

## Enron Investors Say Lay Must Deliver on Earnings Transparency

Houston, Oct. 15 (Bloomberg) -- Enron Corp. Chief Executive Officer Kenneth Lay told shareholders Aug. 14 the largest energy trader would not only show them the money - the company would provide more details on how it was made.

Enron plans to increase access to information on its sources of revenue and profit so investors "can look at those and have a better understanding of what's going on," Lay said.

Some investors said that one reason Enron shares plunged 55 percent in the past year is the company's vague financial reporting.

"I want to see more transparency in earnings statements," said Judy Saryan, portfolio manager of the \$459.7 million Eaton Vance Utilities Fund, which owns 100,000 Enron shares. She and other investors will watch to see whether Lay makes good on his promise when the company reports earnings tomorrow, Saryan said.

Enron's books show quarterly profit increases averaging 31 percent for the past year. Some investors said it's impossible to determine if earnings are coming from expanding trading operations, or are being boosted by accounting gimmicks.

"We haven't done as good a job as we should explaining our business," said Karen Denne, an Enron spokeswoman. "We will improve that with the third-quarter earnings release."

The unexpected resignation of CEO Jeffrey Skilling in August after seven months on the job gave investors more reason to doubt that Enron's been straightforward about its prospects, investors and analysts

said. Lay and Skilling said the resignation was for personal reasons that would not be disclosed.

Lay, 59, is Enron's chairman and was chief executive before Skilling. He declined to be interviewed. Denne said Lay won't discuss the company's earnings publicly until Enron reports third-quarter results.

In last year's third quarter, net income rose 31 percent, to \$292 million, or 31 cents a share. Enron is expected to earn 43 cents a share in this year's third quarter, the average estimate of analysts surveyed by Thomson Financial/First Call.

## Hard to Understand

Reports of higher profits won't help Enron's shares unless the company provides more details on how it structures commodities transactions, investors and analysts said.

The company trades electricity, natural gas, oil, paper pulp and metals, among other raw materials. Energy trading took off in the late 1990s as deregulation opened wholesale markets to competition.

Many energy-trading companies are secretive about their strategies. Customers could negotiate lower prices if they knew Enron had to sell large quantities of a commodity or financial instrument, said Peter Fusaro, president of Global Change Associates, a New York energy consultant.

"It's a very proprietary business where any information given out can weaken trading," Fusaro said. "Trading energy is like playing a good hand of poker."

Even so, Enron must be more transparent for the company's shares to reflect earnings growth, analysts said. Enron doesn't report profit margins on energy transactions, the

identity of the buyer and seller, or the interest rates on its loans.

"I would like to see them report profit per transaction and revenue per transaction," said Rob Plaza, an analyst at Morningstar Inc., an investment research and analysis company. "That would make things a lot easier." Plaza owns no Enron shares and rates the company "five stars," his highest ranking.

Houston-based Enron has separate desks for metal, gas and electricity trading, but doesn't provide details on how each desk is doing, analysts said.

"They have got to break the wholesale services by segment so we can know which is making a profit," said Louis Gagliardi, an analyst at John S. Herold who owns no Enron shares.

#### Volatility Means Profits

Enron's shares have fallen partly because demand for natural gas plunged as the economy slowed. Prices for the fuel have fallen 76 percent on the New York Mercantile Exchange since reaching a closing high of \$9.978 per million British thermal units in December.

Skilling announced plans to trade space on fiber-optic cable networks last year, just before the dot-com bust sent demand plunging.

"The market was probably giving about \$40 a share for the broadband business," said Mike Heim, an analyst with A.G. Edwards who owns no shares and rates Enron a "buy." "Now, it's probably giving nothing."

The broadband unit had a loss before interest, minority interests and taxes of \$102 million last quarter, compared with an \$8 million loss a year earlier. Sales fell 89 percent.

The company's shares also were hurt when U.S. power prices steadied more than four months ago. Enron makes money when commodities prices swing because it sells

contracts that lock in energy costs for customers.

In northern California, electricity prices ranged from \$81.46 a megawatt hour to as high as \$583.75 from Nov. 1 to May 31. Since June, prices have ranged from \$22.24 to \$159.82.

"If we go into a recession, prices might be even less volatile," said Morningstar's Plaza. "For Enron, volatility means profits."

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