

## **Enron Corp. Executive Compensation Program**

This comprehensive brochure provides you with information pertaining to Enron's Executive Compensation Program, with special emphasis on the Long-Term Incentive Program.

### **Compensation Philosophy**

The central philosophy of Enron's executive compensation program is to provide executives with rewards which reflect their impact on Enron's total shareholder returns and creation of long-term shareholder value. The Program is targeted at Enron's senior management team, which is approved each year by the Compensation and Management Development Committee (the "Committee") of the Enron Board of Directors. The key tenets of the program are:

- To deliver market competitive total compensation targets as determined through comprehensive market studies.
- To deliver a significant portion of total compensation in a combination of short-term and long-term incentives so that executives have the opportunity to earn at the 75th percentile of the external marketplace or higher, subject to the achievement of company financial and non-financial goals and individual performance objectives.
- To tie executive compensation to the creation of shareholder value.
- To promote teamwork and support Enron's desire for a transferable workforce.

**The following represent the key components of Enron's Executive Compensation Program:**

### **Base Salary**

Base salaries are targeted at the 50th percentile of the external marketplace. An annual salary increase budget is set to maintain Enron's market position. Base pay is reviewed and adjusted on February 1 of each year, if appropriate.

### **Annual Incentives**

The primary objectives of Enron's annual incentive plan are to provide cash awards aligned with Enron's achievement of pre-established financial and non-financial operating goals which are critical to Enron's short-term and long-term success and to reward individual contribution to that success. Subject to approval by the Committee, annual incentives are funded as a percentage of actual after-tax net income.

Competitive annual incentive targets are established by the Committee each year based on an assessment of external trends and market data. Cash awards are determined each January based on company and business unit performance as determined by the Committee. Individual performance, as determined through the year end Performance Review Committee ("PRC") process, has significant influence on actual incentive awards paid.

### **Long-Term Incentives**

#### Overview

The Long-Term Incentive Program (the "LTIP") was designed to link executive pay to the creation of long-term shareholder value. The LTIP provides for awards of Enron non-qualified stock options and restricted

stock. Option grants provide for time-based vesting; restricted stock grants are made with a future vesting date which may be accelerated based on Enron's performance relative to the S&P 500.

The Committee has the option to add or substitute any other long-term compensation vehicle that they deem appropriate.

**Eligibility**

Participation in the LTIP is available to employees in the vice president job group and above. Eligibility is limited to top performers who are key to Enron's success.

Competitive long-term incentive target values are established by the Committee each year based on an assessment of external trends and market data. Actual grants are determined each January based on the year end PRC assessments and are subject to approval by the Enron Corp. Office of the Chairman. Award agreements which provide the terms and provisions of the awards are typically presented to each recipient during the first quarter of the year.

For Section 16(b) officers, grants require Compensation and Management Development Committee approval.

**Stock Options**

One-half of the value of the LTIP award will be delivered in non-qualified stock options. A stock option provides the option holder with an opportunity to purchase stock at a fixed price over a specified period of time. Generally, LTIP awards will consist of 5-year term options. The option term and vesting schedule is reviewed each year and is subject to change. The following table depicts the vesting schedule applicable to awards made in January, 2001:

<b>Grant/Vest Dates</b>	<b>Vesting</b>
1/23/01(Date Granted)	15%
7/31/01	15%
1/31/02	15%
7/31/02	15%
1/31/03	15%
7/31/03	15%
1/31/04	10%

The grant price will be the closing price of Enron Corp. common stock as reported in the New York Stock Exchange (NYSE) Composite Transactions section of the Wall Street Journal as applicable for the actual grant date.

The number of options to be awarded will be determined based on the approved Black-Scholes value as determined by the Committee. The Black-Scholes value of an Enron stock option is based upon the value of Enron stock at the time of the grant and other factors, including, but not limited to, stock price volatility, dividend rate, option term, vesting schedule and long-term interest rates. Enron engages a third party compensation consultant to derive its Black-Scholes values.

