
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission file number 1-13265

CENTERPOINT ENERGY RESOURCES CORP.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

76-0511406
(I.R.S. Employer
Identification No.)

1111 LOUISIANA
HOUSTON, TEXAS
(Address of principal executive offices)

77002
(Zip Code)

(713) 207-1111
(Registrant's telephone number, including area code)

CENTERPOINT ENERGY RESOURCES CORP. MEETS THE CONDITIONS SET FORTH IN GENERAL
INSTRUCTION H(1)(a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM 10-Q
WITH THE REDUCED DISCLOSURE FORMAT.

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 4, 2003, all 1,000 shares of CenterPoint Energy Resources Corp.
common stock were held by Utility Holding, LLC, a wholly owned subsidiary of
CenterPoint Energy, Inc.

CENTERPOINT ENERGY RESOURCES CORP.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2003

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

From time to time we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these statements. You can generally identify our forward-looking statements by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "goal," "intend," "may," "objective," "plan," "potential," "predict," "projection," "should," "will," or other similar words.

We have based our forward-looking statements on our management's beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements.

The following are some of the factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements:

- o state and federal legislative and regulatory actions or developments, constraints placed on our activities or business by the Public Utility Holding Company Act of 1935, as amended (1935 Act), and changes in or application of laws or regulations applicable to other aspects of our business and actions;
- o timely rate increases, including recovery of costs;
- o the successful and timely completion of our capital projects;
- o industrial, commercial and residential growth in our service territory and changes in market demand and demographic patterns;
- o our pursuit of potential business strategies, including acquisitions or dispositions of assets;
- o changes in business strategy or development plans;
- o the timing and extent of changes in commodity prices, particularly natural gas;
- o changes in interest rates or rates of inflation;
- o unanticipated changes in operating expenses and capital expenditures;
- o weather variations and other natural phenomena;
- o the timing and extent of changes in the supply of natural gas;
- o commercial bank and financial market conditions, our access to capital, the costs of such capital, receipt of certain approvals under the 1935 Act and the results of our financing and refinancing efforts, including availability of funds in the debt capital markets;
- o actions by rating agencies;
- o legal and administrative proceedings and settlements;
- o changes in tax laws;
- o inability of various counterparties to meet their obligations with respect to our financial instruments;
- o any lack of effectiveness of our disclosure controls and procedures;

- o changes in technology;
- o significant changes in our relationship with our employees, including the availability of qualified personnel and potential adverse effects if labor disputes or grievances were to occur;
- o significant changes in critical accounting policies;
- o acts of terrorism or war, including any direct or indirect effect on our business resulting from terrorist attacks such as occurred on September 11, 2001 or any similar incidents or responses to those incidents;
- o the availability and price of insurance;
- o political, legal, regulatory and economic conditions and developments in the United States; and
- o other factors we discuss in this report, including those outlined in Item 5 in Part II under "Risk Factors."

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statements.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES
 (AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
 STATEMENTS OF CONSOLIDATED INCOME
 (THOUSANDS OF DOLLARS)
 (UNAUDITED)

	THREE MONTHS ENDED JUNE 30, SIX		MONTHS ENDED JUNE 30, -----	
	2002	2003	2002	2003
----- REVENUES				
	\$ 868,471	\$ 1,031,595	\$ 2,110,750	\$ 3,125,616
----- EXPENSES:				
Natural gas				
	583,526	735,658	1,445,105	2,390,778
Operation and maintenance				
		164,788	161,793	
	329,501	339,460	Depreciation and amortization	
			41,981	
	44,281	82,252	88,191	Taxes other than income taxes
	29,800	22,928	62,320	68,104

Total				
	820,095	964,660	1,919,178	2,886,533

OPERATING INCOME				
			48,376	
	66,935	191,572	239,083	

OTHER INCOME (EXPENSE): Interest expense				
	(38,056)	(48,326)	(73,633)	(84,145)
Distribution on trust preferred securities (7) (6) (13) (12) Other, net				
	3,598	2,380	5,854	3,439

Total				
	(34,465)	(45,952)	(67,792)	(80,718)

INCOME BEFORE INCOME TAXES				
			13,911	
	20,983	123,780	158,365	Income Tax Expense
	6,164	6,325	46,864	55,535

NET INCOME				
	\$ 7,747	\$ 14,658	\$ 76,916	\$ 102,830
=====				

See Notes to the Company's Interim Financial Statements

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES
 (AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
 CONSOLIDATED BALANCE SHEETS
 (THOUSANDS OF DOLLARS)
 (UNAUDITED)

ASSETS

DECEMBER 31,	JUNE 30,	2002	2003	-----	CURRENT ASSETS:
					Cash and cash equivalents
					..... \$ 9,237 \$ 21,245
					Accounts and notes receivable, principally customers, (net of allowance for doubtful accounts of \$19,568 and \$24,587, respectively)
					..... 380,317 352,052
					Accrued unbilled revenue
					..... 284,112 135,265
					Accounts and notes receivable - affiliated companies, net
					..... -- 45,001
					Materials and supplies
					..... 32,264 33,555
					Natural gas inventory
					..... 103,443
					106,341 Non-trading derivative assets
					..... 27,275 21,953
					Taxes receivable
					..... 61,512
					17,405 Prepaid expenses
					..... 20,767
					4,471 Other
				
					29,998 25,911 ----- Total current assets
					..... 948,925 763,199
					PROPERTY, PLANT AND EQUIPMENT: Property, plant and equipment
					..... 3,964,268 3,885,820
					Less accumulated depreciation
					..... (650,148) (705,122) --
					Property, plant and equipment, net
					..... 3,235,672 3,259,146 -----
					OTHER ASSETS: Goodwill
				
					1,740,510 1,740,510 Other intangibles, net
					..... 19,878 20,253
					Non-trading derivative assets
					..... 3,866 14,352
					Notes receivable - affiliated companies, net
					..... 39,097 37,421
					Other
				
					55,571 126,971 ----- Total other assets
					..... 1,858,922
					1,939,507 ----- TOTAL ASSETS
				 \$
					6,043,519 \$ 5,961,852 =====

See Notes to the Company's Interim Financial Statements

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES
 (AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
 CONSOLIDATED BALANCE SHEETS -- (CONTINUED)
 (THOUSANDS OF DOLLARS)
 (UNAUDITED)

LIABILITIES AND STOCKHOLDER'S EQUITY

DECEMBER 31,	JUNE 30,	2002	2003	-----	-----	CURRENT LIABILITIES:
						Short-term borrowings
						\$ 347,000 \$ --
						Current portion of long-term debt
						517,616 142,145 Accounts payable, principally trade
						465,694 329,959 Accounts and notes payable - affiliated companies, net
						101,231 -- Interest accrued
						49,084
						61,621 Taxes accrued
						57,057
						54,058 Customer deposits
						54,081
						52,383 Non-trading derivative liabilities
						9,973 2,469 Accumulated deferred income taxes, net
						6,557 7,422 Other

						102,510 67,300 ----- Total current liabilities
						1,710,803 717,357 -----
						----- OTHER LIABILITIES: Accumulated deferred income taxes, net
						589,332 599,940 Benefit obligations
						132,434 130,737 Non-trading derivative liabilities
						873 2,873 Other

						125,876 151,129 ----- Total other liabilities
						848,515 884,679 -----
						----- LONG-TERM DEBT

						1,441,264 2,206,922 ----- COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 9) COMPANY OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY
						508 508 ----- STOCKHOLDER'S EQUITY: Common stock
						1 1
						Paid-in capital

						1,986,364 1,985,254 Retained earnings
						44,804
						147,634 Accumulated other comprehensive income
						11,260 19,497 -----
						----- Total stockholder's equity
						2,042,429 2,152,386 -----
						----- TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY
						\$6,043,519 \$5,961,852 =====
						=====

See Notes to the Company's Interim Financial Statements

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES
 (AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
 STATEMENTS OF CONSOLIDATED CASH FLOWS
 (THOUSANDS OF DOLLARS)
 (UNAUDITED)

SIX MONTHS ENDED JUNE 30, -----	2002	2003	-----
----- CASH FLOWS FROM OPERATING ACTIVITIES: Net income			
\$ 76,916	\$ 102,830		
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization			
	82,252	88,191	Deferred income taxes
(71,963)	6,117		Changes in other assets and liabilities:
Accounts and notes receivable, net			
		329,596	177,452 Accounts receivable/payable, affiliates
	(79,064)	(113,374)	Inventory
	39,339	(4,189)	Taxes receivable
		(21,406)	44,107 Accounts payable
	(136,845)	(296)	Fuel cost recovery
		32,030	Interest and taxes accrued
	(7,112)	9,539	Net non-trading derivative assets and liabilities
	(2,231)	2,696	Other current assets
		7,654	20,382 Other current liabilities
		(41,902)	(36,908) Other assets
		10,990	(2,120) Other liabilities
		(37,575)	23,785 Other, net
(1,253)	(11,330)		Net cash provided by operating activities
	315,975	169,489	----- CASH FLOWS FROM INVESTING ACTIVITIES: Capital expenditures
		(117,991)	(111,864) Other, net
		3,192	(176) Net cash used in investing activities
	(114,799)	(112,040)	----- CASH FLOWS FROM FINANCING ACTIVITIES: Payments of long-term debt
		(6,633)	(367,008) Proceeds from long-term debt
		768,525	Debt issuance costs
		(68,776)	Decrease in short-term borrowings, net
	(197,856)	(347,000)	Increase (decrease) in notes with affiliates, net
	17,270	(31,182)	Net cash used in financing activities
(187,219)	(45,441)		NET INCREASE IN CASH AND CASH EQUIVALENTS
	13,957	12,008	CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD
	16,425	9,237	CASH AND CASH EQUIVALENTS AT END OF THE PERIOD
	\$ 30,382	\$ 21,245	===== SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: Cash Payments: Interest
	\$ 84,976	\$ 72,183	Income taxes
	153,360	4,305	

See Notes to the Company's Interim Financial Statements

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(1) BACKGROUND AND BASIS OF PRESENTATION

Included in this Quarterly Report on Form 10-Q of CenterPoint Energy Resources Corp. (CERC Corp.), together with its wholly owned and majority owned subsidiaries (the Company), are the Company's consolidated interim financial statements and notes (Interim Financial Statements). The Company has filed a Current Report on Form 8-K dated June 16, 2003 (June 16 Form 8-K). The June 16 Form 8-K gives retroactive effect of the adoption of Emerging Issues Task Force (EITF) No. 02-03 "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities" (EITF No. 02-03). The Company's adoption of EITF No. 02-03 only impacted the year ended December 31, 2000. The Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the June 16 Form 8-K, including the exhibits thereto, and the Quarterly Report on Form 10-Q of CERC Corp. for the quarter ended March 31, 2003.

