Audit

3:00 Called to Order

10/8

ENRON

Minutes

✓ Paulo

✓ Mend

Earnings Update - Rich

~~43 Recurring~~

[See pres]

✓ Non-recurring

✓ A2X

✓ EBS

✓ Investing

• NPW - lack of liquidity

8K in final stage

- More impairment of NPW possible;

Watchful of liquidity.

• Raptor - Previously discussed

- Hedges investments in certain vehicles

- Primary coll = ENE stock. As ENE ↓

inadequate coll. bal. - Raptor

320

NPW, AVCI & Catalytica - 3 key inv. ↓

- Bot equity; shut down Raptor.

- Losses from

Day-2nd (rel to LJM) most contentious while

LJM = eq holder in LJM

confusion over hedging

inv. losses

GOVERNMENT EXHIBIT 4609 Crim No. H 04-0025

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Paulo -

Rick C Underlying coll. = ENE stk

Raptor purpose = hedge illiquid inv.

Set up 1½ yrs ago

Highly structured, successful venture.

Pressure from ENE stk. ↓.

Combo of investor noise & credit

shortfall = shutting down Raptor

Buy - Analogy to bank & TRS

Value to bank = ENE stk. Bank had

no credit capacity.

Causey - AA review of Raptor acctg. conclusions.

Confident in conclusions.

2-3 ways to look @ acctg - all pt. to same

conclusion - Proper statement of income & equity.

Duncan - Highly structured. Approp acctg. Recent

Review. Confidence in acctg

1) #'s correct? Yes

2) Timing correct? Yes

Subj. to impairment.

Jaedicke - will review w/ BD this evening. No action req'd

~~Causey~~ - $(.73) reported EPS 3Q.

*FU Blake - Wants discussion of lesson learned on Raptor.

[See p. 2 - 3Q earnings]

[See p. 3 - Reserve discussion]

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(3)

Blake - Δ in EES reserves
- Rick - Close scrutiny; some adj. needed; reserving heavily for potential Fcst-to-actual adj.
F-to-A? When book liquidates
Wholesale - Refined process
Retail - Less refined. Lot of work to properly ~~price~~ capture deals
Blake - Was Comp. adjusted for EES projection of ↑ reserves? Jay - Yes
Paulo - Were earnings ≤50% reserve reversal?
Rick - About 1/3
$290 MM - So Cal basis valuation / pricing.
ENA GM $1.3 billion, v. NI of $646 MM
Whalley - ~~Incremental business~~
↑ reserve for direct access 4 Calif. & assoc. uncertainty. ~~[illegible]~~
EES specific deal reserves
Causey
- Need better EES infrastructure to improve
- New business 4 heavy reserves
Baur - 2Q - Co. has effort underway to improve infrastructure
1/4 by monitoring. Improvements; ways to go

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Form 000-0466 (3/02)

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3) Duncan
- Substantial review of special/non-rec. items
- Audit work to be completed this next wk.
- Duncan/Causey to conference w/ Chair of BD if issues arise
- Not aware of issues in 1/4 or audit adj.

4) Goodwill
- Adoption early 2002
  - $5.8 bil. goodwill
    - 4.3 con.
    - 1.5 uncon.
- PGE
  - $800 MM allocated to Americas (wholesale power) ENA
  - $600 MM " " sale
- Elektro " " Americas (S. Am wholesale power)
- FV of ~~ENA~~ Americas > BV w/ goodwill
  - No more amort.
  - Continue to eval. for impairment
    - Don't expect problem
- 64+13+12+55 = $144 writeoff w/ new std.
- GW - Eq.
  - TGS - fine
  - Ecoelect } Considered in related sales prior to adoption.
  - CEG/Rio } Value fine if not sold.

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5

Goodwill. Unconsol.
Eval to be completed this wk. A699 mm
Wessex - Wessex has WT value. AA reviewing, outside firm reviewing.
Other - Losses before adoption
Jaedicke - Will review w BOD
Paulo - $ 223 - 530 in AZX $ 310
144 - 100%; no early adoption
5) Internal Control
Andrew Parsons - Audits 80% complete. 100% by month-end
50 proj. to integrate Whole / Retail

[Le Maistre enters
Data recovery Center
Shawn - Curve validation process imp. RMgt group -
[Kean / Bandle in] progress in mth stds. AA & EAS
will cont. to evaluate.
- R Mgt policy - Op. Risk. Guidelines in process
- new limits & new liq. rpt.
Comms
1) new EOL audit - +
2) curve valid
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Curve OK
Consistency of process strengthened
Bus. continuity & wholesale / retail integration
100 people

6

Gard / Duncan - Do not foresee any problems
issuing adequacy letter / opinion.
More detail in Dec.

