

MINUTES
MEETING OF THE AUDIT AND COMPLIANCE COMMITTEE
OF THE BOARD OF DIRECTORS
ENRON CORP.
October 8, 2001

Minutes of a meeting of the Audit and Compliance Committee ("Committee") of the Board of Directors of Enron Corp. ("Company"), held pursuant to due notice at 3:00 p.m., C.D.T., on October 8, 2001 at the Enron Building, in Houston, Texas.

All of the Committee members were present as follows:

Dr. Robert K. Jaedicke, Chairman
Mr. Ronnie C. Chan
Dr. Wendy L. Gramm
Dr. John Mendelsohn
Mr. Paulo V. Ferraz Pereira
Lord John Wakeham

Directors Robert A. Belfer, Norman P. Blake, Jr., John H. Duncan, and Kenneth L. Lay, and Messrs. Robert H. Butts, Richard B. Buy, Richard A. Causey, James V. Derrick, Jr., Shawn Kilchrist, D. Andrew Parsons, David R. Port, and L. Greg Whalley and Ms. Paula H. Rieker, all of the Company or affiliates thereof, Messrs. Thomas H. Bauer, David B. Duncan, and D. Stephen Goddard, of Arthur Andersen LLP ("AA"), and Mr. Richard N. Foster, of McKinsey & Company, Inc. ("McKinsey"), also attended the meeting. Director Charles A. LeMaistre, Messrs. John C. Brindle and Steven J. Kean and Ms. Sharon A. Butcher, all of the Company or affiliates thereof, and Messrs. Joseph C. Dilg and Max Hendrick, III, of Vinson & Elkins L.L.P. ("V&E"), joined the meeting in progress as noted below.

The Chairman, Dr. Jaedicke, presided at the meeting, and the Secretary, Ms. Rieker, recorded the proceedings.

Dr. Jaedicke called the meeting to order, noted that a draft of the minutes of the meeting of the Committee held on August 13, 2001 had been distributed to members of the Committee, and called for comments, additions, or corrections. There being none, upon motion duly made by Mr. Ferraz Pereira, seconded by Dr. Mendelsohn, and carried, the minutes of the meeting of the Committee held on August 13, 2001 were approved as distributed.

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Dr. Jaedicke called upon Mr. Causey to discuss the Company's earnings results for the third quarter of 2001. Mr. Causey provided a report on the expected earnings results, a copy of which is included in the records of the meeting. He reviewed potential non-recurring earnings items, including items related to impairments of assets planned for sale by Azurix Corp., to the restructuring of the Company's broadband business, and to losses associated with certain investments by the Company. He described the investments contributing to the potential losses and the economics and accounting of certain financial arrangements used primarily to hedge certain investments. Mr. David Duncan reported that AA's review work was ongoing but that, based on work to date, AA believed that the accounting for the losses associated with certain investments by the Company was appropriate. Mr. Causey then reviewed the expected recurring earnings for the third quarter for each of the new proposed business segments. He also reviewed the quarterly balances of the financial reserves of the Company, including comparative quarterly balances since the end of the last fiscal year. A discussion ensued regarding the components of the reserve balances.

Dr. Jaedicke called upon Mr. David Duncan to provide AA's presentation. Mr. Duncan indicated that AA had substantially completed its review of the potential non-recurring items in the quarter previously discussed by Mr. Causey. He indicated that he and Mr. Causey would schedule a conference call with Dr. Jaedicke if additional issues surfaced as a result of the completion of the review work during the following week, and he reported he was not currently aware of additional issues that would be material.

Mr. Causey provided a report on the expected impact on the Company of the Statement of Financial Accounting Standards No. 142 on Goodwill and Other Intangible Assets ("Standards"), a copy of which is included in the records of the meeting. He reported that the Company expected to adopt the Standards in the first quarter of 2002 and to disclose the expected impact by the time of the filing of the Company's third quarter financial statements with the Securities and Exchange Commission. He detailed components of the Company's total \$5.8 billion of goodwill, including consolidated and unconsolidated goodwill. He also noted that evaluation by the Company, AA, and an outside firm of the impact of the Standard on Wessex Water should be completed the following week.