The Company is an indirect wholly owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy), a public utility holding company created on August 31, 2002, as part of a corporate restructuring (Restructuring) of Reliant Energy, Incorporated (Reliant Energy).

CenterPoint Energy is a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). The 1935 Act and related rules and regulations impose a number of restrictions on the activities of CenterPoint Energy and its subsidiaries. The 1935 Act, among other things, limits the ability of the holding company and its subsidiaries to issue debt and equity securities without prior authorization, restricts the source of dividend payments to funds from current and retained earnings without prior authorization, regulates sales and acquisitions of certain assets and businesses and governs affiliate transactions.

BASIS OF PRESENTATION

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Interim Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods. Amounts reported in the Company's Statements of Consolidated Income are not necessarily indicative of amounts expected for a full year period due to the effects of, among other things, (a) seasonal fluctuations in demand for energy and energy services, (b) changes in energy commodity prices, (c) timing of maintenance and other expenditures and (d) acquisitions and dispositions of businesses, assets and other interests. In addition, certain amounts from the prior year have been reclassified to conform to the Company's presentation of financial statements in the current year. These reclassifications do not affect net income.

The following notes to the consolidated annual financial statements included in Exhibit 99.2 to the June 16 Form 8-K (CERC Corp. 8-K Notes) relate to certain contingencies. These notes, as updated herein, are incorporated herein by reference:

Notes to Consolidated Financial Statements: Note 3(e) (Regulatory Matters), Note 5 (Derivative Instruments) and Note 10 (Commitments and Contingencies).

For information regarding environmental matters and legal proceedings, see Note 9.

(2) NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 requires the fair value of an asset retirement obligation to be recognized as a liability is incurred and capitalized as part of the cost of the related tangible long-lived assets. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which a legal obligation exists under enacted laws, statutes and written or oral contracts, including obligations arising under the doctrine of promissory estoppel. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. SFAS No. 143 requires entities to record a cumulative effect of change in accounting principle in the income statement in the period of adoption.

The Company has identified no asset retirement obligations. The Company's rate-regulated businesses have previously recognized removal costs as a component of depreciation expense in accordance with regulatory treatment. As of June 30, 2003, these previously recognized removal costs of \$391 million do not represent SFAS No. 143 asset retirement obligations, but rather embedded regulatory liabilities.

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent. SFAS No. 145 also requires that capital leases that are modified so that the resulting lease agreement is classified as an operating lease be accounted for as a sale-leaseback transaction. The changes related to debt extinguishment are effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting are effective for transactions occurring after May 15, 2002. The Company has applied this guidance as it relates to lease accounting and the accounting provisions related to debt extinguishment. Upon adoption of SFAS No. 145, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods is required to be reclassified. No such reclassification was required in the three month or six month period ended June 30, 2002.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF No. 94-3). The principal difference between SFAS No. 146 and EITF No. 94-3 relates to the requirements for recognition of a liability for costs associated with an exit or disposal activity. SFAS No. 146 requires that a liability be recognized for a cost associated with an exit or disposal activity when it is incurred. A liability is incurred when a transaction or event occurs that leaves an entity little or no discretion to avoid the future transfer or use of assets to settle the liability. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. In addition, SFAS No. 146 also requires that a liability for a cost associated with an exit or disposal activity be recognized at its fair value when it is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company adopted the provisions of SFAS No. 146 on January 1, 2003.

In June 2002, the EITF reached a consensus on EITF No. 02-03 that all mark-to-market gains and losses on energy trading contracts should be shown net in the income statement whether or not settled physically. An entity should disclose the gross transaction volumes for those energy-trading contracts that are physically settled. The EITF did not reach a consensus on whether recognition of dealer profit, or unrealized gains and losses at inception of an energy-trading contract, is appropriate in the absence of quoted market prices or current market transactions for contracts with similar terms. The FASB staff indicated that until such time as a consensus is reached, the FASB staff will continue to hold the view that previous EITF consensus do not allow for recognition of dealer profit, unless evidenced by quoted market prices or other current market transactions for energy trading contracts with similar terms and counterparties. The consensus on presenting gains and losses on energy trading contracts net is effective for financial statements issued for periods ending after July 15, 2002. Upon application of the consensus, comparative financial statements for prior periods should be reclassified to conform to the consensus. The Company's adoption of EITF No. 02-03 on January 1, 2003 only impacted the year ended December 31, 2000 and had no effect on the Interim Financial Statements.

In November 2002, the FASB issued FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of certain guarantees. In

addition, FIN 45 requires disclosures about the guarantees that an entity has issued. The provision for initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure provisions of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not materially affect the Company's consolidated financial statements.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (FIN 46). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company is currently assessing the impact that this statement will have on its consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). SFAS No. 149 clarifies when a contract with an initial net investment meets the characteristics of a derivative as discussed in SFAS No. 133 and when a derivative contains a financing component. SFAS No. 149 also amends certain existing pronouncements, which will result in more consistent reporting of contracts as either derivative or hybrid instruments. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003, and should be applied prospectively. Certain paragraphs of this statement that relate to forward purchases or sales of when-issued securities or other securities that do not yet exist should be applied to both existing contracts and new contracts entered into after June 30, 2003. The provisions of this statement that relate to SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003 should continue to be applied in accordance with their respective effective dates. The adoption of SFAS No. 149 will not have a material effect on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS No. 150). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle with no restatement of prior period information permitted. The Company is currently assessing the impact that this statement will have on its consolidated financial statements.

(3) DERIVATIVE INSTRUMENTS

The Company is exposed to various market risks. These risks arise from transactions entered into in the normal course of business. The Company utilizes derivative financial instruments such as physical forward contracts, swaps and options (Energy Derivatives) to mitigate the impact of changes and cash flows of its natural gas businesses on its operating results and cash flows.

Cash Flow Hedges. During the six months ended June 30, 2003, there was no hedge ineffectiveness recognized in earnings from derivatives that are designated and qualify as cash flow hedges. No component of the derivative instruments' gain or loss was excluded from the assessment of effectiveness. During the six months ended June 30, 2003, there was no effect on earnings as a result of the discontinuance of cash flow hedges. As of June 30, 2003, the Company expects \$19.5 million in accumulated other comprehensive income to be reclassified into net income during the next twelve months.

For additional information regarding the Company's use of derivatives, see Note 5 to the CERC Corp. 8-K Notes, which is incorporated herein by reference.

(4) GOODWILL AND INTANGIBLES

Goodwill as of December 31, 2002 and June 30, 2003 by reportable business segment is as follows (in millions):

Natural Gas Distribution	\$1,085
Pipelines and Gathering	601
Other Operations	55

Total	\$1,741
	=====

The components of the Company's other intangible assets consist of the following:

DECEMBER 31, 2002 JUNE 30, 2003 ----- ----- ----- ----- ---- CARRYING ACCUMULATED CARRYING ACCUMULATED AMOUNT AMORTIZATION AMOUNT AMORTIZATION ----- ----- ----- ----- ---- (IN MILLIONS) Land use rights \$ 7 \$(2) \$ 7 \$(3) Other 18 (3) 19 (3) ----- -- Total \$25 \$(5) \$26 \$(6) === === === ===
--

The Company recognizes specifically identifiable intangibles when specific rights and contracts are acquired. The Company amortizes other acquired intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives. The Company has no intangible assets with indefinite lives recorded as of June 30, 2003. The Company amortizes other acquired intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives that range from 47 to 75 years for land use rights and 4 to 25 years for other intangibles.

Amortization expense for other intangibles for the three months ended June 30, 2002 and 2003 was \$0.3 million and \$0.4 million, respectively. Amortization expense for other intangibles for the six months ended June 30, 2002 and 2003 was \$0.5 million and \$0.7 million, respectively. Estimated amortization expense for the remainder of 2003 is approximately \$0.7 million and is approximately \$2.1 million per year for the five succeeding fiscal years.

(5) SHORT-TERM BORROWINGS, LONG-TERM DEBT AND RECEIVABLES FACILITY

(a) Short-Term Borrowings

Credit Facilities. As of June 30, 2003, CERC Corp. had a revolving credit facility that provided for an aggregate of \$200 million in committed credit. As of June 30, 2003, the revolving credit facility was not utilized. The revolving credit facility terminates on March 23, 2004. Rates for borrowings under this facility, including the facility fee, are LIBOR plus 250 basis points based on current credit ratings and the applicable pricing grid. The revolving credit facility contains various business and financial covenants. CERC Corp. is currently in compliance with the covenants.

