

Winokur - FX Disclosure issues

Keeping more news releases

Lay - Reduced flow of information

Harrison - Upcoming audit mtg

Koering - Platform in place, earnings power & sustainability

It's Momentum

# Investor Relations Update

EC004392324

# TRANSITIONING TO A PROFESSIONAL PARTNERSHIP MODEL

JKS - Lots of depth in the organization. Challenge to hang onto people.  
Usurly an intellectual capital company.  
Harder as you get bigger. Need to create an environment to keep the  
people.  
Need peer environment rather than hierarchical.

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# HOWEVER, ENRON NOW FACES THE TYPICAL CHALLENGES OF A HIGHLY SUCCESSFUL COMPANY

## Talent retention

- Perception that “room at the top” is limited given a very young senior leadership team
- Perception that current stock options have less upside than those of the past
- Reality that several executives have become independently wealthy
- Substantial external demand for Enron talent

## Market performance

- Current stock valuation implies substantial earnings growth
- Creation of additional shareholder value will require even higher growth rates
- These growth levels will require the rapid and broad development of new businesses beyond the boundaries of existing business units

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# WHY A PROFESSIONAL PARTNERSHIP MODEL?

World's leading corporations  
all struggle to retain/motivate  
top talent . . .

. . . relative to leading  
professional firms

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**Microsoft**

**McKinsey & Company**



**Cravath, Swaine & Moore**

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JS

# **KEY ATTRIBUTES OF SUCCESSFUL PROFESSIONAL PARTNERSHIP MODELS**

- ✓ • **Unlimited number of senior roles (i.e., continuous growth of the partnership)**
- ✓ • **Meritocracy for advancement and compensation (not tenure or hierarchy driven)**
- **Transferability of skills and flexibility to pursue multiple career paths**
- **Financial alignment (significant upside and significant risk) that creates strong sense of ownership and mutual accountability**
- **Collegiality and community fostered by common purpose and frequent ad hoc teaming/networks**
- **Non-hierarchical governance; periodic rotation and broad involvement in leadership roles and duties**
- **Strongly held set of shared values**

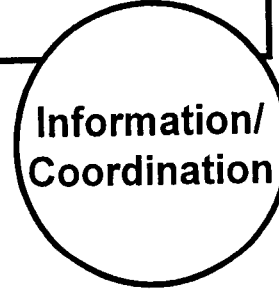
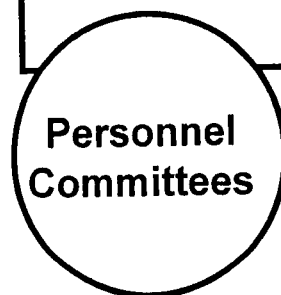
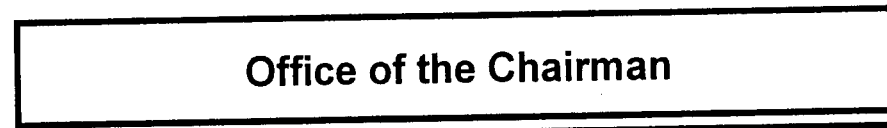
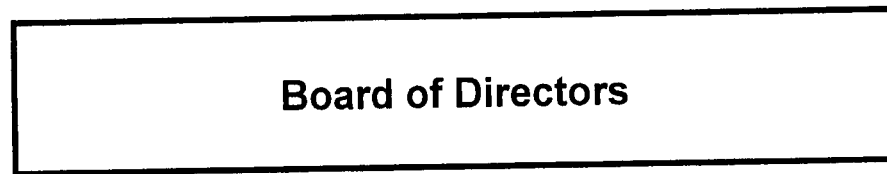
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# CREATING A PROFESSIONAL PARTNERSHIP MODEL FOR ENRON

	<b>Traditional Corporate Model</b>	<b>Enron's Professional Partnership Model</b>	<b>High performing partnership</b>
<b>Leadership</b>	Appointed by Board and senior management	Board appoints corporate officers; OTC appoints other key positions; most partners elected by peers	Elected by peers
<b>Organizational structure</b>	Hierarchical line organization (e.g., small number of executives at the top)	Some hierarchy/line authority, but few layers; no limits on number of partners	Relatively flat organization; no limits on number of partners
<b>Governance</b>	Hierarchical	Mix of Board, OTC, and committee leadership	Participative, led by committees
<b>Career paths</b>	Well defined, inflexible career tracks	Mix of traditional career tracks and flexible tracks	Flexible tracks; up or out policy
<b>Advancement</b>	Tenure based; assessed by direct supervisor	Meritocracy based on clear criteria; assessed by peers	Meritocracy based on clear criteria; assessed by peers
<b>Compensation</b>	Some bonus at risk	Significant pay at risk	Significant pay at risk
<b>Accountability</b>	Top down, metric driven	Mutual accountability; holistic	Mutual accountability; holistic

