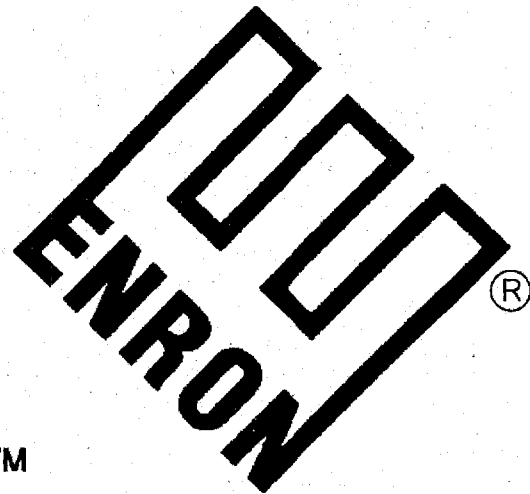


AUDIT AND COMPLIANCE COMMITTEE MEETING

October 8, 2001

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**GOVERNMENT
EXHIBIT
632**

Crim. No. H-04-25 (S-2)

Agenda



EC004397404

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

Agenda
Meeting of the Audit and Compliance
Committee of the
Board of Directors
Enron Corp.

October 8, 2001
3:00 pm (CDT)
Enron Corp.
50th Floor Boardroom
Houston, Texas

1. Approve minutes of meeting of the Audit Committee held on August 13, 2001 – Dr. Jaedicke.
2. Third quarter earnings update – Mr. Causey.
3. Third quarter financial reporting observations – Messrs. Duncan and Bauer, Andersen LLP.
4. Review and update on accounting for goodwill – Mr. Causey.
5. Internal control update – Messrs. Causey, Kilchrist and Parsons.
6. Physical security update – Mr. Kean.
7. Audit and Finance Committee roles in monitoring the Risk Management Policy and procedures for post transaction reviews – Messrs. Causey and Buy.
8. Review of operations under the Enron Risk Management Policy – Mr. Buy.
9. Review of Enron Compliance Report for 2000 – Mr. Derrick.
10. Other business, including executive sessions as deemed necessary – Dr. Jaedicke.
11. Adjournment.

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Audit and Compliance Committee Calendar of 2001 Activities

	Scheduled Meetings				
	February	May	August	October	December
I. Audit Committee Composition and Meetings					
• Assess independence and financial literacy of audit committee, submit written affirmation to NYSE		X			
• Review charter (publish in proxy every 3 years)	X				
• Audit Committee Chair to approve meeting agenda	X	X	X	X	X
• Executive session with auditors, internal audit, management, committee	X	*	*	*	*
• Maintain minutes and report to Board	X	X	X	X	X
II. Audit Committee Responsibilities and Duties					
• Recommend appointment of auditors	X				
• Approve audit fees		X			
• Discuss auditor independence, obtain written statement of all relationships	X		X		
• Review plans for financial statement audit		X			
• Review annual financial statements prior to release— discuss with mgmt, auditors	X				
• Discuss quality of accounting principles—approve major changes	X	*	*	*	*
• Review adequacy of financial and EDP internal controls					X
• Review internal control plan	X				
• Discuss results of year-end audit and other matters required by SAS 61	X				
• Prepare report to shareholders to be included in the annual proxy	X				
• Review quarterly results and findings prior to filing	X	X	X	X	
• Review policies and practices for management's communications with analysts	X				
• Review/Approve for recommendation to the Board policies and procedures regarding compliance with laws and significant policy				X	
• Review credit and market risk with RAC	X	X	X	X	X
• Review legal matters with general counsel	X	*	*	*	*
• Conduct special investigations, studies or tests	*	*	*	*	*
• Review director and officer use of aircraft	X				

X = Recommended Timing
* = As Needed

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Agenda Item 1



EC004397407

DRAFT

**MINUTES
MEETING OF THE AUDIT AND COMPLIANCE COMMITTEE
OF THE BOARD OF DIRECTORS
ENRON CORP.
AUGUST 13, 2001**

Minutes of a meeting of the Audit and Compliance Committee ("Committee") of the Board of Directors of Enron Corp. ("Company"), noticed to begin at 2:30 p.m., C.D.T., but actually begun at 2:40 p.m., C.D.T., on August 13, 2001 at the Enron Building, 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

Director Jeffrey K. Skilling, Messrs. Robert H. Butts, Richard B. Buy, Richard A. Causey, James V. Derrick, Jr., Shawn Kilchrist, Theodore R. Murphy, D. Andrew Parsons, Rex R. Rogers, and Robert H. Walls, Jr., and Ms. Rebecca C. Carter, all of the Company or affiliates thereof, and Messrs. Thomas H. Bauer, David B. Duncan, and D. Stephen Goddard, of Arthur Andersen LLP ("AA"), also attended the meeting.