(b) Long-Term Debt

On March 25 and April 14, 2003, the Company issued \$650 million and \$112 million aggregate principal amount, respectively, of 7.875% senior unsecured notes due in 2013. A portion of the proceeds was used to refinance \$360 million aggregate principal amount of the Company's 6 3/8% Term Enhanced ReMarketable Securities (TERM Notes) and to pay costs associated with the refinancing. Proceeds were also used to repay approximately \$340 million of bank borrowings under the Company's \$350 million revolving credit facility prior to its expiration on March 31, 2003. The remaining \$140 million aggregate principal amount of TERM Notes are expected to be refinanced or remarketed in November 2003.

(c) Receivables Facility

In connection with the Company's November 2002 amendment and extension of

its \$150 million receivables facility, CERC Corp. formed a bankruptcy remote subsidiary for the sole purpose of buying and selling receivables created by the Company. This transaction is accounted for as a sale of receivables under the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and, as a result, the related receivables are excluded from the Consolidated Balance Sheets. Effective June 25, 2003, the

Company elected to reduce the purchase limit under the receivables facility from \$150 million to \$100 million. As of December 31, 2002 and June 30, 2003, the Company had utilized \$107 million and \$73 million of its receivables facility, respectively.

The bankruptcy remote subsidiary purchases receivables with cash and subordinated notes. In July 2003, the subordinated notes owned by the Company were pledged to a gas supplier to secure obligations incurred in connection with the purchase of gas by the Company.

(6) TRUST PREFERRED SECURITIES

A statutory business trust created by CERC Corp. has issued convertible preferred securities. The convertible preferred securities are mandatorily redeemable upon the repayment of the convertible junior subordinated debentures at their stated maturity or earlier redemption. Effective January 7, 2003, the convertible preferred securities are convertible at the option of the holder into \$33.62 of cash and 2.34 shares of CenterPoint Energy common stock for each \$50 of liquidation value. As of December 31, 2002 and June 30, 2003, \$0.4 million liquidation amount of convertible preferred securities were outstanding. The securities, and their underlying convertible junior subordinated debentures, bear interest at 6.25% and mature in June 2026.

The sole asset of the trust consists of convertible junior subordinated debentures of CERC Corp. having an interest rate and maturity date that correspond to the distribution rate and mandatory redemption date of the convertible preferred securities, and a principal amount corresponding to the common and convertible preferred securities issued by the trust. For additional information regarding the convertible preferred securities, see Note 7 to the CERC Corp. 8-K Notes, which is incorporated herein by reference.

(7) COMPREHENSIVE INCOME

The following table summarizes the components of total comprehensive income:

	FOR THE THREE MONTHS ENDED FOR THE SIX		MONTHS JUNE 30, ENDED JUNE 30, -----	
			2002	
	2003	2002	2003	2002

	(IN MILLIONS) Net income			
.....	\$ 8	\$ 15	\$ 77	\$103

Other comprehensive income (loss): Net				
deferred gain (loss) from cash flow				
hedges.....	(12)	9	34	7
Reclassification				
of deferred loss (gain) on derivatives				
realized in net income	(2)			
(1) 3 1	----	----	----	----
Other				
comprehensive income (loss)				
.....	(14)	8	37	8
-----	-----			
Comprehensive income (loss)				
.....	\$ (6)	\$ 23	\$114	
	\$111	====	====	====

(8) RELATED PARTY TRANSACTIONS

From time to time, the Company has receivables from, or payables to, CenterPoint Energy or its subsidiaries. As of December 31, 2002, the Company had net short-term borrowings, included in accounts and notes payable-affiliated companies, of \$74 million and net accounts payable of \$27 million. As of June 30, 2003, the Company had net accounts receivable of \$45 million included in accounts and notes receivable-affiliated companies. As of December 31, 2002 and June 30, 2003, the Company had net long-term receivables, included in notes receivable-affiliated companies, totaling \$39 million and \$37 million, respectively. For the three months ended June 30, 2002 and 2003, the Company had net interest income related to affiliate borrowings of \$0.4 million and \$2.5 million, respectively. For the six months ended June 30, 2002 and 2003, the Company had net interest income related to affiliate borrowings of \$0.3 million and \$2.4 million, respectively.

The 1935 Act generally prohibits borrowings by CenterPoint Energy from its subsidiaries, including the Company, either through the money pool or otherwise.

In 2002, the Company supplied natural gas to Reliant Energy Services, Inc. (Reliant Energy Services), a subsidiary of Reliant Resources, which was an affiliate through September 30, 2002. For the three and six months

ended June 30, 2002, the sales and services by the Company to Reliant Resources and its subsidiaries totaled \$11 million and \$25 million, respectively. For the three and six months ended June 30, 2002, the sales and services by the Company to CenterPoint Energy and its affiliates totaled \$16 million and \$17 million, respectively. For the three and six months ended June 30, 2003, the sales and services by the Company to CenterPoint Energy and its affiliates totaled \$5 million and \$10 million, respectively. Purchases of natural gas by the Company from Reliant Resources and its subsidiaries were \$51 million and \$158 million for the three and six months ended June 30, 2002, respectively.

CenterPoint Energy provides some corporate services to the Company. The costs of services have been directly charged to the Company using methods that management believes are reasonable. These methods include negotiated usage rates, dedicated asset assignment, and proportionate corporate formulas based on assets, operating expenses and employees. These charges are not necessarily indicative of what would have been incurred had the Company not been an affiliate. Amounts charged to the Company for these services were \$25 million and \$51 million for the three and six months ended June 30, 2002, respectively, and \$26 million and \$57 million for the three and six months ended June 30, 2003, respectively, and are included primarily in operation and maintenance expenses.

(9) ENVIRONMENTAL MATTERS AND LEGAL PROCEEDINGS

(a) Environmental Matters.

Hydrocarbon Contamination. CERC Corp. and certain of its subsidiaries are among numerous defendants in class action suits in Caddo Parish and Bossier Parish, Louisiana. The suits allege that, at some unspecified date prior to 1985, the defendants allowed or caused hydrocarbon or chemical contamination of the Wilcox Aquifer, which lies beneath property owned or leased by certain of the defendants and which is the sole or primary drinking water aquifer in the area. The primary source of the contamination is alleged by the plaintiffs to be a gas processing facility in Haughton, Bossier Parish, Louisiana known as the "Sligo Facility." This facility was purportedly used for gathering natural gas from surrounding wells, separating gasoline and hydrocarbons from the natural gas for marketing, and transmission of natural gas for distribution.

Beginning about 1985, the predecessors of certain CERC Corp. defendants engaged in a voluntary remediation of any subsurface contamination of the groundwater below the property they owned or leased. This work has been done in conjunction with and under the direction of the Louisiana Department of Environmental Quality. The plaintiffs seek monetary damages for alleged damage to the aquifer underlying their property, unspecified alleged personal injuries, alleged fear of cancer, alleged property damage or diminution of value of their property, and, in addition, seek damages for trespass, punitive, and exemplary damages. The quantity of monetary damages sought is unspecified. The Company is unable to estimate the monetary damages, if any, that the plaintiffs may be awarded in these matters.

Manufactured Gas Plant Sites. The Company and its predecessors operated manufactured gas plants (MGP) in the past. In Minnesota, remediation has been completed on two sites, other than ongoing monitoring and water treatment. There are five remaining sites in the Company's Minnesota service territory, two of which the Company believes were neither owned nor operated by the Company, and for which it believes it has no liability.

At June 30, 2003, the Company had accrued \$19 million for remediation of the Minnesota sites. At June 30, 2003, the estimated range of possible remediation costs was \$8 million to \$44 million based on remediation continuing for 30 to 50 years. The cost estimates are based on studies of a site or industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites to be remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used. The Company has utilized an environmental expense tracker mechanism in its rates in Minnesota to recover estimated costs in excess of insurance recovery. The Company has collected or accrued \$12.4 million at June 30, 2003 to be used for future environmental remediation.

The Company has received notices from the United States Environmental Protection Agency and others regarding its status as a PRP for sites in other states. The Company has been named as a defendant in lawsuits under which contribution is sought for the cost to remediate former MGP sites based on the previous ownership of such sites by former affiliates of the Company or its divisions. The Company is investigating details regarding these sites

and the range of environmental expenditures for potential remediation. Based on current information, the Company has not been able to quantify a range of environmental expenditures for such sites.

Mercury Contamination. The Company's pipeline and distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area with elemental mercury. This type of contamination has been found by the Company at some sites in the past, and the Company has conducted remediation at these sites. It is possible that other contaminated sites may exist and that remediation costs may be incurred for these sites. Although the total amount of these costs cannot be known at this time, based on experience by the Company and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, the Company believes that the costs of any remediation of these sites will not be material to the Company's financial condition, results of operations or cash flows.

Other Environmental. From time to time the Company has received notices from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. Considering the information currently known about such sites and the involvement of the Company in activities at these sites, the Company does not believe that these matters will have a material adverse effect on its financial position, results of operations or cash flows.

(b) Department of Transportation

In December 2002, Congress enacted the Pipeline Safety Improvement Act of 2002. This legislation applies to the Company's interstate pipelines as well as its intra-state pipelines and local distribution companies. The legislation imposes several requirements related to ensuring pipeline safety and integrity. It requires companies to assess the integrity of their pipeline transmission and distribution facilities in areas of high population concentration and further requires companies to perform remediation activities, in accordance with the requirements of the legislation, over a 10-year period.