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# GOVERNANCE STRUCTURE



- Responsibility to shareholders in appointing/removing corporate officers and authorizing major policies and strategy
- Responsible for setting/approving overall corporate policy, personnel management policy, and corporate strategy
- Responsible for tactical, ongoing management

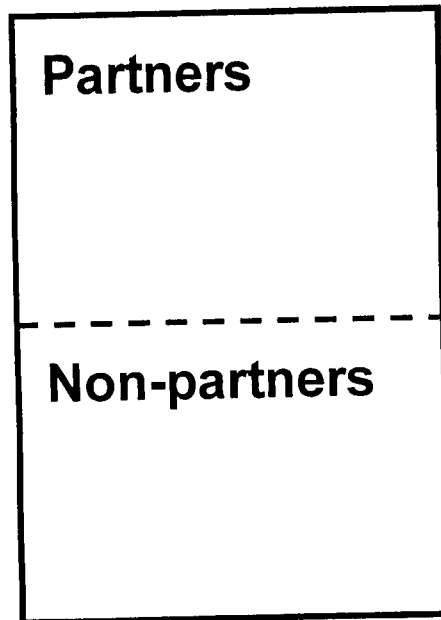
- Personnel Review Committees (PRCs)
- Analyst/Associate Committee

- New business building
- Cost reduction
- Asset efficiency, return on invested capital, balance sheet improvement

- Executive Committee

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# ARCHITECTURE FOR ENRON'S PARTNERSHIP

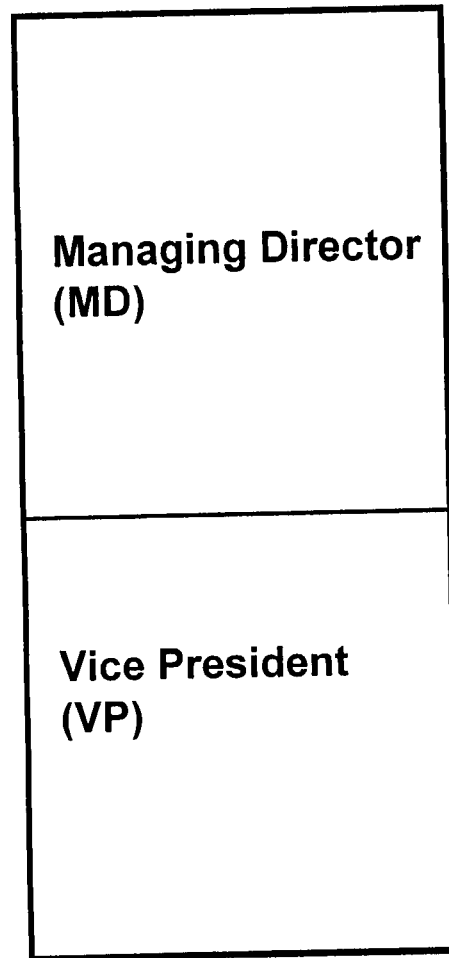


- Obligation to build the organization
  - Broad skill sets/diverse management responsibilities
  - Strong people leadership
  - Evaluated by corporate PRC (higher career/compensation risk)
- 
- More focused activities and roles
  - Pre-defined positions and career tracks
  - Lower compensation at risk

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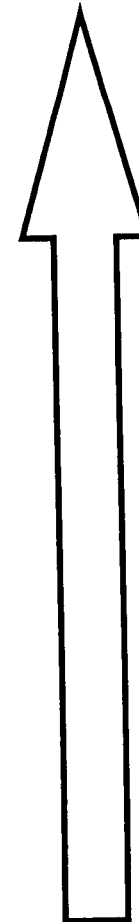