The Chairman, Dr. Jaedicke, presided at the meeting, and the Secretary, Ms. Carter, 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 April 30, 2001 had been distributed to Committee members, and called for comments, additions, or corrections. There being none, upon motion duly made by Dr. Gramm, seconded by Dr. Mendelsohn, and carried, the minutes of the meeting of the Committee held on April 30, 2001 were approved as distributed.

Dr. Jaedicke called upon Messrs. Causey and Duncan to begin the financial reporting and control audit update, a copy of which is filed with the records of the meeting. Mr. Duncan presented selected observations related to the Company's second quarter, including the following: 1) increased attention was focused on the situations in India and California, 2) the Wholesale group's continuing evaluation of the Enron Energy Services, LLC ("EES") portfolio positions resulted in numerous valuation changes, 3) reserves related to the situation in California and

EC004397408

the volatility in the energy markets continued to be monitored, and 4) the difficulties in the telecommunications industry had raised the potential for certain exposures. He then noted that AA had no proposed adjusting entries for the second quarter.

Mr. Causey then began a discussion of the Company's reserves. He commented on the prudence and credit reserve and noted that it was related to the Company's entire portfolio and was reevaluated monthly. He then stated that there was an EES reserve that related to specific transactions currently on the books and he commented on certain transactions and the related reserves. He discussed the allowance for doubtful accounts and the reasons the amount had increased from the first quarter. He then noted that a reserve relating to the California tariff risk, that had been present in the first quarter, was no longer in place since the amount had been recorded during the second quarter.

Mr. Causey then provided an internal control update and commented on significant current activities, including the following: 1) the 2001 plan was on schedule and approximately 45% complete, 2) the integration of the retail and broadband portfolios into the existing wholesale structure was continuing, 3) the cash management processes had been strengthened when the new procurement and payment system was implemented, 4) security issues related to the Enron Intelligent Network had been identified and were being addressed, 5) the construction of the enterprise data center and business resumption facility would commence soon, and 6) the Company's risk management policy was being updated to incorporate current "best practices".

Dr. Jaedicke called upon Mr. Duncan to begin the independent auditor communication regarding independence. Mr. Duncan stated that AA believed that independence was not only the cornerstone of its profession but the only sound basis to its continued success. He stated that AA believed its policies surrounding independence were compliant with those required and that the scope of its practice was appropriate for the Company. He confirmed that AA was an independent accountant with respect to the Company within the meaning of the Securities Act and the requirements of the Independence Standards Board.

Mr. Causey then began a discussion of the new accounting standard for goodwill. He stated that, effective January 1, 2002, goodwill would not be amortized but rather tested for impairment annually at the "reporting unit" level. He then discussed the standard's definition of reporting unit and noted that goodwill would be tested for impairment using a two-step approach. He stated that the first step would be to compare the fair value of a reporting unit, utilizing a discounted cash flow or market multiple approach, to its carrying amount. He stated that if the fair value was less than the carrying amount then the implied fair value of the goodwill was compared to its carrying amount and if the carrying amount exceeded the implied fair value then an impairment loss, equal to the

excess, would be recognized. He commented on the transition and effective date of the new accounting standard. He then presented summaries of the Company's consolidated goodwill excluding equity method investments, the goodwill related to equity investments, and the unconsolidated goodwill on equity method investees' books and discussed areas where the preliminary assessment indicated that the fair value could be less than the carrying amount. He stated that the Company would continue its assessment of the goodwill and would update the Committee at the next meeting.