In January 2003, the U.S. Department of Transportation published a notice of proposed rulemaking to implement provisions of the legislation. The Department of Transportation is expected to issue final rules by the end of 2003.

While the Company anticipates that increased capital and operating expenses will be required to comply with the requirements of the legislation, it will not be able to quantify the level of spending required until the Department of Transportation's final rules are issued.

(c) Legal Matters.

Natural Gas Measurement Lawsuits. CERC Corp. and certain of its subsidiaries are defendants in a suit filed in 1997 under the Federal False Claims Act alleging mismeasurement of natural gas produced from federal and Indian lands. The suit seeks undisclosed damages, along with statutory penalties, interest, costs, and fees. The complaint is part of a larger series of complaints filed against 77 natural gas pipelines and their subsidiaries and affiliates. An earlier single action making substantially similar allegations against the pipelines was dismissed by the federal district court for the District of Columbia on grounds of improper joinder and lack of jurisdiction. As a result, the various individual complaints were filed in numerous courts throughout the country. This case has been consolidated, together with the other similar False Claims Act cases, in the federal district court in Cheyenne, Wyoming.

In addition, CERC Corp. and certain of its subsidiaries are defendants in a class action filed in May 1999 against approximately 245 pipeline companies and their affiliates. The plaintiffs in the case purport to represent a class of natural gas producers and fee royalty owners who allege that they have been subject to systematic gas mismeasurement by the defendants for more than 25 years. The plaintiffs seek compensatory damages, along with statutory penalties, treble damages, interest, costs and fees. The action is currently pending in state court in Stevens County, Kansas.

City of Tyler, Texas, Gas Costs Review. By letter to CenterPoint Energy Entex (Entex) dated July 31, 2002, the City of Tyler, Texas, forwarded various computations of what it believes to be excessive costs ranging from \$2.8

million to \$39.2 million for gas purchased by Entex for resale to residential and small commercial customers in that city under supply agreements in effect since 1992. Entex's gas costs for its Tyler system are recovered from customers pursuant to tariffs approved by the city and filed with both the city and the Railroad Commission of Texas (the Railroad Commission). Pursuant to an agreement, on January 29, 2003, Entex and the city filed a Joint Petition for Review of Charges for Gas Sales (Joint Petition) with the Railroad Commission. The Joint Petition requests that the Railroad Commission determine whether Entex has properly and lawfully charged and collected for gas service to its residential and commercial customers in its Tyler distribution system for the period beginning November 1, 1992, and ending October 31, 2002. The Company believes that all costs for Entex's Tyler distribution system have been properly included and recovered from customers pursuant to Entex's filed tariffs and that the city has no legal or factual support for the statements made in its letter.

Gas Cost Recovery Suits. In October 2002, a suit was filed in state district court in Wharton County, Texas, against CenterPoint Energy, the Company, Entex Gas Marketing Company, and others alleging fraud, violations of the Texas Deceptive Trade Practices Act, violations of the Texas Utility Code, civil conspiracy and violations of the Texas Free Enterprise and Antitrust Act. The plaintiffs seek class certification, but no class has been certified. The plaintiffs allege that defendants inflated the prices charged to certain consumers of natural gas. In February 2003, a similar suit was filed against the Company in state court in Caddo Parish, Louisiana purportedly on behalf of a class of residential or business customers in Louisiana who allegedly have been overcharged for gas or gas service provided by the Company. The plaintiffs in both cases seek restitution for the alleged overcharges, exemplary damages and penalties. In both cases, the Company denies that it has overcharged any of its customers for natural gas and believes that the amounts recovered for purchased gas have been in accordance with what is permitted by state regulatory authorities.

Other Proceedings. The Company is involved in other proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business. The Company's management currently believes that the disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

(10) REPORTABLE BUSINESS SEGMENTS

Because CERC Corp. is an indirect wholly owned subsidiary of CenterPoint Energy, the Company's determination of reportable segments considers the strategic operating units under which CenterPoint Energy manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments.

The Company's reportable business segments include the following: Natural Gas Distribution, Pipelines and Gathering, and Other Operations. For descriptions of the reportable business segments, see Note 13 to the CERC Corp. 8-K Notes, which is incorporated herein by reference.

In the second quarter of 2003, the Company began to evaluate business segment performance on an operating income basis. Operating income is shown because it is the measure currently used by the chief operating decision maker to evaluate performance and allocate resources. Additionally, it is a widely accepted measure of financial performance prepared in accordance with GAAP. Prior to the second quarter of 2003, the Company evaluated performance on an earnings before interest expense, distribution on trust preferred securities and income taxes (EBIT) basis. Historically, the difference between EBIT and operating income has not been material.

The following table summarizes financial data for the reportable business segments:

FOR THE THREE
MONTHS ENDED
JUNE 30, 2002 --

REVENUES FROM
NET THIRD
PARTIES AND
INTERSEGMENT
OPERATING
AFFILIATES(1)
REVENUES
INCOME(LOSS) ---

----- (IN
MILLIONS)
Natural Gas
Distribution
..... \$780 \$ 17
\$ 11 Pipelines
and Gathering
..... 72 30 39
Other Operations
.....
-- (2) Sales to
Affiliates
..... 16 --
-- Eliminations
.....
-- (47) --

Consolidated
.....
\$868 \$ -- \$ 48
====

FOR THE THREE
MONTHS ENDED
JUNE 30, 2003 -

----- REVENUES
FROM NET THIRD
PARTIES AND
INTERSEGMENT
OPERATING
AFFILIATES
REVENUES INCOME

----- (IN
MILLIONS)
Natural Gas
Distribution
... \$954 \$ 17
\$ 21 Pipelines
and Gathering
..... 73 49 42
Other
Operations
.....
4 4 Sales to
Affiliates
..... 5 --
-- Eliminations
.....
-- (70) --

Consolidated
.....
\$1,032 \$ -- \$
67 =====
=====

AS OF DECEMBER
31, FOR THE SIX
MONTHS ENDED
JUNE 30, 2002
2002 -----

----- REVENUES
FROM NET THIRD
PARTIES AND

INTERSEGMENT
 OPERATING
 AFFILIATES(1)
 REVENUES
 INCOME(LOSS)
 TOTAL ASSETS ---

 ----- (IN
 MILLIONS)
 Natural Gas
 Distribution
 \$1,960 \$
 17 \$ 118 \$ 4,051
 Pipelines and
 Gathering
 134 60 76 2,481
 Other Operations
 --
 -- (2) 206 Sales
 to Affiliates
 17 --
 -- --
 Eliminations

 -- (77) -- (694)

 Consolidated

 \$ 2,111 \$ -- \$
 192 \$ 6,044
 =====
 =====
 =====

AS OF JUNE 30, FOR
 THE SIX MONTHS
 ENDED JUNE 30,
 2003 2003 -----

REVENUES FROM NET
 THIRD PARTIES AND
 INTERSEGMENT
 OPERATING
 AFFILIATES
 REVENUES INCOME
 TOTAL ASSETS -----

 ----- (IN
 MILLIONS) Natural
 Gas Distribution
 \$ 2,982 \$
 33 \$ 151 \$ 4,169
 Pipelines and
 Gathering
 134 97 85 2,458
 Other Operations
 --
 6 3 234 Sales to
 Affiliates
 10 --
 -- -- Eliminations

 -- (136) -- (899)

 Consolidated

 \$ 3,126 \$ -- \$ 239
 \$ 5,962 =====
 =====
 =====

(1) Included in revenues from third parties are revenues from sales to Reliant Resources, a former affiliate, of \$11 million and \$25 million for the three and six months ended June 30, 2002.

Reconciliation of Operating Income to Net Income:

	FOR THE THREE		
	MONTHS ENDED JUNE		
	30, FOR THE SIX		
	MONTHS ENDED JUNE		
	30, -----		

	2002	2003	2002
	2003	-----	-----

	----- (IN		
	MILLIONS)		
Operating Income	\$ 48		
.....	\$ 67	\$ 192	\$ 239
Other Income, net	4	2	6
.....	3		
Interest Expense	(38)		
.....	(48)	(74)	(84)
.....	---		
-- Income Before			
Income Taxes ...	14	21	124
.....	158		
Income Tax Expense	(6)		
.....	(6)	(47)	(55)
.....	----		
- Net Income			
.....	\$ 8	\$ 15	\$ 77
.....	\$		
.....	103	=====	=====
.....	=====		
.....	=====		

ITEM 2. MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS OF CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES

The following narrative analysis should be read in combination with our interim financial statements and notes contained in Item 1 of this report.

We are an indirect wholly owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy), a public utility holding company created on August 31, 2002, as part of a corporate restructuring (Restructuring) of Reliant Energy, Incorporated (Reliant Energy).

CenterPoint Energy is a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). The 1935 Act and related rules and regulations impose a number of restrictions on the activities of CenterPoint Energy and its subsidiaries. The 1935 Act, among other things, limits the ability of the holding company and its subsidiaries to issue debt and equity securities without prior authorization, restricts the source of dividend payments to funds from current and retained earnings without prior authorization, regulates sales and acquisitions of certain assets and businesses and governs affiliate transactions. CenterPoint Energy and its subsidiaries, including us, received an order from the Securities and Exchange Commission (SEC) under the 1935 Act on June 30, 2003 (June 2003 Financing Order) relating to financing and other activities, which is effective until June 30, 2005.

