in market size.

You could say that our mantra is "Growth," since we are developing our high-growth wholesale business. For example, coal is a \$60 billion market; Enron is the largest domestic coal market-maker and we are the largest importer of coal into the U.K. We will expand into Asia and continue to be a growing presence in global freight markets. Our crude and products business includes gasoline, heating oil, gas oil, MTBE, LPGs, petrochemicals and plastics. Here, growth will be accelerated through increased marketing, penetration of online markets, geographic and product expansion, and a greater physical presence in key markets.

EGM combines producer financing, marketing, trading and transportation to provide services to its customers. A key focus for the year is to grow our business with the electronic platform, EnronOnline, and to make online markets in all of our commodities. Additional products will be coming online and we are already changing traditional businesses. For example, even shipping is traded online now.

The key to our success is communication and creating a global network of wholesale businesses. EGM leverages the value of Enron's existing network and international asset positions, and we represent a clear transfer of the Enron wholesale market-making model into other commodities. We will be able to illustrate just how successful we can be with this kind of focal point and these high expectations.

EGM has very aggressive growth targets in transactions and earnings. These goals make us focused and strong. In fact, EGM has contributed almost \$200 million in gross margin in its first two quarters. Our philosophy is "Go big or go home."

When we say global, we mean worldwide. Spin the globe and you will see our offices everywhere. EGM is in London, Oslo, Singapore, Seoul, Puerto Rico, Tokyo, Sydney, Panama, Dubai, Johannesburg and Frankfurt. It is a big challenge, but we are ready and we will make this a tremendous success.

A handwritten signature in black ink, reading "Mike S. McConnell".

Mike S. McConnell
President and CEO, Enron Global Markets



For the RECORD

Greg Piper COO Net Works

Greg Piper grew up in Colorado and received his bachelor's degree in petroleum engineering from the Colorado School of Mines and his master's degree in business administration from the University of Texas. He began his career as an engineer for Enron Oil and Gas in Denver. After a few years, he decided to get into the marketing and commercial side of the energy business.

In 1993 he connected with Ken Rice and Enron Power Marketing. When Enron bought Portland General Electric in 1997, Kevin Hannon and Ken asked Greg to go to Portland with Phillip Allen to start the west wholesale power office.

He came back to Houston in early 2000 to look at ENA's industrial business. They decided to form Enron Net Works to focus on technology in a different way, in addition to the critical desktop support within the classic IT function. They saw the possibilities for proactive technology. The biggest piece of this is EnronOnline. Piper spent seven to eight months focusing on the pulp and paper business and building its site, Clickpaper.com. It was an experiment in creating a site separate from EnronOnline. After building the site, Net Works decided to look at all of its assets and then decided to explore the possibility of Net Works generating revenue and a fee business while it continued to provide services for the market-making and mid- and back-office functions.

How do you explain the uniqueness of Net Works?

You can see that Net Works is unique by looking at the three segments of it. The first is the IT infrastructure for Enron; we have the traditional tools of information technology at the corporate level. Second, we have quality mid- and back-office services, including the infrastructure, application, technology and people to complete the fulfillment process that results from all of the buying and selling that we do. This involves quite a few systems and people; once the order is taken, we must confirm it, schedule it and settle it. We must also create risk reports and report it on the general ledger.

Most corporations have these two pieces in some form. Where Enron differs is in our third segment. We have a unique eCommerce portion, EnronOnline. This is a key part that allows us to electronically capture orders online, in addition to our traditional method with voice trades (phone or fax) that are then keyed into the system. At EWS, we sit alongside our most important customers with all the Enron business units. Daily, we communicate side-by-side and peer-to-peer with all of the businesses that we serve.

What's the next level?