Messrs. Causey, Parsons, and Kilchrist provided a report on the internal controls of the Company, a copy of which is included in the records of the meeting. Mr. Parsons indicated that planned projects for 2001 were largely complete. He summarized the major control initiatives in process, including integration of the Company's wholesale and retail operations and an audit related to Enron OnLine. Mr. Kilchrist also reported on control projects related to the

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Company's risk management operations and the recently revised Risk Management Policy ("Policy").

Dr. LeMaistre and Messrs. Brindle and Kean entered the meeting.

Mr. David Duncan reported that AA expected to issue an opinion letter on the adequacy of the Company's internal controls at the end of the audit for the year and additional details would be provided to the Committee at the meeting in December.

Mr. Whalley left the meeting.

Dr. Jaedicke then called upon Messrs. Brindle and Kean to provide an overview of the security-related initiatives of the Company. Mr. Brindle presented his report, a copy of which is included in the records of the meeting. He summarized new initiatives focused on potential terrorist threats and identified key challenges and priorities, and a discussion ensued.

Mr. Whalley returned to the meeting. Messrs. Brindle and Kean left the meeting.

Dr. Jaedicke provided a report, a copy of which is included in the records of the meeting, on the respective roles of the Audit and Compliance Committee and the Finance Committee in monitoring the Policy of the Company and in reviewing transactions previously approved. Mr. Buy reported on the implementation of the new Policy and related reporting.

Dr. Jaedicke called upon Mr. Buy to review the Market Risk Update, a copy of which is included in the records of the meeting. Mr. Buy indicated that the report format followed the Policy framework and reflected the Company's risk management approach. He reviewed summaries of profit and loss and average Value-at-Risk ("VAR") of the Company's wholesale businesses by both market concentration and major business units. He discussed returns on average VAR by commodity group by both market concentration and major business units.

Mr. Derrick left the meeting.

Mr. Buy reviewed the backtesting performed on the aggregate VAR of the Company, noted instances when the VAR limits had been exceeded, reported that the Expected Tail Loss had not exceeded the advisory limit, and reported that the results of the Kupiec Test validated the VAR model.

Mr. Derrick and Ms. Butcher joined the meeting.

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Mr. Buy presented a quarterly comparison of the utilization of the VAR limits. He noted that, although the average quarterly data consistently showed VAR utilization within approved limits, monitoring of daily VAR utilization showed that limits are often approached. He further commented that the recent experience regarding limit violations was a function of the transition to the new Policy and reported preventative action plans in process to reduce limit violations. Following his report, a discussion ensued regarding maturity gap analysis and the need to examine risk measures closely to understand the impact of factors on the overall portfolio. Mr. Buy presented analyses of various scenarios and related potential losses and reported that the potential losses fell within acceptable ranges. He reviewed a liquidity risk ratio analysis and indicated it represented the amount of available cash to the Company relative to the future cash requirements of the Company's trading portfolio. He reported that, on an immediate basis, the liquidity ratio had declined but remained above the targeted level and, over a thirty-day timeframe, the ratio remained significantly above the targeted level. He also discussed the Company's foreign exchange exposure related to Brazilian currency, citing an increase in the cumulative translation adjustment balances of the Company.