We meet the conditions specified in General Instruction H(1)(a) and (b) to Form 10-Q and are therefore permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, we have omitted from this report the information called for by Item 3 (Quantitative and Qualitative Disclosures About Market Risk) of Part I and the following Part II items of Form 10-Q: Item 2 (Changes in Securities and Use of Proceeds), Item 3 (Defaults Upon Senior Securities) and Item 4 (Submission of Matters to a Vote of Security Holders). The following discussion explains material changes in the amount of our revenue and expense items between the three months and six months ended June 30, 2003 and the three months and six months ended June 30, 2002. Reference is made to "Management's Narrative Analysis of the Results of Operations" in Exhibit 99.1 to the Current Report on Form 8-K dated June 16, 2003 (June 16 Form 8-K).

CONSOLIDATED RESULTS OF OPERATIONS

Our results of operations are affected by seasonal fluctuations in the demand for natural gas and price movements of energy commodities. Our results of operations are also affected by, among other things, the actions of various federal, state and municipal governmental authorities having jurisdiction over rates we charge, competition in our various business operations, debt service costs and income tax expense. For more information regarding factors that may affect the future results of operations of our business, please read "Risk Factors" in Item 5 of Part II of this report and "Management's Narrative Analysis of the Results of Operations -- Certain Factors Affecting Future Earnings" in Exhibit 99.1 to the June 16 Form 8-K, each of which is incorporated herein by reference.

In the second quarter of 2003, we began to evaluate performance on an operating income basis. Operating income is shown because it is the measure currently used by the chief operating decision maker to evaluate performance and allocate resources. Additionally, it is a widely accepted measure of financial performance prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). Prior to the second quarter of 2003, we evaluated performance on an earnings before interest expense, distribution on trust preferred securities and income taxes (EBIT) basis. Historically, the difference between EBIT and operating income has not been material.

The following table sets forth our consolidated results of operations for the three and six months ended June 30, 2002 and 2003, followed by a discussion of our consolidated results of operations based on operating income. We have provided a reconciliation of consolidated operating income to net income below.

	THREE MONTHS ENDED JUNE 30, 2002		THREE MONTHS ENDED JUNE 30, 2003	
Operating Revenues	\$ 868	\$ 1,032	\$ 2,111	\$ 3,126
Operating Expenses: Natural gas and fuel	583	736	1,445	2,391
Operation and maintenance	165	162	330	340
Depreciation and amortization	82	88	30	23
Taxes other than income taxes	6	3	62	68
Total Operating Expenses	820	965	1,919	2,887
Operating Income, net	48	67	192	239
Other Income, net	4	2	6	3
Interest Expense and Distribution on Trust Preferred Securities	(38)	(48)	(74)	(84)
Income Before Income Taxes	14	21	124	158
Income Tax Expense	(6)	(47)	(55)	(6)
Net Income	\$ 8	\$ 15	\$ 77	\$ 103

THREE MONTHS ENDED JUNE 30, 2003 COMPARED TO THREE MONTHS ENDED JUNE 30, 2002

For the three months ended June 30, 2003, operating income increased \$19 million as compared to the same period in 2002. Operating margins (revenues less natural gas and fuel costs) for the three months ended June 30, 2003 were \$11 million higher than in the same period in 2002 primarily because of:

- o higher revenues from rate increases late in 2002 (\$9 million);
- o improved margins from new transportation contracts to power plants (\$4 million);
- o improved margins from our unregulated commercial and industrial sales (\$3 million);
- o improved margins from enhanced services in our gas gathering operations (\$2 million);
- o higher commodity prices (\$2 million); and
- o continued customer growth (\$1 million).

These increases were partially offset by reduced project-related revenues (\$10 million) and a one-time refund of a tax on fuel in 2002 (\$3 million).

Operation and maintenance expense decreased \$3 million for the three months ended June 30, 2003 as compared to the same period in 2002. The decrease in operation and maintenance expense was primarily due to a decrease in project-related costs (\$10 million) and a decrease in bad debt expense (\$3 million), partially offset by:

- o higher employee benefit expenses, primarily due to increased pension costs (\$8 million); and
- o certain costs being included in operating expense subsequent to the amendment of a receivables facility in November 2002 as compared with being included in interest expense in the prior year (\$3 million).

Depreciation and amortization expense increased \$2 million for the three months ended June 30, 2003 as compared to the same period in 2002 primarily as a result of increases in plant in service.

Taxes other than income taxes decreased \$7 million for the three months ended June 30, 2003 as compared to the same period in 2002, primarily due to decreased gross receipt taxes (\$4 million).

SIX MONTHS ENDED JUNE 30, 2003 COMPARED TO SIX MONTHS ENDED JUNE 30, 2002

For the six months ended June 30, 2003, operating income increased \$47 million as compared to the same period in 2002. Operating margins (revenues less natural gas and fuel costs) for the six months ended June 30, 2003 were \$69 million higher than in the same period in 2002 primarily because of:

- o higher revenues from rate increases late in 2002 (\$20 million);
- o improved margins from our unregulated commercial and industrial sales (\$12 million);
- o franchise fees billed to customers (\$7 million);
- o higher commodity prices (\$6 million);
- o continued customer growth (\$5 million);
- o improved margins from new transportation contracts (\$5 million);
- o colder weather (\$4 million); and
- o improved margins from enhanced services in our gas gathering operations (\$3 million).

These increases were partially offset by reduced project-related revenues (\$15 million) and a one-time refund of a tax on fuel in 2002 (\$3 million).

Operation and maintenance expense increased \$10 million for the six months ended June 30, 2003 as compared to the same period in 2002. The increase in operation and maintenance expense was primarily due to:

- o higher employee benefit expenses primarily due to increased pension costs (\$12 million);
- o certain costs being included in operating expense subsequent to the amendment of a receivables facility in November 2002 as compared with being included in interest expense in the prior year (\$7 million); and
- o increased bad debt expense primarily due to colder weather and higher gas prices (\$2 million).

The increases in operation and maintenance expense were partially offset by a decrease in project-related costs (\$15 million).

Depreciation and amortization expense increased \$6 million for the six months ended June 30, 2003 as compared to the same period in 2002 primarily as a result of increases in plant in service.

Taxes other than income taxes increased \$6 million for the six months ended June 30, 2003 as compared to the same period in 2002, primarily due to increased franchise fees resulting from higher revenue (\$7 million).

LIQUIDITY

The June 2003 Financing Order limits the amount of external debt and equity securities that we can issue without additional authorization and permits refinancing. We are in compliance with these limits.

Under the June 2003 Financing Order, we are permitted to utilize the undrawn portion of our bank facility as of June 30, 2003 as well as to issue an additional \$250 million of preferred stock and preferred securities.

The SEC has reserved jurisdiction over the issuance of \$500 million additional debt by us. We would need an additional order from the SEC for authority to issue this debt.

Long-Term Debt and Trust Preferred Securities. Of the \$2.3 billion of long-term debt and trust preferred securities outstanding at June 30, 2003, approximately \$2.2 billion aggregate principal amount is senior and unsecured, and approximately \$77.4 million aggregate principal amount with a final maturity of 2012 is subordinated and unsecured. In addition, the debentures relating to \$0.4 million of trust preferred securities issued by our statutory business-trust subsidiary are subordinated.

The issuance of secured debt by us is limited under the terms of various debt instruments aggregating \$907 million and having a final maturity of 2013 which provide for equal and ratable security for such debt in the event debt secured by "principal property" (as defined in the debt instruments) is issued. Additionally, our \$200 million credit agreement expiring in March 2004 prohibits the issuance of debt secured by "principal property." The definition is similar to that contained in the debt instruments described above. Finally, our ability to issue secured debt is limited under the terms of agreements entered into by CenterPoint Energy. Any pledge of assets as security for our debt is subject to SEC approval under the 1935 Act. The June 2003 Financing Order allows us to issue debt secured by a pledge of the stock of our nonutility subsidiaries.

In 2003, we completed several capital market and bank financing transactions which, collectively, increased our borrowing capacity, converted a portion of our interest payment obligations from floating rates to fixed rates and reduced current maturities of long-term debt from \$518 million at December 31, 2002 to \$142 million at June 30, 2003.

On February 28, 2003, CenterPoint Energy reached agreement with a syndicate of banks on a second amendment to its bank facility. The amendment provides that net proceeds from capital stock or indebtedness issued or incurred by us must be applied (subject to a \$200 million basket for us and another \$250 million basket for borrowings by CenterPoint Energy, certain permitted refinancings of existing debt and other limited exceptions) to repay bank loans and permanently reduce the bank facility. Outstanding borrowings under our \$200 million credit facility (see Note 5(a)) would count against the \$200 million basket for us. As of June 30, 2003, this facility was not utilized. Cash proceeds from issuances of indebtedness to refinance indebtedness existing on October 10, 2002 are not subject to this limitation.

In March and April 2003, we issued \$762 million aggregate principal amount of our 7.875% senior notes due 2013, the proceeds from which were used to refinance \$360 million aggregate principal amount of our \$500 million aggregate principal amount of 6 3/8% Term Enhanced ReMarketable Securities (TERM Notes) maturing in November 2003, pay the cost of terminating a remarketing option relating to those securities and repay approximately \$340 million of bank borrowings bearing interest at 1.575% under our \$350 million credit facility having a termination date of March 31, 2003. We replaced the matured credit facility with a new \$200 million revolving credit facility that matures in March 2004.

Short-Term Debt and Receivables Facility. Our revolver and receivables facility are scheduled to terminate on the dates indicated below.