# TWO LEVELS OF PARTNERSHIP



## Expectations

- Proven ability to build and grow businesses; demonstrated commercial impact
  - Extensive followership in organization
  - Responsibility to lead/participate in corporate governance
  - Extensive cross-organizational network
  - Broad, diverse skill base
- 
- Measurable commercial impact (direct or enabling)
  - Strong intrinsics in problem solving, people leadership, and communications
  - Deep functional skill set

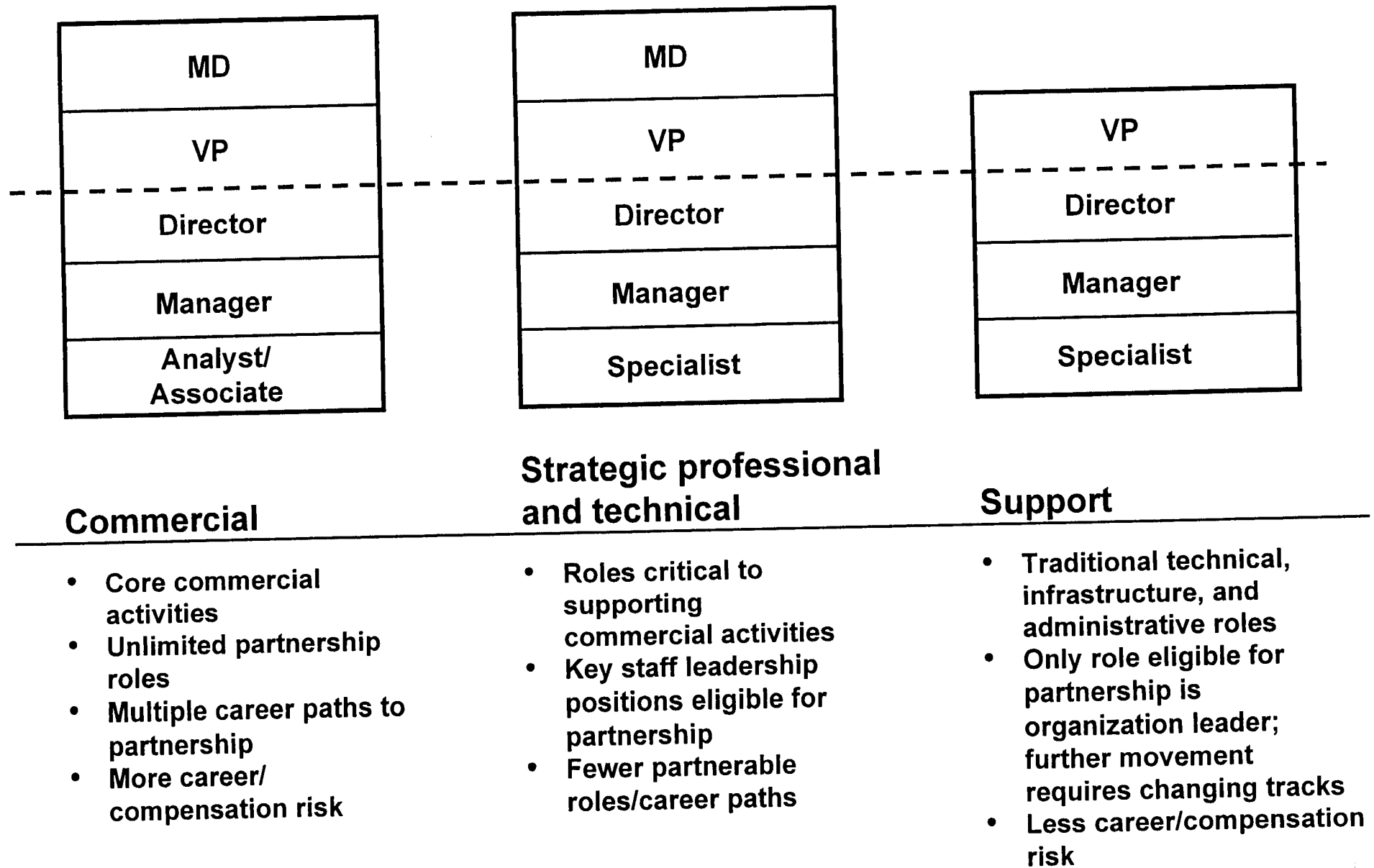


## Increased

- Tenure
- Breadth and transferability of skill
- Career and compensation risk

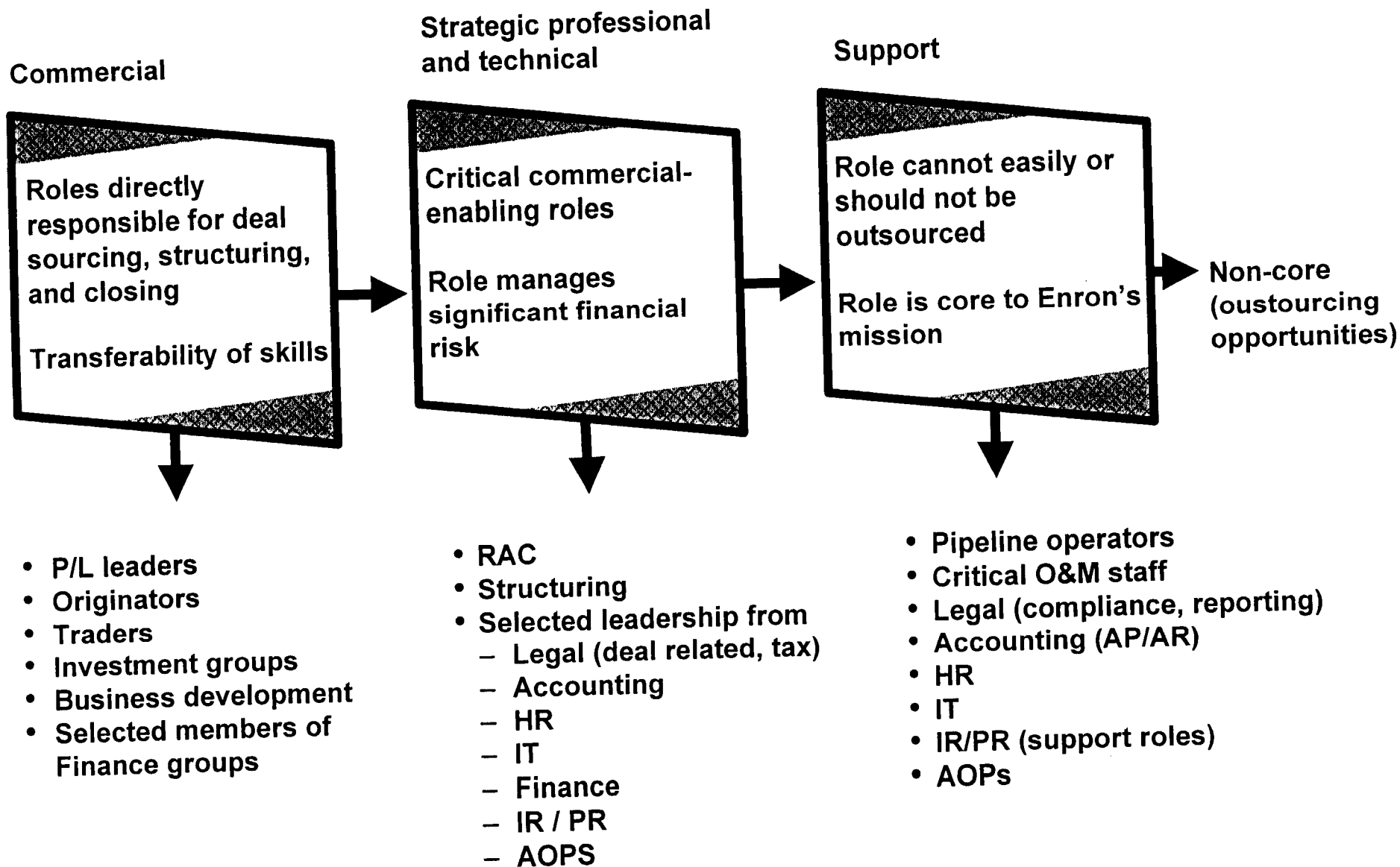
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# THREE TRACKS TO PARTNERSHIP



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# DEFINING PARTNERSHIP TRACKS



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# PERSONNEL ROLES

## Key roles

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### Office of the Chairman

- Evaluates, elects, and sets compensation for Corporate Policy Committee MDs
- Appoints all Corporate Policy Committee and PRC members
- Approves MD and VP compensation schemes and evaluation/election criteria

### Corporate Policy Committee

- Sets MD and VP evaluation and election criteria
- Sets MD and VP compensation levels and “curve tilt”
- Hears and decides on MD and VP evaluation/election appeals
- Approves election slates from PRCs
- Determines partnerable roles