[LeMaistre on] (Mgmt. gen. disbursements - good progress.

6) Physical Security

Kean introduced

Brindle - Head of Corp Sec.

- Since 9/11, emphasis on terrorist threats. Striking balance
to deter / protect / increase sense of security & not
balance flow of workload (ie Xray in lobby)

- Approach

[See pres. in book]

[Gard called for ?'s]

FU* [Advise Bd of Δ in crisis response]
Distribute

Meyer - Updated empl. contact lists. Kean responded
to 9/11 ~~IO process~~
[When did Whalley leave?] Wendy - good knowledge

Duncan - Stand-by website for check in?

[Whalley Ret'd] Kean - Ardmore

Chan - High attack energy / Houston

Brindle - FBI issued advisement. not confirmed

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[Duncan left]

Gay - Ship channel - JB - Heightened guards
Methanol & MTBE - list of remediation actions

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FU # 24 hr. # 713 345 2804 Business Controls

[Duncan ret'd.] [Kean/Brindle left]

~~1) Jaed.~~

7) Jaedicke — Rick B, Causey, Jaed. & Buy conferred

Buy - RAC - Day-to-day workings of policy violations.

- Finance - Oversight of major parameters Reporting in accord w/ Policy

Jaed - Post-Trans. Review

[Need

To

8) Review of RM Policy

✓ - Buy reformed call was post-printing

✓ - Reporting per Policy framework - how risk is mg'd.

✓ - Poss. likely to alter to focus on limit violat.

[DERRICK ON] Exhibits

✓ 1 - Mkt Concentration

✓ 2 - B. Unit

✓ 3) Backtesting

Purple - Σ Loss

[Sharon IN] [Derrick on]

4 -

Omits day-to-day bounces & Shows avg.

Ret to limits after.

5 - Too many limit violations. A function of switch over to new

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(8)

- To manage. Prevention plan underway. It will reduce

Gramm - Maturity gap story

Buy - Alberta PPA & overall US gas position

Long / sh.

Long, long lg & sh, sh sh - imbalance w/i specific time frame

Whalley - Getting within Mat. Gap would ↑ portfolio risk.

Alberta - lge long power position.

High corrolation b/ LT power & gas.

Hedged worked well.

isolating gas (from power) showed ↑ in V@R, when there was offset in power

Decision - It was a violation, but switching would ↑ risk

Scenario Analysis.

Buy - Within acceptable ranges of losses

Koster - Very sensitive to duration of event.

Whalley - Signif. Δ's in mkt in short time.

May not be indicative

How fat we are (liq) vs.

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Top. P99 graph

$\frac{\text{Num} = \text{Quick Cash on demand}}{\text{Den} \quad \text{What's are need}}$ > 1.5 goal

PSO - Inc. what could liquidate in orderly period > 3.0 goal

(8)

Close to 1.5 levels. ~~Adm~~ Within defined safe region, but ↓ from recent past.
1st Qtr Expect to tune.

? Blake - Scenarios
RB Portf.'s margin up to diff confid levels
~~Not~~ Good idea to Run scenarios

Buy - FX / Brazil
- Not big earnings impact
- CTA impact represents unrealized asset value.
Impossible to hedge.

Jaed - Viol reported pursuant to Policy?
Buy - Yes

9) Derrick -
Background
- '93 Sentencing Guidelines compliance w/
- Annual opinion from V&E on sufficiency
[See Quotes]
Contains no suggestions of change
Cautions continued review
Very clean opinion.
1 KLL letter
2 Cert of comp - sign
3 O2 program
4 Tips
5) Tracking log - every report of alleged violation, substance & resolution

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Respect | Integrity | Communication | Excellence

Form 000-0466 (3/98)

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(10)

Introduced S. Butcher.

Jaed - Report is very complete (let record show)

- Why ↑ level of reports?

SB - 1) Spike in Feb '01

Changed banner page to highlight policy location

Increased response

2) Worldwide message in enemy, rep Apr 1

3) E Speak Code of Ethics June

153 employees in session

143 later

4) Empl. mtg - Ken solicited concerns Aug 16

be ~~best~~ bra to

5) IT sent 2nd worldwide notice re enemy rep'ts.

6) Enron Risk Assessment in 4000

each BU

Foster - ~~Cat~~ Reporting more? Or more events?