AMOUNT OUTSTANDING	AMOUNT OF AS OF TYPE OF FACILITY TERMINATION DATE
	FACILITY JUNE 30, 2003
-----	-----
-	-----
-----	-----
- (IN MILLIONS)	
Receivables	
... November 14, 2003	
\$100 \$ 73	
Revolver	
..... March 23, 2004	200 -
-	-----
- Total	
... \$300	
\$ 73	====
====	

Rates for borrowings under the revolving credit facility, including the facility fee, are LIBOR plus 250 basis points based on current credit ratings and the applicable pricing grid.

Effective June 25, 2003, we elected to reduce the purchase limit under our receivables facility from \$150 million to \$100 million. The bankruptcy remote subsidiary established to purchase and subsequently sell receivables makes such purchases with a combination of cash and subordinated notes. In July 2003, the

subordinated notes owned by us were pledged to a gas supplier to secure obligations incurred in connection with the purchase of gas by us.

Money Pool. We participate in a "money pool" through which we and certain of our affiliates can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The money pool's net funding requirements are generally met by borrowings of CenterPoint Energy. The terms of the money pool are in accordance with requirements applicable to registered public utility holding companies under the 1935 Act and with the June 2003 Financing Order. The money pool may not provide sufficient funds to meet our cash needs. Our money pool borrowing limit under the June 2003 Financing Order is \$600 million. At June 30, 2003, we had invested \$61.5 million in the money pool.

Cash Requirements in 2003. Our liquidity and capital requirements are affected primarily by our results of operations, capital expenditures, debt service requirements, and working capital needs. Our principal cash requirements during the last six months of 2003 include the following:

- o approximately \$152 million of capital expenditures; and
- o remarketing or refinancing of \$140 million of TERM Notes, plus the possible payment of option termination costs, which will be determined at the time of remarketing or refinancing (estimated to be \$23 million as of June 30, 2003).

We expect that our current liquidity, along with anticipated cash flows from operations, revolving credit borrowings and proceeds from capital market transactions, will be sufficient to meet our cash needs for the remainder of 2003. If we are unable to obtain external financings to meet our future capital requirements on terms that are acceptable to us, our financial condition and future results of operations could be materially and adversely affected. In addition, the capital constraints currently impacting our businesses may require our future indebtedness to include terms that are more restrictive or burdensome than those of our current indebtedness. Such terms may negatively impact our ability to operate our business or may restrict dividends.

At June 30, 2003, we had a shelf registration statement covering \$50 million of debt securities. The amount of any debt security or any security having equity characteristics that we can issue, whether registered or unregistered, or whether debt is secured or unsecured, is expected to be affected by:

- o general economic and capital market conditions;
- o credit availability from financial institutions and other lenders;
- o investor confidence in us and the market in which we operate;
- o maintenance of acceptable credit ratings;
- o market expectations regarding our future earnings and probable cash flows;
- o market perceptions of our ability to access capital markets on reasonable terms;
- o provisions of relevant tax and securities laws; and
- o our ability to obtain approval of specific financing transactions under the 1935 Act.

Proceeds from the sales of securities are expected to be used primarily to refinance debt. We may access the bank and capital markets to refinance debt that is not scheduled to mature in the next twelve months.

Impact on Liquidity of a Downgrade in Credit Ratings. As of July 31, 2003, Moody's Investors Service, Inc. (Moody's), Standard & Poor's Ratings Services, a division of The McGraw Hill Companies (S&P) and Fitch, Inc. (Fitch) had assigned the following credit ratings to our senior unsecured debt:

MOODY'S
S&P FITCH

RATING
OUTLOOK(1)
RATING
OUTLOOK(2)
RATING
OUTLOOK(3)

--- Ba1
Negative
BBB Stable
BBB Stable

- (1) A "negative" outlook from Moody's reflects concerns over the next 12 to 18 months which will either lead to a review for a potential downgrade or a return to a stable outlook.
- (2) A "stable" outlook from S&P indicates that the rating is not likely to change over the intermediate to longer term.
- (3) A "stable" outlook from Fitch indicates the direction a rating is likely to move over a one- to two-year period.

We cannot assure you that these ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities and may be revised or withdrawn at any time by the rating agency. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to obtain short- and long-term financing, the cost of such financings, the willingness of suppliers to extend credit lines to us on an unsecured basis and the execution of our commercial strategies.

A decline in credit ratings would increase facility fees and borrowing costs under our existing revolving credit facility. A decline in credit ratings would also increase the interest rate on long-term debt to be issued in the capital markets and would negatively impact our ability to complete capital market transactions.

Our bank facility contains a "material adverse change" clause that could impact our ability to borrow under this facility. The "material adverse change" clause in our revolving credit facility applies to new borrowings under the facility, other than borrowings being used to repay commercial paper, and relates to changes since December 31, 2002 in our business, condition (financial or otherwise), operations, performance or properties.

Our \$100 million receivables facility requires the maintenance of credit ratings of at least BB from S&P and Ba2 from Moody's. Receivables would cease to be sold in the event a credit rating fell below the threshold.

CenterPoint Energy Gas Resources Corp., a wholly owned subsidiary, provides comprehensive natural gas sales and services to industrial and commercial customers that are primarily located within or near the territories served by our pipelines and natural gas distribution subsidiaries. In order to hedge its exposure to natural gas prices, CenterPoint Energy Gas Resources Corp. has agreements with provisions standard for the industry that establish credit thresholds and then require a party to provide additional collateral on two business days' notice when that party's credit rating or the rating of a credit support provider for that party (CenterPoint Energy Resources Corp. in this case) falls below those levels. As of July 31, 2003, our senior unsecured debt was rated BBB by S&P and Ba1 by Moody's. Based on these ratings, we estimate that unsecured credit limits extended to CenterPoint Energy Gas Resources Corp. by counterparties could aggregate \$50 million; however, utilized credit capacity is significantly lower.

Cross Defaults. Our debentures and borrowings generally provide that a default on obligations by CenterPoint Energy does not cause a default under our debentures, revolving credit facility or receivables facility. A payment default on, or a non-payment default that permits acceleration of, any indebtedness at CenterPoint Energy Resources Corp. exceeding \$50 million will cause a default under CenterPoint Energy's \$2.85 billion bank facility entered into on February 28, 2003. A payment default by us in respect of, or an acceleration of, borrowed money and certain other specified types of obligations, in the aggregate principal amount of \$50 million will cause a default on CenterPoint Energy's 3.75% senior convertible notes due 2023, its 5.875% senior notes due 2008 and its 6.85% senior notes due 2015.

Pension Plan. As discussed in Note 8(a) of the notes to the consolidated financial statements included in Exhibit 99.2 to the June 16 Form 8-K (CERC

participate in CenterPoint Energy's qualified non-contributory pension plan covering substantially all employees. Pension expense for 2003 is estimated to be \$36 million based on an expected return on plan assets of 9.0% and a discount rate of 6.75% as of December 31, 2002. Pension expense for the year ended December 31, 2002 was \$13 million. Future changes in plan asset returns, assumed discount rates and various other factors related to the pension will impact our future pension expense. We cannot predict with certainty what these factors will be in the future.

Other Factors that Could Affect Cash Requirements. In addition to the above factors, our liquidity and capital resources could be affected by:

- o cash collateral requirements that could exist in connection with certain contracts, including our gas purchases, gas price hedging and gas storage activities of our Natural Gas Distribution business segment, particularly given gas price levels and volatility;
- o acceleration of payment dates on certain gas supply contracts under certain circumstances, as a result of increased gas prices and concentration of suppliers;
- o increased costs related to the acquisition of gas for storage;
- o increases in interest expense in connection with debt refinancings; and
- o various regulatory actions.

Capitalization. Factors affecting our capitalization include:

- o covenants and other provisions in our bank facility, receivables facility and other borrowing agreements; and
- o limitations imposed on us under the 1935 Act.

Our bank facility and our receivables facility limit our debt as a percentage of our total capitalization to 60% and contain an earnings before interest, taxes, depreciation and amortization (EBITDA) to interest covenant. Our bank facility contains a provision that could, under certain circumstances, limit the amount of dividends that could be paid by us.

The June 2003 Financing Order requires that if we issue any securities that are rated by a nationally recognized statistical rating organization (NRSRO), the security to be issued must obtain an investment grade rating from at least one NRSRO and, as a condition to such issuance, all outstanding rated securities of ours and of CenterPoint Energy must be so rated by at least one NRSRO. The June 2003 Financing Order also contains certain requirements for interest rates, maturities, issuance expenses and use of proceeds. Under the June 2003 Financing Order, our common equity as a percentage of total capitalization must be at least 30%.

Relationship with CenterPoint Energy. We are an indirect wholly owned subsidiary of CenterPoint Energy. As a result of this relationship, the financial condition and liquidity of our parent company could affect our access to capital, our credit standing and our financial condition.

CRITICAL ACCOUNTING POLICIES

A critical accounting policy is one that is both important to the presentation of our financial condition and results of operations and requires management to make difficult, subjective or complex accounting estimates. An accounting estimate is an approximation made by management of a financial statement element, item or account in the financial statements. Accounting estimates in our historical consolidated financial statements measure the effects of past business transactions or events, or the present status of an asset or liability. The accounting estimates described below require us to make assumptions about matters that are highly uncertain at the time the estimate is made. Additionally, different estimates that we could have used or changes in an accounting estimate that are reasonably likely to occur could have a material impact on the presentation of our financial condition or results of operations. The circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the effect of matters that are inherently uncertain. Estimates and assumptions about future events and their effects cannot be predicted with certainty. We base our estimates on historical experience and

on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. We believe the following accounting policies involve the application of critical accounting estimates.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets recorded in our Consolidated Balance Sheets primarily consist of property, plant and equipment (PP&E). Net PP&E comprises \$3.3 billion or 55% of our total assets as of June 30, 2003. We make judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. We evaluate our PP&E for impairment whenever indicators of impairment exist. During 2002, no such indicators of impairment existed. Accounting standards require that if the sum of the undiscounted expected future cash flows from a company's asset is less than the carrying value of the asset, an asset impairment must be recognized in the financial statements. The amount of impairment recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset.