Dr. Jaedicke then called upon Mr. Buy to begin the Market Risk Update, a copy of which is filed with the records of the meeting. Mr. Buy discussed the backtesting performed on the Company's Value-at-Risk ("VAR") model and stated that per the Kupiec test since the actual occurrences of profits and losses exceeding VAR fell within the acceptable range the VAR model was deemed appropriate. He reviewed the limit violations for the second quarter by portfolio, stated that a significant number of the violations related to the North American Gas portfolio, and noted they were primarily due to price and volatility movement, combined with increased activity via EnronOnline. He reviewed the VAR, maturity/gap, and net open position limit violations for the second quarters of 2000 and 2001. He then presented a chart depicting the VAR limit utilization by portfolio over that last four quarters and noted that the North America Gas and Power portfolios had higher utilization than in previous quarters.

Dr. Jaedicke called for an executive session with AA at 3:25 p.m., C.D.T. and Messrs. Butts, Buy, Causey, Derrick, Kilchrist, Murphy, Parsons, Rogers, Skilling, and Walls and Ms. Carter left the meeting. Minutes of the executive session were not recorded for the record.

There being no further business to come before the Committee, the meeting was adjourned at 3:40 p.m., C.D.T.

Secretary

APPROVED:

Chairman

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Agenda Item 2

EC004397411

Non-Recurring Earnings

Third Quarter 2001

(\$ in millions)

	<u>Pre-tax</u>	<u>After-tax</u>	<u>E.P.S.</u>
Recurring Earnings	<u>\$ 521</u>	<u>\$ 396</u>	<u>\$ 0.43</u>
Non-Recurring Items:			
Azurix Asset Sales <i>[Impair all BA AX but woody]</i>	(310)	(310)	(0.34)
Broadband <i>Inv. Sec Content</i>	(281)	(183)	(0.20)
Loss on Investing Activities*	(711)	(462)	(0.51)
Total Non-Recurring Items	<u>(1,302)</u>	<u>(955)</u>	<u>(1.05)</u>
Anti-dilution			(0.11)
Total Earnings	<u><u>(\$781)</u></u>	<u><u>(\$559)</u></u>	<u><u>(\$0.73)</u></u>

* Pending New Power market movement

EC004397412

② • Description of New Segments

Third Quarter - Recurring Earnings by Segment

(\$ in millions)

	<u>Third Quarter</u>		<u>Nine Months</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Enron Transportation Services	\$ 83	\$83	\$ 293	\$ 288
Portland General ^② <i>regulatory</i>	(3)	74	122	241
Global Assets ^③ <i>power; load gen. supply</i>	16	26	34	140
Americas ^① <i>Very strong</i>	646	548	2,567	1,134
Retail Risk Management	43	-	(665)	-
Europe and Other Energy Mkts ^④ <i>Small, but nice ↑</i>	67	40	265	216
Energy Services ^③ <i>Very strong</i>	71	27	171	79
Broadband Services	(80)	(20)	(217)	(28)
Corporate & Other	(67)	(111)	(206)	(170)
Interest, MI, & Income Tax	(380)	(375)	(1,158)	(981)
Recurring Net Income	<u>\$ 396</u>	<u>\$ 292</u>	<u>\$ 1,206</u>	<u>\$ 919</u>

EC004397413

Enron Corp.
Reserves
(\$ millions)

	9/30/01	6/30/01	3/31/01	12/31/00	
PGE					
Sullivan plant reclamation reserve	20	20	20	20	
Allowance for doubtful accounts	25	22	19	10	
North America					
Allowance for doubtful accounts	355	559	480	106	California A/R reserves at 60% 3Q; 80% 2Q Reevaluated monthly
Credit	450	350	323	288	
Valuation - gas and power	87	277	401	435	
EES Specific Deal Reserves	415	248	-	-	
PG&E Credit Claims	50	111	-	-	
Other specific transactions	87	98	143	58	
California and N. West political risk	21	47	47	47	
Bammel monetization reserve	-	35	35	35	
California tariff risk	-	-	319	-	Reserve used in second quarter Settled first quarter 2001
TVA settlement	-	-	-	253	
	<u>1,465</u>	<u>1,725</u>	<u>1,748</u>	<u>1,222</u>	
Europe					
Credit	104	114	117	131	Reevaluated monthly
Global Exploration and Production					
Allowance for doubtful accounts	11	11	17	17	
South America					
Credit	-	-	-	33	Reevaluated monthly
CALME					
Dom Rep hotel litigation & A/R reserve	-	-	-	3	A/R written off following renegotiation of PPA
Madosa sale - deferred revenue	-	13	13	13	Amortization of call option
EIM					
Credit	25	14	-	-	
Corporate					
Tax reserve related to years under audit (a)	285	285	285	285	