### MD PRC (Corporate Policy Committee MDs and selected other MDs)

- Evaluates, ranks, and elects all MDs

### Commercial/Strategic Professional and Technical VP PRC (selected MDs)

- Evaluates, ranks, and elects all Commercial and Strategic Professional and Technical VPs

### Support VP PRC (selected MDs)

- Evaluates, ranks, and elects Support VPs

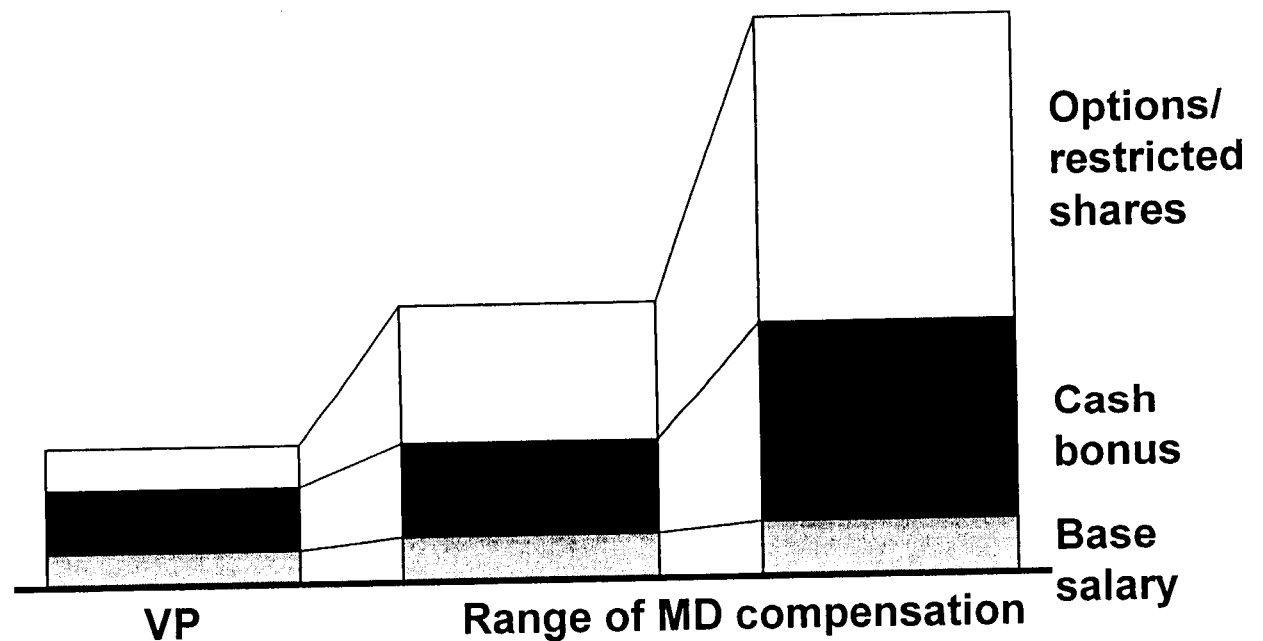
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# CURRENT COMPENSATION PRINCIPLES

## Compensation tenets

- Partners have more compensation at risk than a typical corporate executive
- Increasing variability/spread in compensation ranges by level
- Corporate-wide bonus pools for each partnership level