We are exploring other possibilities in the marketplace. Because we are a leader in the industry, others watch everything we do and spend time trying to catch up with us. We have to think about the next level for our business. I built my career on the commercial side at Enron by doing deals and helping to build a successful office in Portland. Now I need to take these same skills and apply them to the technological and operational sides of the business and see about the possibilities of creating some commercial success directly from the Net Works assets, in addition to providing critical services to the other business units. We want to keep Net Works as a world-class technology and service organization, as well as to have a direct commercial effect on the company. It's looking at a new layer of commercialization. Onward and upward — that's the Enron way. We set the bar and we keep it going up. It's important to be innovative and part of this is moving the bar ourselves. Our competitors are getting stronger and they want to close the gap — we won't let that happen!

EnronOnline recently completed its one-millionth transaction. We knew it would happen since EnronOnline is the largest web-based eCommerce platform in the world for buying and selling everything from energy and metals to bandwidth, petrochemicals, coal, steel, forest products and shipping. The notional value to date of all EnronOnline transactions exceeds \$675 billion. This is a major event for all groups at Net Works and a tremendous accomplishment for the countless hard workers here.

What is your personal business philosophy?

To be successful and happy, you must do the best you can with what you have and work to make it special. Whatever business or group you are involved in, you can have a dramatic effect on the company by focusing on both the tactical and strategic goals at hand while eliminating what I refer to as unproductive noise. Life is too short to be miserable, so do something you like and the satisfaction is built in. Every day is not always going to be a good day — stress happens. But it's healthy to work hard at something you enjoy. Work should be serious, but it should also be fun and challenging.

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RECRUITING at ENRON

Interview with Neil Davies



Most people agree that Enron is not easy to define. "It is less about what we do, and more about how we do it. The Enron brand says that we are innovative, smart, bold, ambitious and united," says Neil Davies, director of EWS recruiting. This translates into a company with many attributes and diverse skills. Recruiters are not looking for a certain type of person; rather they are looking for a fit with the culture and technical skills that are needed for a specific job.



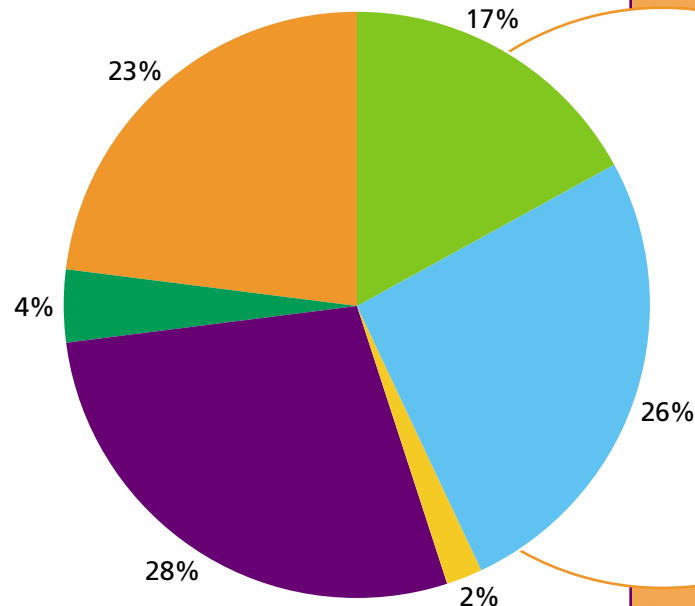
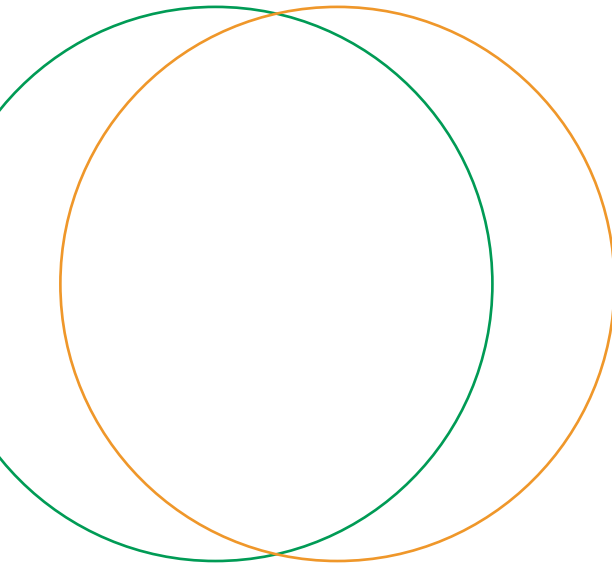
The cultural fit is the tricky part. Skills and experience listed on a resume don't give the complete picture. The recruiters want to see people who have a history of success, are team players and are capable of working in an unstructured environment. Enron's culture needs people who are flexible enough to move around the company frequently and who enjoy the challenge of new things. "The two most common conversations in the elevator here are where's our stock, and where are you working now and what are you doing," says Davies. People change positions and business units regularly. "After a few months you may be asked to forget what you've been working on and move to something completely different. If you feel like this is a curve ball that you can't handle, then Enron is not a good fit for you." This flexibility is a quality that recruiters search for during the recruiting process.

