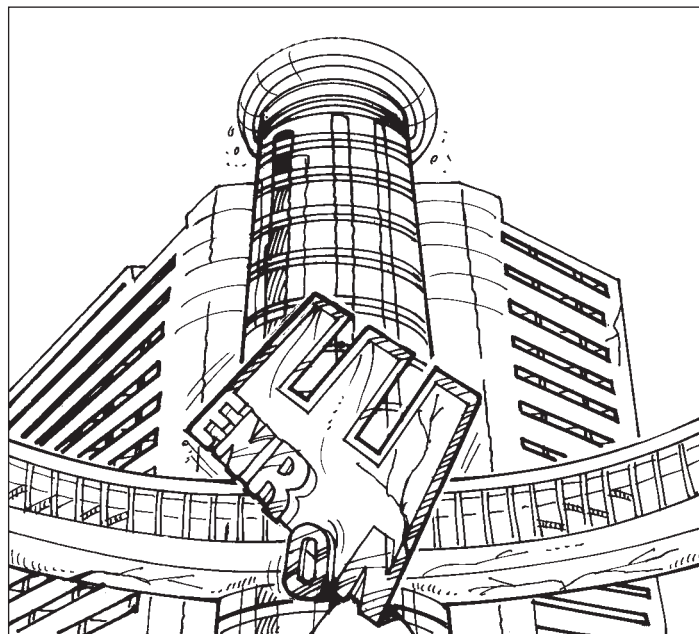


5 The rise and fall of Enron

Paul Dummett

1 Work with a partner. Put the events in Enron's history into the correct order. The first one has been done for you.

- A** Ken Lay, boss of Houston Natural Gas, was immediately appointed CEO of the newly-formed company.
- B** When it didn't receive answers, the regulator launched a formal investigation into Enron's investments. As a result, Enron's Chief Financial Officer resigned.
- C** During the 1990's, Enron continued to expand and diversify at an incredible rate. It invested \$2 billion in a power plant in India, bought a water company in the UK and acquired an electricity company in Portland, Oregon.
- D** Enron was founded in 1985 when two gas companies, Houston Natural Gas and InterNorth, merged to create the first national natural gas pipe network.
- E** Finally, the company was declared bankrupt, but the directors had already sold their shares and walked away with the profits.
- F** Three years after its creation, Enron opened its first offices abroad as part of a strategy to take advantage of newly-privatised markets.
- G** By the end of 2000, annual revenues had reached \$100 billion, making Enron the sixth-largest energy company in the world. Most of this was from trading activities.
- H** However, Enron was not satisfied with revenue just from gas trading, so it also moved into electricity trading, establishing a trading centre in London. This became the company's most profitable activity.
- I** The first evidence of false accounting came in the first few months of 2001 when Enron admitted it had lost \$570 million. Its share price fell, causing a cash and credit crisis.
- J** In July, the regulator started asking Enron to give more details about its financial performance.
- K** At the same time as opening offices overseas, Enron began trading natural gas in North America.
- L** By the turn of the century, a highly competitive work culture had developed. Each year 15% of Enron's employees were sacked and replaced with younger, ambitious graduates.
- M** The investigation found that the company and its accountants had lied to its shareholders and employees about \$2 billion of debt.



2 Discuss with your partner what you think was the main reason for Enron's failure.

- It grew too quickly.
- Its trading business was based on trust, not on capital assets.
- It was not open about its accounts.
- It diversified too much.
- Its directors were only interested in profits for themselves.
- It exploited the deregulation of energy markets and made existing companies jealous.