IMPAIRMENT OF GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

We evaluate our goodwill and other indefinite-lived intangible assets for impairment at least annually and more frequently when indicators of impairment exist. Accounting standards require that if the fair value of a reporting unit is less than its carrying value, including goodwill, a charge for impairment of goodwill must be recognized. To measure the amount of the impairment loss, we compare the implied fair value of the reporting unit's goodwill with its carrying value.

We recorded goodwill associated with the acquisition of our Natural Gas Distribution and Pipelines and Gathering operations in 1997. We reviewed our goodwill for impairment as of January 1, 2003. We computed the fair value of the Natural Gas Distribution and the Pipelines and Gathering operations as the sum of the discounted estimated net future cash flows applicable to each of these operations. We determined that the fair value for each of the Natural Gas Distribution operations and the Pipelines and Gathering operations exceeded their corresponding carrying value, including unallocated goodwill. We also concluded that no interim impairment indicators existed subsequent to this initial evaluation. As of June 30, 2003, we had recorded \$1.7 billion of goodwill. Future evaluations of the carrying value of goodwill could be significantly impacted by our estimates of cash flows associated with our Natural Gas Distribution and Pipelines and Gathering operations, regulatory matters, and estimated operating costs.

UNBILLED REVENUES

Revenues related to the sale and/or delivery of natural gas are generally recorded when natural gas is delivered to customers. However, the determination of sales to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, amounts of natural gas delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. Unbilled natural gas sales are estimated based on estimated purchased gas volumes, estimated lost and unaccounted for gas and tariffed rates in effect. Accrued unbilled revenues recorded in the Consolidated Balance Sheets as of December 31, 2002 and June 30, 2003 were \$284 million and \$135 million, respectively, related to our Natural Gas Distribution business segment.

NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2003, we adopted Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 requires the fair value of an asset retirement obligation to be recognized as a liability is incurred and capitalized as part of the cost of the related tangible long-lived assets. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which a legal obligation exists under enacted laws, statutes and written or oral contracts, including obligations arising under the doctrine of promissory estoppel. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. SFAS No. 143 requires entities to record a cumulative effect of change in accounting principle in the income statement in the period of adoption.

We have identified no asset retirement obligations. Our rate-regulated businesses have previously recognized removal costs as a component of depreciation expense in accordance with regulatory treatment. As of June 30, 2003, these previously recognized removal costs of \$391 million do not represent SFAS No. 143 asset retirement obligations, but rather embedded regulatory liabilities.

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent. SFAS No. 145 also requires that capital leases that are modified so that the resulting lease agreement is classified as an operating lease be accounted for as a sale-leaseback transaction. The changes related to debt extinguishment are effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting are effective for transactions occurring after May 15, 2002. We have applied this guidance as it relates to lease accounting and the accounting provisions related to debt extinguishment. Upon adoption of SFAS No. 145, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods is required to be reclassified. No such reclassification was required in the three month or six month period ended June 30, 2002.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF No. 94-3). The principal difference between SFAS No. 146 and EITF No. 94-3 relates to the requirements for recognition of a liability for costs associated with an exit or disposal activity. SFAS No. 146 requires that a liability be recognized for a cost associated with an exit or disposal activity when it is incurred. A liability is incurred when a transaction or event occurs that leaves an entity little or no discretion to avoid the future transfer or use of assets to settle the liability. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. In addition, SFAS No. 146 also requires that a liability for a cost associated with an exit or disposal activity be recognized at its fair value when it is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. We adopted the provisions of SFAS No. 146 on January 1, 2003.

In June 2002, the EITF reached a consensus on EITF No. 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities" (EITF No. 02-3) that all mark-to-market gains and losses on energy trading contracts should be shown net in the income statement whether or not settled physically. An entity should disclose the gross transaction volumes for those energy-trading contracts that are physically settled. The EITF did not reach a consensus on whether recognition of dealer profit, or unrealized gains and losses at inception of an energy-trading contract, is appropriate in the absence of quoted market prices or current market transactions for contracts with similar terms. The FASB staff indicated that until such time as a consensus is reached, the FASB staff will continue to hold the view that previous EITF consensus do not allow for recognition of dealer profit, unless evidenced by quoted market prices or other current market transactions for energy trading contracts with similar terms and counterparties. The consensus on presenting gains and losses on energy trading contracts net is effective for financial statements issued for periods ending after July 15, 2002. Upon application of the consensus, comparative financial statements for prior periods should be reclassified to conform to the consensus. Our adoption of EITF No. 02-03 on January 1, 2003 only impacted the year ended December 31, 2000 and had no effect on our interim financial statements.

In November 2002, the FASB issued FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of certain guarantees. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued. The provision for initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure provisions of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not materially affect our consolidated financial statements.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (FIN 46). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without

additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. We are currently assessing the impact that this statement will have on our consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). SFAS No. 149 clarifies when a contract with an initial net investment meets the characteristics of a derivative as discussed in SFAS No. 133 and when a derivative contains a financing component. SFAS No. 149 also amends certain existing pronouncements, which will result in more consistent reporting of contracts as either derivative or hybrid instruments. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003, and should be applied prospectively. Certain paragraphs of this statement that relate to forward purchases or sales of when-issued securities or other securities that do not yet exist should be applied to both existing contracts and new contracts entered into after June 30, 2003. The provisions of this statement that relate to SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003 should continue to be applied in accordance with their respective effective dates. The adoption of SFAS No. 149 will not have a material effect on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS No. 150). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle with no restatement of prior period information permitted. We are currently assessing the impact that this statement will have on our consolidated financial statements.

ITEM 4. CONTROLS AND PROCEDURES

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2003 to provide assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in our internal controls over financial reporting that occurred during the three months ended June 30, 2003 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a description of certain legal and regulatory proceedings affecting us, please review Note 9 to our Interim Financial Statements, "Business -- Regulation" and "Business -- Environmental Matters" in Item 1 of the Annual Report on Form 10-K of CERC Corp. (CERC Corp. 10-K) for the year ended December 3, 2002, "Legal Proceedings" in Item 3 of the CERC Corp. 10-K and Notes 10(c) and (d) to the CERC Corp. 8-K Notes, all of which are incorporated herein by reference.

ITEM 5. OTHER INFORMATION.

RISK FACTORS

PRINCIPAL RISK FACTORS ASSOCIATED WITH OUR BUSINESSES

OUR BUSINESSES MUST COMPETE WITH ALTERNATIVE ENERGY SOURCES, AND OUR PIPELINES AND GATHERING BUSINESSES MUST COMPETE DIRECTLY WITH OTHERS IN THE TRANSPORTATION AND STORAGE OF NATURAL GAS.

We compete primarily with alternate energy sources such as electricity and other fuel sources. In some areas, intrastate pipelines, other natural gas distributors and marketers also compete directly with us for natural gas sales to end-users. In addition, as a result of federal regulatory changes affecting interstate pipelines, natural gas marketers operating on these pipelines may be able to bypass our facilities and market, sell and/or transport natural gas directly to commercial and industrial customers. Any reduction in the amount of natural gas marketed, sold or transported by us as a result of competition may have an adverse impact on our results of operations, financial condition and cash flows.

Our two interstate pipelines and our gathering systems compete with other interstate and intrastate pipelines and gathering systems in the transportation and storage of natural gas. The principal elements of competition are rates, terms of service, and flexibility and reliability of service. They also compete indirectly with other forms of energy, including electricity, coal and fuel oils. The primary competitive factor is price. The actions of our competitors could lead to lower prices, which may have an adverse impact on our results of operations, financial condition and cash flows.

OUR NATURAL GAS DISTRIBUTION BUSINESS IS SUBJECT TO FLUCTUATIONS IN NATURAL GAS PRICING LEVELS.

We are subject to risk associated with price movements of natural gas. Movements in natural gas prices might affect our ability to collect balances due from our customers and could create the potential for uncollectible accounts expense to exceed the recoverable levels built into our tariff rates. In addition, a sustained period of high natural gas prices could apply downward demand pressure on natural gas consumers in our service territory. Additionally, increasing gas prices could create the need for us to provide collateral in order to purchase gas.

WE MAY INCUR CARRYING COSTS ASSOCIATED WITH PASSING THROUGH CHANGES IN THE COSTS OF NATURAL GAS.

Generally, the regulations of the states in which we operate allow us to pass through changes in the costs of natural gas to our customers through purchased gas adjustment provisions in the applicable tariffs. There is, however, a timing difference between our purchases of natural gas and the ultimate recovery of these costs. Consequently, we may incur carrying costs as a result of this timing difference that are not recoverable from our customers. The failure to recover those additional carrying costs may have an adverse effect on our results of operations, financial condition and cash flows.

IF WE FAIL TO EXTEND CONTRACTS WITH TWO OF OUR SIGNIFICANT INTERSTATE PIPELINES' CUSTOMERS, THERE COULD BE AN ADVERSE IMPACT ON OUR OPERATIONS.

Contracts with two of our interstate pipelines' significant customers, CenterPoint Energy Arkla and LaCledde Gas Company, are currently scheduled to expire in 2005 and 2007, respectively. To the extent the pipelines are unable to extend these contracts or the contracts are renegotiated at rates substantially different than the rates

provided in the current contracts, it could have an adverse effect on our results of operations, financial condition and cash flows.