## Relative level of compensation at-risk for partners



# CHALLENGES IN COMPENSATING PARTNERS FOR NEW BUSINESS BUILDING VENTURES

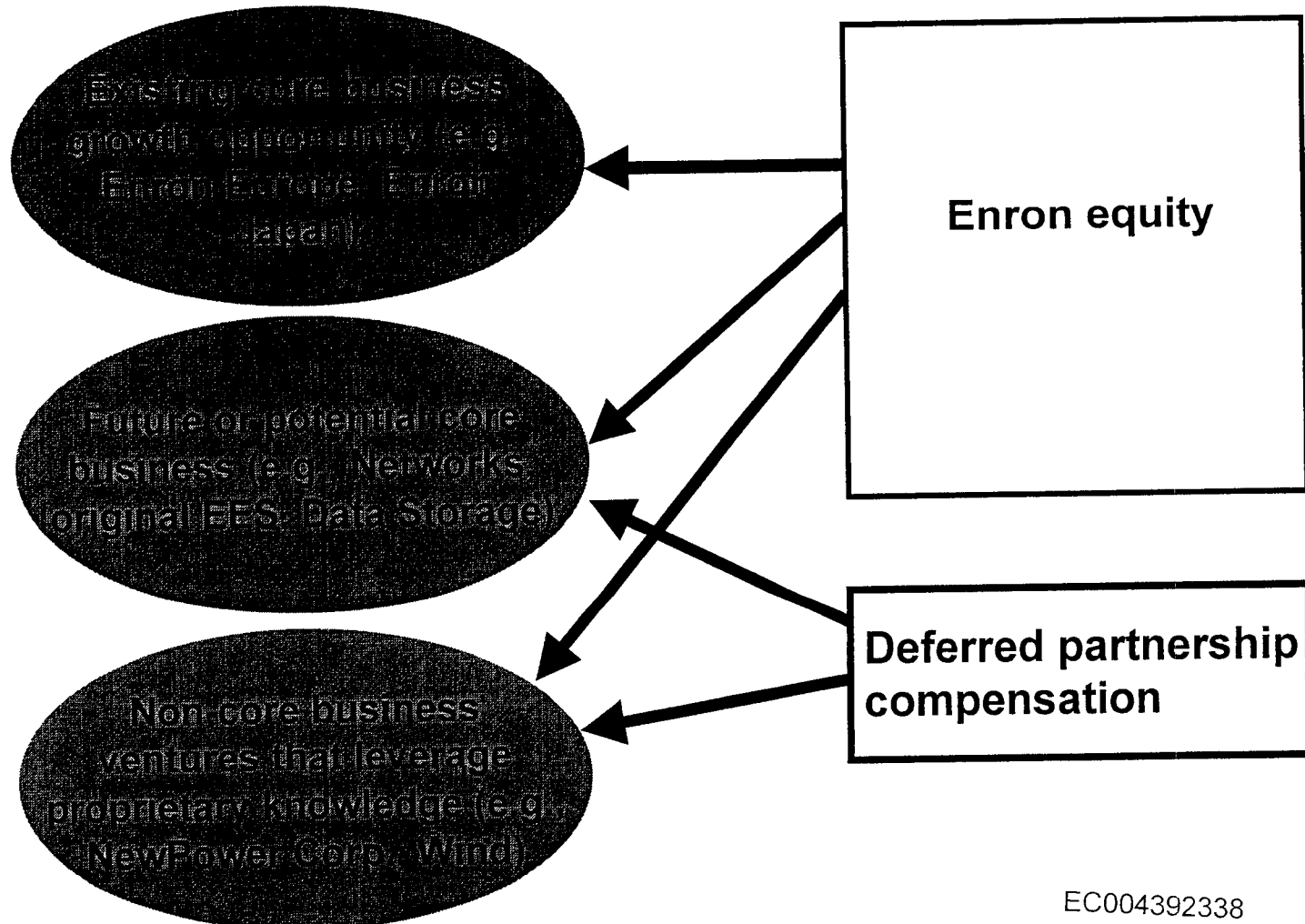
	Methodology	Challenges/implications	
Approach 1	Use salary, cash bonus, and Enron corporate options/restricted shares as the sole tools to compensate all partners	<ul style="list-style-type: none"> <li>• Easy to lose focus on the importance of business building</li> <li>• Partners reluctant to donate best people to a new venture with more distant and indirect impact on stock price</li> </ul>	X
Approach 2	Create special incentives (e.g., formulaic compensation vehicles) to be shared by those individuals directly involved with the creation of new businesses	<ul style="list-style-type: none"> <li>• Violates key tenet of partnership (i.e., single profit pool)</li> <li>• Value of new ventures may not be readily or accurately reflected in stock price</li> <li>• Leaders with formulaic compensation may be reluctant to "pull the plug" on non-performing businesses</li> </ul>	X
Approach 3	Create specific compensation vehicles linked to building new businesses, but with distributed ownership across entire partnership	<ul style="list-style-type: none"> <li>• Aligns entire leadership group toward creation of new businesses</li> <li>• Allows partners to have a portion of compensation tied to long term Enron growth in a vehicle other than stock price</li> </ul>	✓