Dr. Jaedicke called upon Mr. Derrick to provide a review of the Compliance Report of the Company, a copy of which is included in the records of the meeting. Mr. Derrick indicated that V&E had reviewed the Company's program and provided an annual opinion on the sufficiency of the program. He detailed components of the opinion, indicating that no suggestions of change were referenced in the opinion and that continued review of the program was important to insure effectiveness. He reported on the distribution to all employees of both a summary and the complete Code of Ethics of the Company and the Certificate of Compliance to be completed by employees. He presented targeted dates to complete and review the 2001 compliance program. He then reviewed trends in incidents reported under the Company's compliance program. Dr. Jaedicke commented on the thoroughness of the report. Mr. Derrick called upon Ms. Butcher for observations regarding the increase in reported incidents. Ms. Butcher noted that the increase was a direct result of significantly expanded communications to encourage employee participation. She commented that, although the number of reported incidents to date in 2001 exceeded the reports in the same period of 2000, the seriousness of the incidents reported in the two periods were comparable.

Dr. Jaedicke called for an executive session with Messrs. Bauer, Duncan, and Goddard, all of AA, at 4:20 p.m., C.D.T., to discuss the adequacy of the existing controls of the Company relative to the recently expanded elements of the Policy. Directors Gramm, Jaedicke, Mendelsohn, and Wakeham attended the

session. Directors Belfer, Blake, Chan, Duncan, Ferraz Pereira, Lay, and LeMaistre and Messrs. Butts, Buy, Causey, Derrick, Kilchrist, Parsons, Port, and Whalley and Mesdames Butcher and Rieker, all of the Company or affiliates thereof, and Mr. Foster, of McKinsey, left the meeting. Minutes of the executive session were not recorded for the record. Dr. Jaedicke recessed the executive session at 4:50 p.m., C.D.T.

Dr. Jaedicke reconvened the executive session at the Four Seasons Hotel in Houston, Texas, at 6:30 p.m., C.D.T. Directors Chan, Gramm, Ferraz Pereira, Jaedicke, Mendelsohn, and Wakeham, all members of the Committee, attended the executive session. Director Lay, Mr. Whalley and Ms. Rieker, all of the Company, Mr. Foster of McKinsey, and Messrs. Dilg and Hendrick, III, of V&E, also attended the executive session.

Dr. Jaedicke introduced Messrs. Dilg and Hendrick. He indicated that, in response to concerns expressed to Mr. Lay by an employee pertaining to certain financial arrangements and related party transactions entered into by the Company, the Company engaged V&E to conduct a preliminary investigation into the concerns cited in the employee's letter to determine whether a broader review was warranted. He asked Mr. Dilg to provide a report. Mr. Dilg stated that the attorney/client privilege was reserved for the report. He summarized the concerns expressed by the employee and the scope of the review conducted, which had consisted of a review of excerpts of Board minutes and other documents as well as interviews with various individuals who were still employed by the Company, the author of the letter, and representatives of AA. He confirmed that special review procedures had been defined by the Board and by management with respect to the related party transactions. He stated that, while certain Company employees interviewed were concerned that the related party transactions had created uncomfortable perceived pressure on employees negotiating for the Company against the related party, no one interviewed was aware of any situation where the Company's interests were prejudiced by the conflict of interest. He reported on AA's awareness of and review of the transactions and the technical accounting matters associated with such transactions. He also reported that attorneys at V&E were interviewed regarding the disclosures by the Company to investors. He summarized that no additional facts had surfaced in the review, and V&E did not feel further investigation was necessary based on the material in the letter. He stated that, although approved at the proper levels and properly accounted for, the related party transactions could be the subject of adverse publicity.

Dr. Jaedicke called for comments, and a discussion ensued. In the discussion, Committee members stressed the importance of thanking the employee for reporting the concerns and providing the employee with an adequate response.

Dr. Jaedicke indicated that no action was required by the Committee. He indicated that a Committee report to the Board of Directors of the Company would conclude that appropriate procedures were defined and followed regarding the financial arrangements and that associated transactions were fully approved and adequately disclosed.

There being no further business to come before the Committee, the meeting was adjourned at 7:14 p.m., C.D.T.

Paula L. Rieker
Secretary

APPROVED:

Arthur K. Jaedicke
Chairman

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