- Seriousness level? Comp. to '00

No other Business

4:20 - Exec Session

Jaedicke + AA

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7/14 on

Audit

Background & Intro
Raptor
Condor

Conflicts of Int
Proper Acctg & Disclosure

Anonymous
Subsequent mtg w/ attorney
" " w/ Lay

Engaged V&E to conduct invest. of allegations
[Lay Extend original]
Chan - Specific allegation
[wholly external]

Joe Dilg
Condor -
Raptor - Hedging vehicle LJM invested in
Counsel to Enron. Inquiry subj. to atty/client priv.

4 basic issues set forth by employee
1) Apparent conflict of int
AF w/ mgt
2) Acctg treatment for
3) Adeq of discl. in SEC
4) Overall concern on Enron's acctg due to decl in value of ENE & inv.

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Interviewed
9 sr. mgmt - identified by empl as those knowledgeable
2 (Enron lawyers)
V+E
AA

Concl.
No new facts
1) CFO int in LJM
· Special procedures reviewing trans followed
· Int. sold to M Kopper - no longer exp
[Special int. no longer
[Sr. officers did not feel Enron's interest prejudiced
2) Acctg
· AA works closely on
- Tech. issues / opinion reviewed 4 or Chicago
- Practice issues 4 or pract rep in Houston
- AA comfortable
- 2 other allegations / (assumptions / no spec. facts)
- Cash flow pd
- JKS / AF agreement not to lose $.
L L Deny; No evidence
3) Disclosure
V+E v Rex Rogers - adequate disclosure on last 2 yrs.
4) Potential impact v Enron financials
- R Causey v others aware

2

No add'l facts not well-known to mgmt or
No further detailed investigation necessary.
Open for questions

Chan — Good for empl. to raise concern

Joe — Misunderstanding of acctg treatment
& " of prior approvals

Good to have open environment

Chan — Need for judgment on motive?

Investigative

Joe — Author had Big 6 Acct. experience - ~~Litigation~~ -
Unfamiliar w/ structures,
Recently moved to CFO

Ops Support experience

Max — No indication of outside influence
One person's cynical view

Joe — Ironic. post JKS resignation

Ray — Asked if any other motive? Actually
Shared concern w/ former AA colleague.
Incomplete file if presented to reporters.

Joe — Missing some elements / details

Ray — Real risk of wrong interpretation

Whalley — Risk exists. Likely not malicious

Watkins — ~~Is~~ she aware she did not have all facts?

Joe — After Comm. mtg., planned to visit w/
employee.

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Wendy — Empl. response will be key.
Any other aspect of concern?
(ie, special deal w/ JKS/AF?)

Joe — Piecemeal facts could be made to look bad

Wendy — Any other motive?

Joe — Perhaps Personal animosity w/ AF;

Wendy - Empl. likely to be satisfied w complete co-
response & review.
Imp. for her to be satisfied
All issues to be moot
- LJM not effil.
- Raptor closed
Jim D. - Empl. preferred AA & V&E not to
be involved in review / investigation since
they were both involved in deal.
- V&E - no determined conflict w their participation
- new acct & new law firm presents other issues / timing
- Empl. may see inherent shortfall in process
Jay - Empl Likely would not satisfied
Mendelsohn - Imp to talk to empl

-

Jay - Fully Adequately & disclosed
Mendelsohn - Lesson learned: "We did it right but will
think differently about it in future."
Jay - Lots of concern within Enron
During review approval by Audit / BoD, AF said it might
not read well in WSJ".
Chan - Fully discussed impact on Andy's comp.
- Should audit chair talk to empl? EC37349A0031476
- Review of rep / disclosure
Jay - We did. Acctg & legal approval. Disclosed for 2yrs.
Sth full / shorts in stk / AF withdrew / Ugly
mkt environment.

5

- JKS departure spawned rumors. Some rumors coming from employees disapp w/ stk or disgruntled ex employees. Writeoff next wk will be tough

Jaedicke - No new inf in AA/Chicago recent review

Diltz - Employee proposed termination of which. should help employee.

Wakeham - Proceed as planned w/ empl.
~~Use~~ Keep Jaedicke as back-up.

Diltz - Jaedicke would not maintain A/Client privilege of he detailed process

Lay - Lampo to meet w/ her 1st.
Then maybe Ken.
Empl. has great respect for co.

Wendy - Ken should show appreciation
Encourage

Mendelsohn - Action needed?

Jaedicke - FYI. Audit Comm should be informed.
- Audit Comm. has monitored internal procedures followed properly

Pauls - Discussed at length.

Wendy / Ken - Set appt. up for time writeoff can be discussed.

Wakeham - Need to satisfy employee.

Jaedicke - Report to B/D
- Fully approved
- Disch approp

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