② Reserves down. Biggest change:
- SOCAL base operation value changed; reduced reserves needed
- Cal ITC 80% → 60%
Approp. given reg. discussion
Cautiously optimistic

③ ↓ in 3Q in reserves,
↑ overall for 2002

(a) Tax years under audit are 1996 forward.

EC004397414

Agenda Item 3



EC004397415

This agenda item will be distributed at the meeting.

EC004397416

Agenda Item 4



EC004397417

Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets

- Adoption required as of January 1, 2002 as a cumulative effect of an accounting change. Disclosure of expected impact (if material) should be included in the third quarter Form 10-Q.

- Evaluating \$4.3 billion of consolidated goodwill and \$1.5 billion of unconsolidated goodwill as of June 30, 2001. Expect to assign the following goodwill to the Americas reporting unit:

- Portland General - \$750 - \$900 million
- Elektro - \$583 million
- EGPP - \$165 million

- Expect impairment of approximately \$213 million of goodwill relating to Azurix assets to be held for sale in third quarter. Expect additional disclosure for cumulative effect of accounting change of approximately \$144 million. Evaluation of Wessex goodwill (\$697 million) is ongoing.

EC004397418

Enron Goodwill Analysis
Summary by Operating Segment
As of June 30, 2001
(in millions)

Cumulative Effect of Accounting Change
 Non-Recurring Charge
 Allocated \$750MM to \$900MM to Americas
 Allocated to Americas
 Evaluation ongoing

Consolidated Goodwill (excluding equity method investments):	Transportation and Distribution	Americas	Global Markets	Industrial Markets	Europe	Global Assets	EES	EBS	Wind	TOTAL ENRON
Portland General	\$ 1,408					\$ 583				\$ 1,408
Elctro							\$ 434			583
Enron Corp. (related to FES MI Buyback)										434
Enron Europe (MG Metals)					\$ 364					364
Enron Energy Services							193			193
Wind									\$ 187	187
Enron Global Power & Pipelines LLC						165				165
Enron Internacional Panama S A (BLM)						64				64
Enron Broadband Services								\$ 55		55
HNG		\$ 36								36
Industrias Electricas de Ventane Ltd.						13				13
Global Markets			\$ 9							9
Other						12				12
Subtotals	\$ 1,408	\$ 36	\$ 9	\$ -	\$ 364	\$ 837	\$ 627	\$ 55	\$ 187	\$ 3,523
Goodwill Relating to Equity Method Investments:										
TGS						\$ 248				\$ 248
Ecoelectrica						165				165
CEG/Riogas						102				102
Gaspart						127				127
Northern Plains	\$ 72									72
Other						35				35
Subtotals	\$ 72	\$ -	\$ -	\$ -	\$ -	\$ 677	\$ -	\$ -	\$ -	\$ 749
Total Consolidated Goodwill	\$ 1,480	\$ 36	\$ 9	\$ -	\$ 364	\$ 1,514	\$ 627	\$ 55	\$ 187	\$ 4,272
Unconsolidated Goodwill:										
Azurix/Wessox										\$ 697
Azurix/Other	213									213
Stadacona				\$ 149						149
SK Enron						\$ 117				117
Pulp & Paper (Fishtail)				223						223
Transredes						31				31
Other	24					1				25
Total Unconsolidated Goodwill	\$ 934	\$ -	\$ -	\$ 372	\$ -	\$ 149	\$ -	\$ -	\$ -	\$ 1,455

