BancBoston Robertson Stephens

July 13, 1999

ENRON CORPORATION

2Q EPS of $0.54 Top Our $0.50; Communications the Next Poster Child

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Enron Corporation			**ENE**
Energy Technologies & Services			
Change in	**Yes/No**	**Was**	**Is**
...Rating:	No		**BUY**
...EPS 1998A:	No		$ 2.01
...EPS 1999E:	No		$ 2.35
...EPS 2000E:	No		$ 2.70

52-Week Range:		41-87
Shrs Out (MM):		385.5
Market Cap ($MM):		$32,358
Average Daily Volume (000):		1,231.0
12/98 Book Value/Share:		$18.28
1998 ROE:		11.1%
1998 IBIT Margin		5.1%
Tot. dbt / cap as of 12/98:		24.8%
12/98 Net Cash/Share		$0.29
Dividend/Yield:	$1.00	1.2%
3 Year Sec Growth Rate:		15%

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$83.94 **7/13/99**
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FY Dec	1998A	1999E	2000E
EPS: 1Q	$ 0.65	$ 0.68 A	
2Q	$ 0.42	$ 0.54	
3Q	$ 0.47	$ 0.55	
4Q	$ 0.48	$ 0.58	
Year	$ 2.01	$ 2.35	$ 2.70
P/E	41.8	35.7	31.1
Cal Year	$ 2.01	$ 2.35	$ 2.70
Cal P/E	41.8	35.7	31.1
Revs($M)	**1998A**	**1999E**	**2000E**
1Q	$5,682	$7,632 A	
2Q	$6,557	$10,877	
3Q	$11,320	$12,411	
4Q	$7,702	$10,726	
Year	$31,260	$41,645	$46,982
EqtyMkt/Rev	1.0	0.8	0.7

- Enron reported 2Q earnings of $0.54/share, besting our estimate of $0.50. Shortfalls in expected IBIT from Portland General Electric and the Gas Pipeline Group were more than offset by better-than-expected results from Wholesale Energy Operations and Services. As we did in 1Q when the company reported $0.68/share versus our estimate of $0.65, we will “bank” the $0.04/share excess and leave unchanged our full-year estimates of $2.35/share for 1999 and $2.70/share for 2000.
- The company is vigorously optimistic about prospects for its communications group and will highlight this business segment in its meetings with analysts this Wednesday, Thursday, and Friday. Enron’s strategy in communications parallels what it has done in gas and electricity. Ownership of physical assets (in this case, the dark fiber network) will provide the liquidity and real deliverability necessary to create a market for tradable bandwidth. As Enron builds out its network, it intends to establish strategic alliances with content providers, much as its Retail Energy Services business provides a knowledge-based link to its energy customers.
- Our sense remains that all systems are go at Enron. In each business, in each geographical segment, the fundamental trends are moving Enron’s way and validating investments made by the company over the past several years. Enron’s stock has made a powerful move over the past three months, along with several others in the “new” energy group (AES, Calpine). We believe Enron is the single-best play on the deregulation and global privatization of the energy industry and maintain our “Buy” rating on the shares.

SUMMARY: THE COMPANY AND INVESTMENT THESIS

Enron is an integrated energy company. Its operations span the production of natural gas and oil; the transmission and distribution of natural gas; the generation, transmission, and distribution of electricity; wholesale trading of energy in all forms; and retail sales of energy and of services associated with retail energy use. Approximately 80% of Enron's revenues derive from its domestic businesses; its international operations are principally in Europe, South America, and Asia. In 1998, the company reported revenues of $31.3 billion and net income of approximately $700 million.

We view Enron as the premier, large-cap play on the deregulation of the electric utility industry. In our view, the opportunities created by this restructuring, both domestic and international, are substantial (see our April 12, 1999 report ***Rejoice Re: Juice Redux***), and Enron has established itself as a leading force in retail electric markets as they are opened to competition.

INVESTMENT RISKS

Among the risks faced by Enron are possible losses stemming from any unhedged commodity price exposure in its oil and gas and energy trading operations. Enron hedges these risks to a significant extent. However, the electricity market is exceptionally volatile: A Federal Energy Regulatory Commission report noted that during June25 and 26, 1998, spot prices for electricity in the Midwest rose from $25 per megawatt hour to as much as $2,600 per megawatt hour, and reached as high as $7,500 per megawatt hour at one point. Additional risks lie in the "lumpiness" of Enron's large energy infrastructure projects, where project delays might affect results, and in the possibility that the pace of utility deregulation in the U.S. and Europe may be slower than expected, thus delaying Enron's returns on its investment in trading and retail energy services.

2Q RECAP

As often the case with Enron, its 2Q Conference Call moved quickly and touched down only briefly on each of Enron's businesses. We found the following points of interest.

- The company is highlighting its plans to build out its dark fiber communications network and subsequently leverage this asset to develop a trading market for bandwidth and to provide unique applications to business customers. Enron now views the communications business as a core operation and will include it in Wholesale Energy Operations and Services. More details on Enron's strategy in this business may emerge this week, as the company intends to focus on it in meetings with analysts and investors.
- The company is seeing liquidity slowly return to the North American electricity market after last summer's debacle. It anticipates a rate of growth of 20%+ in trading volumes once the market fully recovers. This growth will be driven by 1) construction of new merchant power plants, 2) creation of merchant capacity via utility asset sales, and 3) increasing reliance by utilities on the wholesale market. In Europe, trading activity is rapidly escalating, and Enron believes it is positioned to be the dominant player in this market. Management noted that the company did 1,650 transactions on the Continent in 2Q, versus 15 transactions in last year's 2Q.
- Enron brought seven new power plants totaling 3,500 megawatts of capacity on-line in the quarter, including three peakers in the U.S. An additional 1,600 megawatts of new capacity is scheduled to enter service by end of 1Q 2000.
- The Retail Energy Services business continues to grow. Contracts covering $1.7 billion of future energy expenditures were signed in the quarter, bringing the year-to-date total to

$3.4 billion and keeping the company on track relative to its goals of $8.0 billion of contract signings for 1999 and breakeven in 4Q.

- The company announced a two-for-one stock split to shareholders of record as of July 23, effective August 13.

FOR ADDITIONAL INFORMATION, PLEASE CALL YOUR BANCBOSTON ROBERTSON STEPHENS REPRESENTATIVE AT (415) 781-9700.

Unless otherwise noted, prices are intraday July 13, 1999.

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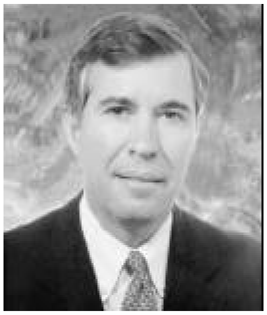

Hugh F. Holman

Hugh Holman joined the firm in 1998 as a senior equity analyst covering the environmental sector and the deregulation of the electric utility industry. Prior to joining the firm, he ran his own consulting firm, Environmental Capital Associates, Inc. Hugh has seven years of experience on Wall Street as an equity analyst, principally with Alex. Brown. Prior to joining Alex. Brown in 1989, Hugh was a management consultant with Putnam, Hayes & Bartlett. He also worked for the U.S. Environmental Protection Agency, where he was the lead policy analyst for the Agency's hazardous and solid waste programs. In 1994, *The Wall Street Journal* recognized him as an All-Star pollution control analyst. He received his BA degree from Dartmouth College and his MBA from Stanford University.

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