**Restricted Stock**

The other half of the LTIP award will generally be delivered in restricted stock. The stock will vest four (4) years following the grant date. However, vesting can accelerate based upon Enron's annual cumulative shareholder return relative to the S&P 500. The following table illustrates possible vesting scenarios:

Enron's Cumulative Shareholder Return Relative to the S&P 500	Cumulative % Restricted Stock to Vest by Year After Grant			
	Year 1	Year 2	Year 3	Year 4
<50 <sup>th</sup> Percentile	0%	0%	0%	100%
50-69 <sup>th</sup> Percentile	25%	50%	75%	100%
70-79 <sup>th</sup> Percentile	33%	67%	100%	
80-89 <sup>th</sup> Percentile	50%	100%		
90-99 <sup>th</sup> Percentile	100%			

***Example:***

- Year 1 – Enron ranks 75<sup>th</sup> Percentile, shares vest 33%
- Year 2 – Enron ranks in 40<sup>th</sup> Percentile, shares vest 33% on a cumulative basis
- Year 3 – Enron ranks in 65<sup>th</sup> Percentile, shares vest 75% on a cumulative basis
- Year 4 – Enron ranks in 80<sup>th</sup> Percentile, shares vest 100% on a cumulative basis

	1993	1994	1995	1996	1997	1998	1999	2000
<b>ENE</b>	27.39%	7.81%	27.67%	15.38%	-1.51%	39.61%	57.28%	88.45%
<b>S&amp;P 500</b>	14.57%	0.43%	32.35%	20.13%	28.75%	7.13%	20.92%	-9.03%
<b>ENE Position in S&amp;P 500</b>	114	161	283	271	417	109	76	33
<b>Percentile</b>	70-79 <sup>TH</sup>	50-69 <sup>TH</sup>	<50 <sup>th</sup>	<50 <sup>th</sup>	<50 <sup>th</sup>	70-79 <sup>TH</sup>	80-89 <sup>th</sup>	90-99 <sup>th</sup>

**LTIP Termination Provisions**

Generally, if your employment with Enron is terminated, you will have the earlier of the expiration date or the dates referenced below (from date of termination) to exercise your stock options. The following diagram summarizes the termination provisions.

<b>Reason</b>	<b>Restricted Shares</b>	<b>Stock Options</b>
Retirement, Death, Disability	Unearned Shares Supervest	3 Years; unvested options supervest
Voluntary Termination	Unearned Shares are Forfeited	3 months (1991 Stock Plan) 1 month (1994 Stock Plan) Unvested Options Cancel
Involuntary Termination	Unearned Shares Supervest	3 Years; unvested options cancel

**Executive Deferral Plans**

LTIP participants are eligible to defer all or a portion of salary, bonus and long-term compensation into Company-sponsored deferral plans. These plans provide executives with an opportunity to delay payment of federal and state income taxes, and earn tax-deferred returns on deferrals, while actively employed. Full details of these plans are provided to eligible executives during the fourth quarter for elections effective the following tax year.

**Benefits**

Executives selected to participate in the LTIP will typically have the same benefit plans as other Enron employees.

**Summary**

The Enron Corp. Executive Compensation Program is designed to promote excellence in both team and individual performance and to attract and retain key talent. The program is reviewed annually for market competitiveness. It is also reviewed periodically to determine if changes in philosophy, targets or compensation vehicles are necessary to help attract, motivate and retain executive talent.

Note: All benefits earned and payable under the plans and/or programs outlined in this brochure shall be governed by the terms and provisions of the plans, governing documents and any amendments thereto. All calculations contained herein are made in accordance with provisions of the appropriate plans. In the event of error, the terms and provisions of the plans shall govern. Subject to the provisions thereof, the Company reserves the right to amend, alter, and terminate any plans and/or programs at any time.