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Agenda Item 5



EC004397420



Internal Control Update

2001 Plan Status

- Approximately 80% complete

Activity Related to Issues Identified in Control Audits

- EES/EWS integration Project Management Office has been created to provide coordination and oversight for all EES transition projects. Systems integration requirements and timelines have also been developed; execution has begun
- Enron Intelligent Network security enhancements progressing on schedule and estimated for completion by fourth quarter 2001
- Construction has begun on the West Houston data center which will also serve as the cornerstone to Enron's business continuity plans; estimated for completion by second quarter 2002
- Recently completed audit of EnronOnline was positive and resulted in no findings categorized as significant **
- Re-engineering of processes and systems to strengthen supporting infrastructure for Metals business scheduled for completion by first quarter 2002
- Curve validation processes being re-examined to address issues raised with respect to functional responsibilities and consistency across business units and/or product portfolios **

Other Significant Control Related Activities

- RAC operational issues team formed to focus on operational risk exposures and techniques to identify, access, categorize, quantify and manage these exposures in all business units
- Monitoring and enforcement activities are being adjusted for newly revised Risk Management Policy

** Recently identified

EC004397421

Agenda Item 6



EC004397422

Corporate Security Update

EC004397423

Objectives

- Deter attack
- Protect in the event of attack
- Increase sense of security

EC004397424

Approach

- Identify threats
- Prioritize remediation:
 - near term v. long term
 - facilities

EC004397425

Summary

- Enron Center
 - surveillance
 - vehicle barriers
 - access control
 - increase security personnel
 - Personnel – background checks
 - Domestic facilities
 - International facilities
- } survey/audit

EC004397426

Agenda Item 7



EC004397427

Roles For Monitoring The Risk Management Policy

Audit and Compliance Committee

- Review internal controls as it relates to the operation of the Risk Management Policy
- Review limit violations and determine that actions taken by management are consistent with the Policy

Finance Committee

- Approve risk management framework and review policy issues
- Determine appropriateness of limits, correlations, profitability and liquidity based on the company's risk appetite as ratified by the Board
- Review corporate liquidity and funding plans
- Review investment returns achieved relative to expectations



EC004397428

Procedure: Post Transaction Reviews

- Post transaction reviews for transactions over \$200 Million will be performed at a minimum of 18 and 36 month intervals after closing. Additional transaction reviews will occur as directed by the Chief Risk Officer or in response to Board questions.
- “Merchant” investments will continue to be monitored by RAC and quarterly portfolio performance reported to the Finance Committee at regularly scheduled meetings.
- Compliance related issues resulting from transaction reviews will be evaluated and discussed with the Audit and Compliance Committee. All other issues resulting from transaction reviews will be discussed with the Finance Committee.
- Major strategic implications resulting from transaction reviews will be presented to the full Board.



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Agenda Item 8



EC004397430

Market Risk Update

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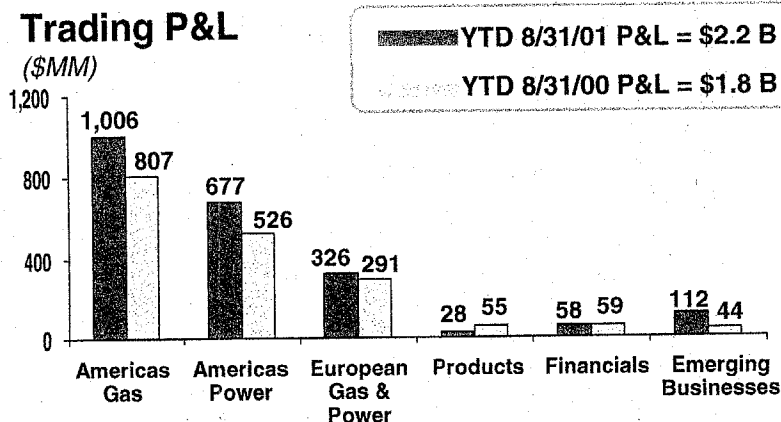
- Risk Profile
- Risk Profile by Market Concentration
- Risk Profile by Business Unit
- Backtesting of Enron Corp. Aggregate VaR
- Utilization of VaR Limits
- Market Risk Limit Violations
- Scenario Analysis
- Liquidity Risk Ratio Analysis
- Brazilian Foreign Exchange Exposure Update