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# NEW BUSINESS OPPORTUNITY CATEGORIES AND FUNDING SOURCES

Type of growth opportunity

Funding sources



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JKS

# **IMPACT OF PARTNERSHIP INTEREST IN NEW BUSINESS GROWTH**

- 1. Increased support across the organization for new businesses**
  - **EES**
  - **EBS**
- 2. Increased accountability/“pushback” from partnership group for key decisions**
  - **Azurix**
  - **EI**

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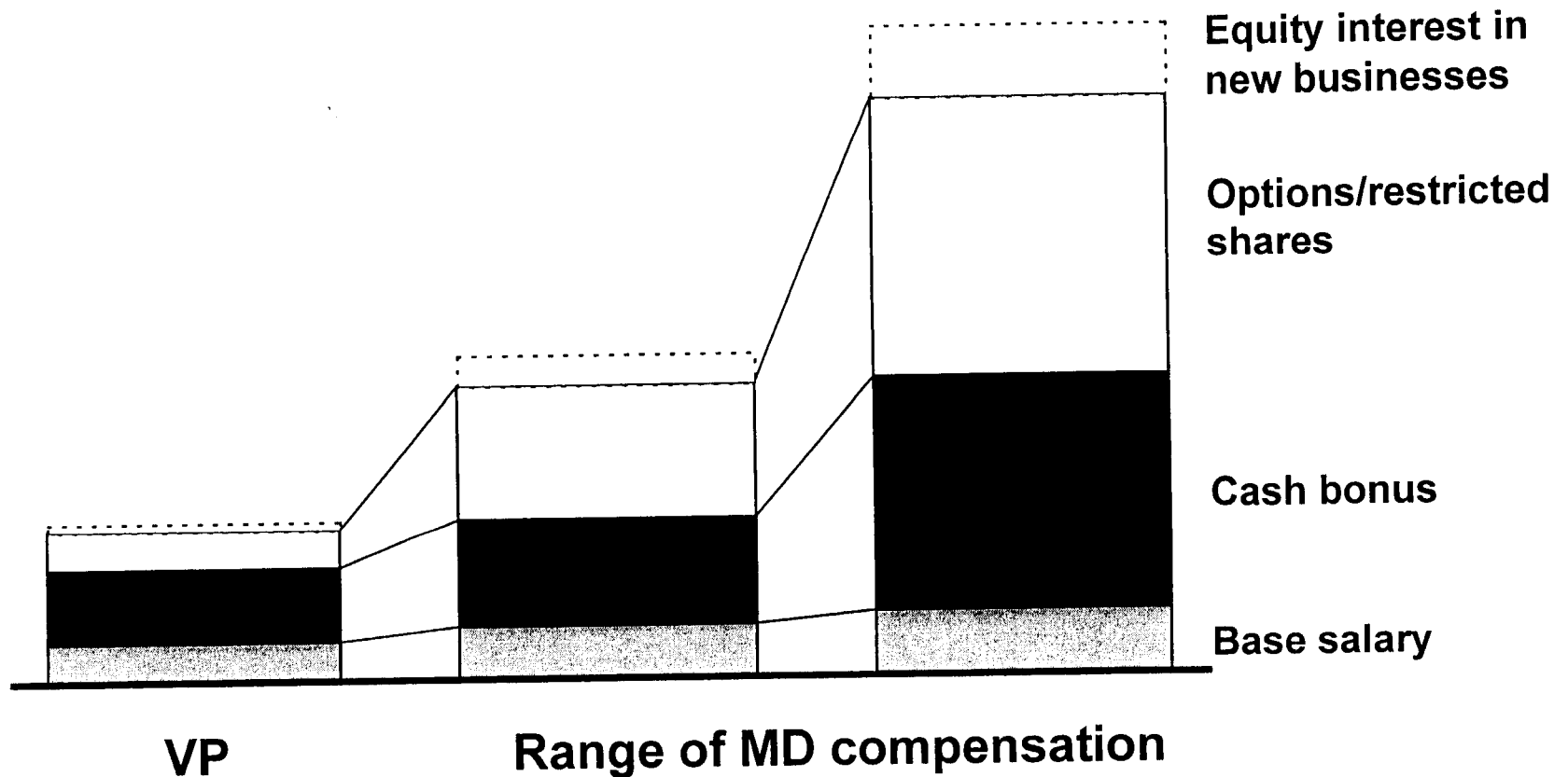
# **GOVERNANCE**