Enron has the reputation of being an unusual place to work. Being part of a large corporation where one is able to contribute to a team is balanced with being encouraged to show creativity and individuality. "We say that this is the core of the entrepreneurial spirit. You will have the freedom to be creative and blaze your own trail," says Davies.

"The Enron name in Houston is so strong that we have people knocking on our doors everyday," notes Davies. "It's a household name here and with Jeff Skilling's new vision, we may soon be a household name everywhere!" To handle the large number of candidates, Enron has a recruiting database that keeps applications online. The web site has over 100,000 hits per day and on an average month there are 14,000 applicants for approximately 500 jobs. The new www.work@enron.com site, which went live June 8, has facilitated easier application and processing of candidates. The Enron Employee Referral Station is a new online system that makes it easier for employees to help Enron find the talent it needs, as referrals are one of the best sources of talent in terms of quality and fit with the culture.

"Despite this flow to the web site and the great referrals that employees make, we still need to proactively recruit talent and we have a direct recruitment team that is second-to-none," explains Davies.

Recruiters at Enron use search techniques to find the talent that may not be looking for a move — people who are happy and well-



rewarded where they are. It takes skill to find and convince these candidates to consider a move — even to Enron.

“However, even with the best recruiters, systems and processes, we cannot do it on our own. Recruitment is the responsibility of every person in Enron — whether you’re a hiring manager, an interviewer or just someone attending a conference. Remember, our ability to grow profits and move into new businesses is directly affected by our ability to hire. You can help this in many ways, including selling Enron in conversations and making referrals — not just in your function or business unit, but anywhere in Enron,” says Davies.

As you can see from the chart to the right, referrals and direct recruiting are increasingly the most important sources of hires.

For more information, visit our web site at www.talent@enron.com or call our recruitment helpline at 713-345-3979.

EWS/CORP HIRING SOURCES FOR Q1, 2001

- Agency
- Employee Referral
- Executive Referral
- Internal
- Direct Recruiting
- Internet

ENERGY

CAPITAL RESOURCES



Energy Capital Resources (ECR) has been quite active rebuilding ENA's effort to provide capital to domestic, independent oil and gas companies. As a part of its efforts, ECR has reintroduced the volumetric production payment (VPP). "The VPP was perfected by Enron to allow clients to receive up-front cash in return for repaying obligations over time by delivering fixed volumes of natural gas or oil," explains Marshall Eubank, a director in ECR.

Over the last 12 months, increases in forward oil and gas prices and increased marketing efforts have allowed ECR to successfully reintroduce the VPP to the independent sector. Traditional capital providers such as commercial and investment banks have consolidated and have tightened lending requirements. "In February 2001, KCS Energy, Inc. and Enron closed on a \$178 million VPP, the largest non-affiliated deal of its kind in Enron history," states Eubank.