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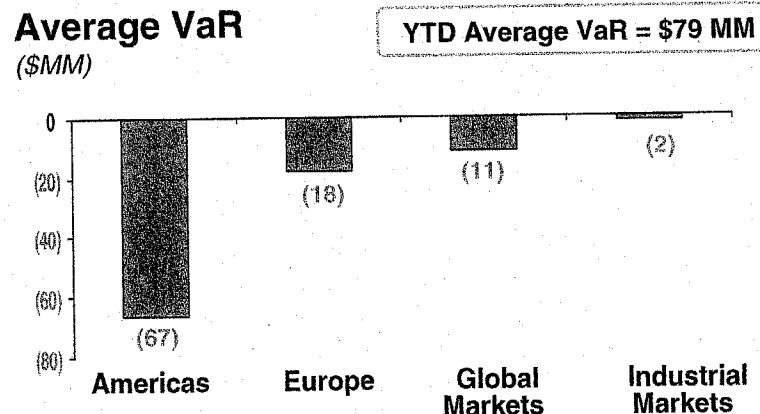
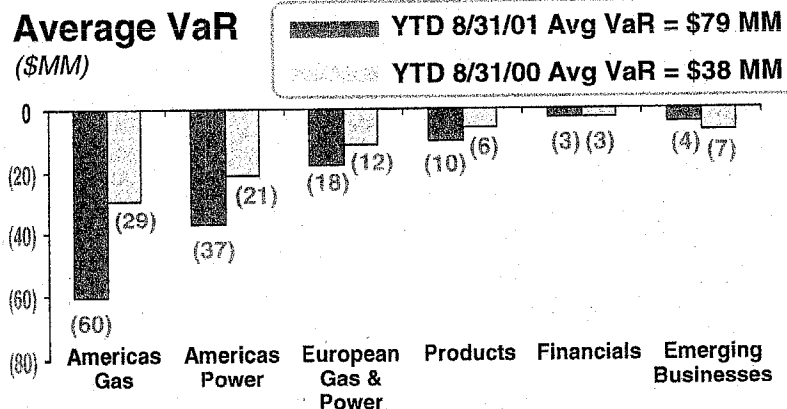
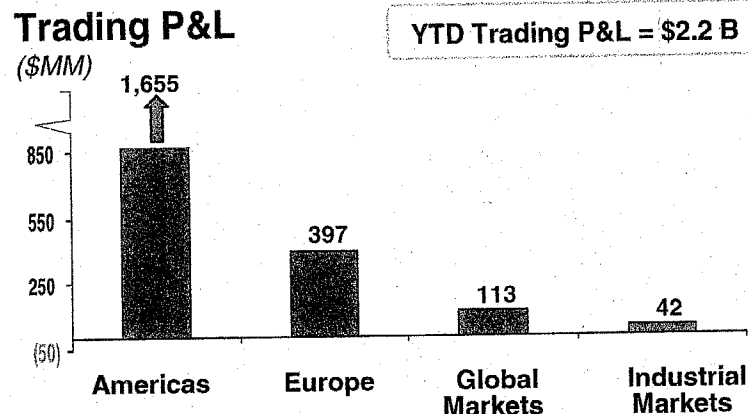
Risk Profile

Eight Months Ended August 31, 2001 and 2000

Market Concentration⁽¹⁾



Business Unit Comparison



Return on VaR - Eight Months Ended August 31

	Americas Gas	Americas Power	European Gas & Power	Products	Financials	Emerging Businesses	Enron
2001	128%	140%	141%	21%	158%	210%	214%
2000	210%	189%	192%	72%	157%	49%	352%