**An independent Board will ensure integrity and consistency in key compensation issues by**

- **Identifying which new business ventures are placed in each category**
- **Determining funding sources and proportions**
- **Approving specific valuation methodology, take-out provisions, and caps**

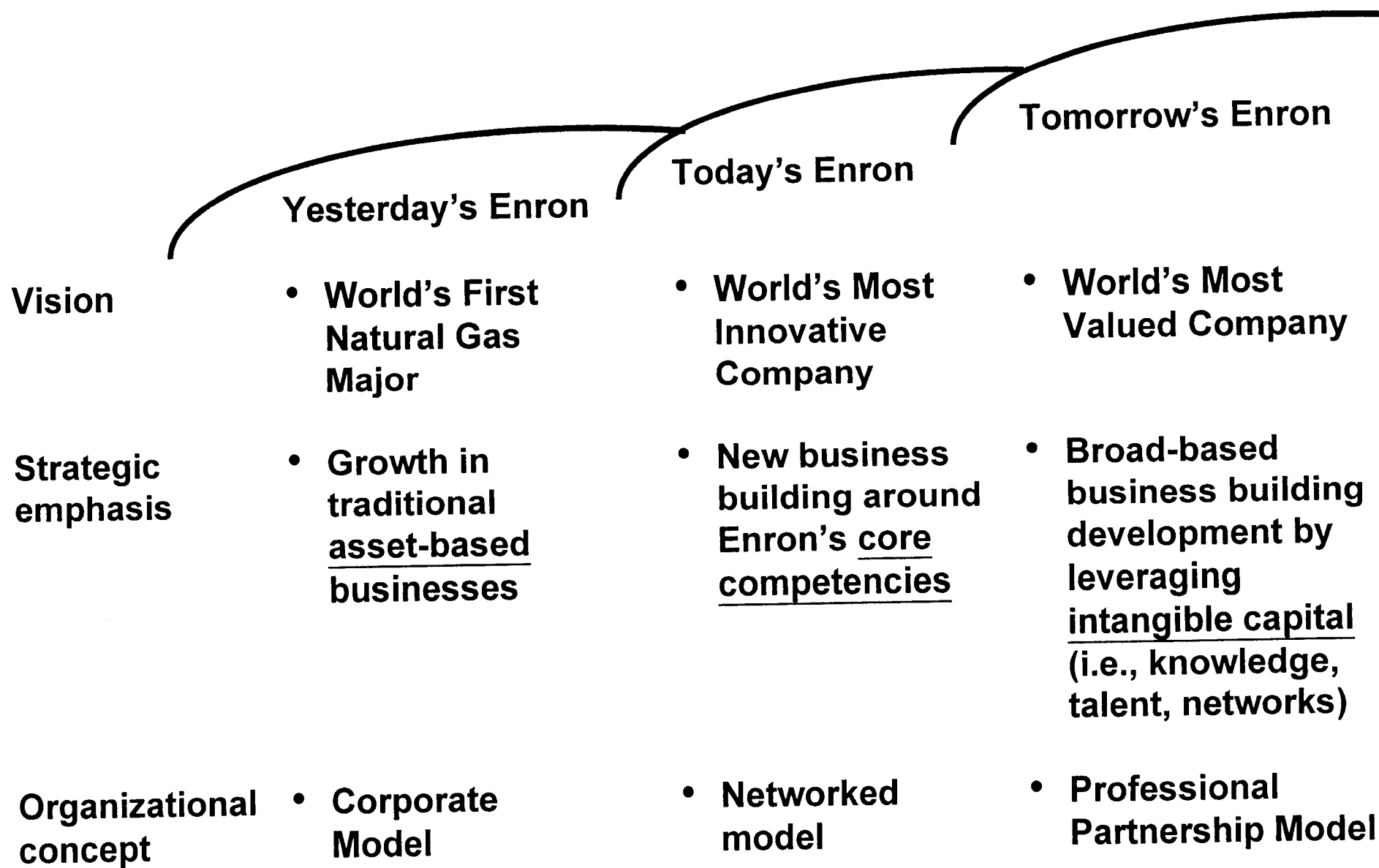
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# RELATIVE IMPACT OF HYBRID COMPENSATION APPROACH



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# BUILDING THE ENRON OF TOMORROW



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# **TRANSITIONING TO A PROFESSIONAL PARTNERSHIP MODEL**

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