VPPs are a key component of ECR's strategy, and from a producer's viewpoint, the timing is right for these deals. "Usually, high commodity prices bring high interest rates, but now the cost of capital associated with the production payment is very low," notes Phil Ballard, a director. ECR can provide for an attractive advance on future production from reserves at high forward prices discounted at low forward interest rates. Upon completion of a VPP, Enron is able to syndicate the entire VPP through off-balance sheet vehicles such as Brazos, which was set up specifically for VPP transactions, or directly to financial institutions. Tim Proffitt and Shirley Hudler in Enron Global Finance play a lead role in the syndication efforts.

C. John Thompson and Scott Josey, former Enron Finance Corp. members, were hired in February 2000 to co-manage and refocus the ECR unit. Enron Finance Corp., a predecessor of ECR, was started in 1989 to provide capital to the independents. Enron Finance Corp. and its successors have provided in excess of \$4.5 billion of VPP, debt and equity financings to independents through 2001.

In addition to VPPs, ECR functions as a "one-stop shop" by offering senior and mezzanine debt and project development funds, as well as controlling corporate equity

investments. The group also assumed management of a large and diverse portfolio of investments. In 2000, ECR returned \$85 million in capital from asset sales.

Since its reformation in early 2000, the group has:

- Closed 4 VPP transactions totaling \$255 million
- Closed 3 equity investments and is finalizing closure on 2 new investments
- Closed 1 development joint venture

ECR's origination team is composed of two co-managers, two vice presidents, three directors and two managers. The ECR team also includes a director and two managers who supervise the VPP portfolio and provide commercial support. "Our group covers a wide spectrum of expertise," says Ballard. "On the origination side, we have an experienced staff from exploration and production companies and the banking industry. In addition, Joan Quick and her team oversee gas marketing, trading and payment responsibilities with VPPs and portfolio investments." Tricia Spence, a manager working with the follow-up activities, says, "We make sure that the companies live up to the agreement and verify that the fields have produced enough oil and gas to cover the delivery requirements."



ECR's technical staff is supervised by Craig Fox, and includes two engineers, two geologists, a geophysicist, a land person and other technical support resources. The technical staff actively plays a critical role in reviewing all new transactions and assists in managing the portfolio assets. Additionally, Teresa Bushman and Nancy Corbet of the ENA legal team play a key role in bringing transactions to closure.

"Our challenge is to continue to get the message out to the marketplace that now is a great time to close a VPP," says Eubank. Independents are either buyers or sellers of

reserves. While determining the acquisition price of reserves is difficult in a volatile price environment, ECR can support the buy-side by offering a VPP structure with fixed forward prices. On the other hand, ECR can monetize an independent's reserves through a VPP at a price that can approach the sales value of the assets. On both the buy- and sell-side, the producer still retains 100 percent of the residual production.

John Arnold

Vice President, Natural Gas Derivatives

John Arnold is one of Enron's brightest stars and youngest vice presidents. Right now he is the head of the natural gas derivatives desk that prices and manages all fixed-price swaps and options. John grew up in Dallas, Texas, and graduated from Vanderbilt with a bachelor's degree in mathematics and economics. He says now that he had the perfect educational background for trading — math for the statistical analysis tools and economics for the theories on how markets reach equilibrium.

During an interview for the Analyst/Associate program in 1995, he stated that he was interested in derivatives and the recruiters assured him of work possibilities in mathematical and financial products. He had also read in a 1995 risk management survey that Enron was No. 1 in natural gas derivatives and this convinced him to come to Enron.

Positive Experiences

My first rotation was in the crude and products trading group where I did analytical research on volatility and correlation. As I got up to speed, I started building models of price-structured products and exotic options. This was a great first rotation as I learned the concepts and theory of energy derivatives. A very smart and experienced team surrounded me, and I was able to learn by osmosis from being in that environment. The strong teamwork of this group allowed me to assume responsibility early in the rotation. I quickly learned that at Enron, you are given as much work and responsibility as you can handle.