Return on VaR - Eight Months Ended August 31

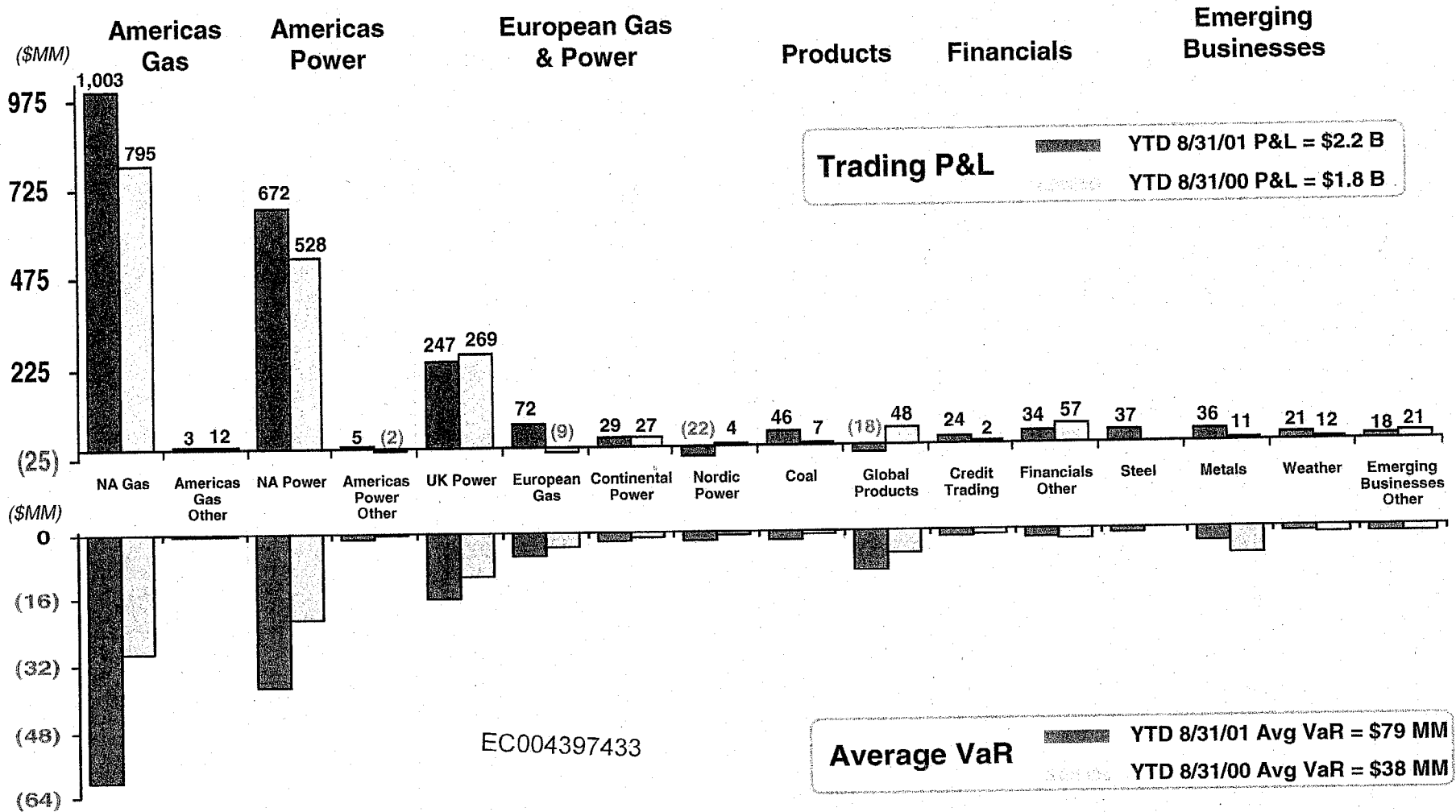
	Americas	Europe	Global Markets	Industrial Markets	Enron
2001	191%	168%	78%	201%	214%
2000	281%	176%	139%	114%	352%

(1) Commodities aggregated per Concentration Limit categories

EC004397432

Risk Profile by Market Concentration

Eight Months Ended August 31, 2001 and 2000



Return on VaR - Eight Months Ended August 31

	Americas Gas	Americas Power	European Gas & Power	Products	Financials	Emerging Businesses	NA Gas	Americas Gas Other	NA Power	Americas Power Other	UK Power	European Gas	Continental Power	Nordic Power	Coal	Global Products	Credit Trading	Financials Other	Steel	Metals	Weather	Emerging Businesses Other	
2001	129%	85%	141%	32%	115%	99%	107%	(75%)	175%	(14%)	98%	127%	244%	82%	135%	86%							
2000	207%	295%	190%	(88%)	187%	(22%)	161%	30%	53%	63%	11%	166%	NA	43%	53%	105%							

Total Enron RoVaR YTD 8/31/01 = 214%

Total Enron RoVaR YTD 8/31/00 = 352%