For my second rotation, I was offered a choice between a job in London, where we were trying to grow the European business, or a job in natural gas. I wanted to learn a different commodity, so I moved to the Texas natural gas basis trading desk. Basis is a financial product that is priced on the spread between physical gas at two different locations. I realized early that I liked the action and the work environment of trading. Although I came to Enron for the two-year Analyst program and thought I would go back to business school, experiencing success here led me to believe that I had found a career. You have to enjoy the high energy levels and unpredictable days. Every day is different and the days are very intense for long periods of time.

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John Arnold

Vice President, Natural Gas Derivatives

All in a day's work...

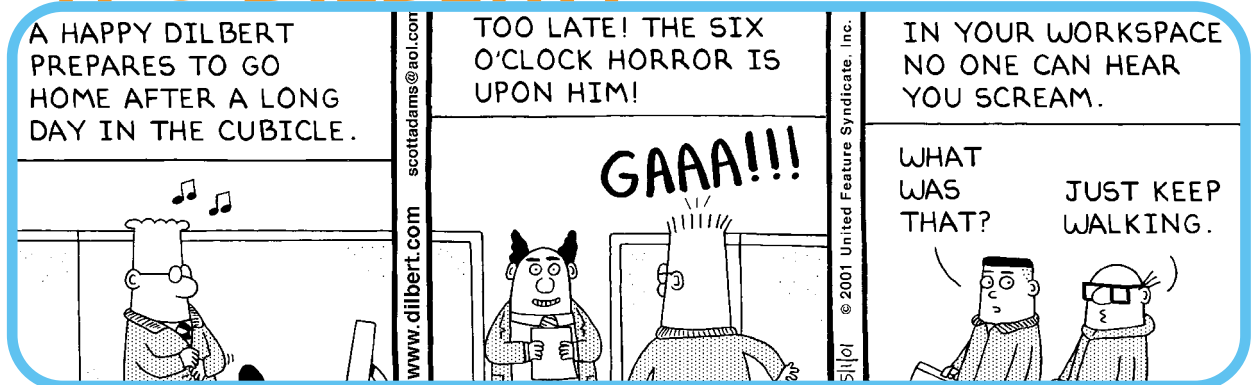
The biggest change I have seen since coming to Enron is the advent of EnronOnline. Prior to EnronOnline, pricing gas was reactionary. A customer or broker called and asked for a price on a certain quantity, term and location. The trader would then price the transaction. With EnronOnline, we have to be proactive, pricing each product in real time for every second of a nine-hour trading day. The pressure is much higher because the whole industry is waiting to take advantage of us if we ever misprice a structure or turn our heads. I can barely remember how we used to do business. The volumes we trade now have exploded. The most active day I have had involved doing 2,000 trades worth a notional \$5 billion.

I am now involved in developing my group. We have grown from two people a year ago to seven now. I look for people who are independent thinkers — people who are confident, but not cocky. Strong math, financial and derivatives skills are a necessity, but so is the trading mentality. Although everything we do is with a risk/reward mindset, you cannot be afraid of failure. To use a baseball analogy here: we don't bat 1.000. The best trader is sometimes wrong. But when we hit the ball, we want doubles and triples, and an occasional home run, while staying out of the double play.

Goals

In business, we need to continue to widen the gap between Enron and everyone else. People often describe Enron as innovative, and they're right. We have gained market share and profitability because of our forward thinking. Everyone watches Enron and I think we set the tone for the industry. Innovation drives us to the next level and we are always thinking about how to take the business there before someone else does. There is a tremendous value in being first; you help write the rules and determine the path the industry will take. Success for us is dependent upon maintaining the first-mover role. It's not an easy job — if we ever get complacent, we will lose our advantage over the competition.

IT'S DILBERT!



We Want
to Hear
From You!

Send your questions, comments and story ideas to Kathie Grabstald at EB3639 or via e-mail at Kathie.Grabstald@enron.com.

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Production Assistance and Design: The Adcetera Group

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