OUR INTERSTATE PIPELINES ARE SUBJECT TO FLUCTUATIONS IN THE SUPPLY OF GAS.

Our interstate pipelines largely rely on gas sourced in the various supply basins located in the Midcontinent region of the United States. To the extent the availability of this supply is substantially reduced, it could have an adverse effect on our results of operations, financial condition and cash flows.

OUR REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

A portion of our revenues are derived from natural gas sales and transportation. Thus, our revenues and results of operations are subject to seasonality, weather conditions and other changes in natural gas usage, with revenues being higher during the winter months.

RISK FACTORS ASSOCIATED WITH OUR FINANCIAL CONDITION

IF WE ARE UNABLE TO ARRANGE FUTURE FINANCINGS ON ACCEPTABLE TERMS, OUR ABILITY TO FUND FUTURE CAPITAL EXPENDITURES AND FINANCE EXISTING INDEBTEDNESS COULD BE LIMITED.

As of June 30, 2003, we had \$2.3 billion of outstanding indebtedness and trust preferred securities, including approximately \$140 million of debt that must be refinanced in 2003. In addition, the capital constraints and other factors currently impacting our parent company's and our businesses may require our future indebtedness to include terms that are more restrictive or burdensome than those of our current or historical indebtedness. These terms may negatively impact our ability to operate our business or adversely affect our financial condition and results of operations. The success of our future financing efforts may depend, at least in part, on:

- o general economic and capital market conditions,
- o credit availability from financial institutions and other lenders,
- o investor confidence in us and the market in which we operate,
- o maintenance of acceptable credit ratings,
- o market expectations regarding our future earnings and probable cash flows,
- o market perceptions of our ability to access capital markets on reasonable terms,
- o our exposure to Reliant Resources in connection with its indemnification obligations arising in connection with its separation from CenterPoint Energy,
- o provisions of relevant tax and securities laws, and
- o our ability to obtain approval of financing transactions under the 1935 Act.

Our current credit ratings are discussed in "Management's Narrative Analysis of the Results of Operations of CenterPoint Energy Resources Corp. and Subsidiaries -- Liquidity -- Impact on Liquidity of a Downgrade in Credit Ratings" in Item 2 of Part I of this report. We cannot assure you that these credit ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to access capital on acceptable terms.

THE FINANCIAL CONDITION AND LIQUIDITY OF OUR PARENT COMPANY COULD AFFECT OUR ACCESS TO CAPITAL, OUR CREDIT STANDING AND OUR FINANCIAL CONDITION.

Our ratings and credit may be impacted by CenterPoint Energy's credit standing. CenterPoint Energy and its subsidiaries other than us have approximately \$153 million of debt, including capital leases, required to be paid in 2003. We cannot assure you that CenterPoint Energy and its other subsidiaries will be able to pay or refinance these amounts. If CenterPoint Energy were to experience a deterioration in its credit standing or liquidity difficulties, our access to credit and our ratings could be adversely affected.

WE ARE A WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY. CENTERPOINT ENERGY CAN EXERCISE SUBSTANTIAL CONTROL OVER OUR DIVIDEND POLICY AND BUSINESS AND OPERATIONS AND COULD DO SO IN A MANNER THAT IS ADVERSE TO OUR INTERESTS.

We are managed by officers and employees of CenterPoint Energy. Our management will make determinations with respect to the following:

- o our payment of dividends;
- o decisions on our financings and our capital raising activities;
- o mergers or other business combinations; and
- o our acquisition or disposition of assets.

There are no contractual restrictions on our ability to pay dividends to CenterPoint Energy. Our management could decide to increase our dividends to CenterPoint Energy to support its cash needs. This could adversely affect our liquidity. Under the 1935 Act, our ability to pay dividends is restricted by the SEC's requirement that common equity as a percentage of total capitalization must be at least 30% after the payment of any dividend.

OTHER RISKS

WE, AS A SUBSIDIARY OF CENTERPOINT ENERGY, A HOLDING COMPANY, ARE SUBJECT TO REGULATION UNDER THE 1935 ACT. THE 1935 ACT AND RELATED RULES AND REGULATIONS IMPOSE A NUMBER OF RESTRICTIONS ON OUR ACTIVITIES.

CenterPoint Energy and its subsidiaries, including us, are subject to regulation by the SEC under the 1935 Act. The 1935 Act, among other things, limits the ability of a holding company and its subsidiaries to issue debt and equity securities without prior authorization, restricts the source of dividend payments to funds from retained earnings absent specific authorization, regulates sales and acquisitions of certain assets and businesses and governs affiliate transactions. Approval of filings under the 1935 Act can take extended periods.

CenterPoint Energy and its subsidiaries, including us, received an order from the SEC under the 1935 Act on June 30, 2003 relating to financing activities, which is effective until June 30, 2005. We must seek a new order before the expiration date. Although authorized levels of financing, together with current levels of liquidity, are believed to be adequate during the period the order is effective, unforeseen events could result in capital needs in excess of authorized amounts, necessitating further authorization from the SEC.

The United States Congress is currently considering legislation which has a provision that would repeal the 1935 Act. We cannot predict at this time whether this legislation or any variation thereof will be adopted or, if adopted, the effect of any such law on our business.

OUR INSURANCE COVERAGE MAY NOT BE SUFFICIENT. INSUFFICIENT INSURANCE COVERAGE AND INCREASED INSURANCE COSTS COULD ADVERSELY IMPACT OUR RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS.

We currently have general liability and property insurance in effect to cover certain of our facilities in amounts that we consider appropriate. Such policies are subject to certain limits and deductibles and do not include business interruption coverage. We cannot assure you that insurance coverage will be available in the future on commercially reasonable terms or that the insurance proceeds received for any loss of or any damage to any of our facilities will be sufficient to restore the loss or damage without negative impact on our results of operations, financial condition and cash flows. The costs of our insurance coverage have increased significantly in recent months and may continue to increase in the future.

OUR REVENUES AND RESULTS OF OPERATIONS ARE SUBJECT TO RISKS THAT ARE BEYOND OUR CONTROL, INCLUDING BUT NOT LIMITED TO FUTURE TERRORIST ATTACKS OR RELATED ACTS OF WAR.

The cost of repairing damage to our operating subsidiaries' facilities due to storms, natural disasters, wars, terrorist acts and other catastrophic events, in excess of reserves established for such repairs, may adversely impact our results of operations, financial condition and cash flows. The occurrence or risk of occurrence of future terrorist activity may impact our results of operations, financial condition and cash flows in unpredictable ways. These actions could also result in adverse changes in the insurance markets and disruptions of power and fuel markets. In addition, our natural gas distribution and pipeline and gathering facilities could be directly or indirectly harmed by future terrorist activity. The occurrence or risk of occurrence of future terrorist attacks or related acts of war could also adversely affect the United States economy. A lower level of economic activity could result in a decline in energy consumption, which could adversely affect our revenues and margins and limit our future growth prospects. Also, these risks could cause instability in the financial markets and adversely affect our ability to access capital.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

The following exhibits are filed herewith:

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated by reference to a prior filing as indicated.

REPORT OR SEC FILE OR EXHIBIT REGISTRATION REGISTRATION EXHIBIT NUMBER DESCRIPTION STATEMENT NUMBER REFERENCE - ----- ----- ----- ----- ----- ----- ----- ----- ----- -----	
--	3(a)(1) - Certificate of Incorporation of RERC Form 10-K for the year ended December 1-3187 3(a)(1) Corp. 31, 1997 3(a)(2)
-	-
	Certificate of Merger merging former Form 10-K for the year ended December 1-3187 3(a)(2) NorAm Energy Corp. with and into HI 31, 1997 Merger, Inc. dated August 6, 1997 3(a)(3) -
	Certificate of Amendment changing the Form 10-K for the year ended December 1-3187 3(a)(3) name to Reliant Energy Resources Corp. 31, 1998 +3(a)(4) -
	Certificate of Amendment

changing the
name to
CenterPoint
Energy
Resources
Corp. 3(b) -
Bylaws of
RERC Corp.
Form 10-K
for the year
ended
December 1-
3187 3(b)
31, 1997
4(a) -
Indenture,
dated as of
February 1,
1998, Form
8-K dated
February 5,
1998 1-13265
4.1 between
RERC Corp.
and Chase
Bank of
Texas,
National
Association,
as Trustee
4(b) -
Supplemental
Indenture
No. 1 to
Exhibit Form
8-K dated
February 5,
1998 1-13265
4.2 4(a),
dated as of
February 1,
1998,
providing
for the
issuance of
RERC Corp.'s
6 1/2%
Debentures
due February
1, 2008 4(c)
-
Supplemental
Indenture
No. 2 to
Exhibit Form
8-K dated
November 9,
1998 1-13265
4.1 4(a),
dated as of
November 1,
1998,
providing
for the
issuance of
RERC Corp.'s
6 3/8% Term
Enhanced
ReMarketable
Securities
4(d) -
Supplemental
Indenture
No. 3 to
Exhibit
Registration
Statement on
Form S-4
333-49162
4.2 4(a),
dated as of
July 1,
2000,
providing
for the
issuance of
RERC Corp.'s
8.125% Notes
due 2005
4(e) -
Supplemental
Indenture
No. 4 to
Exhibit Form
8-K dated
February 21,
2001 1-13265
4.1 4(a),
dated as of
February 15,

2001,
providing
for the
issuance of
RERC Corp.'s
7.75% Notes
due 2011

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4(f)	- Supplemental Indenture No. 5 to Exhibit 4(a), dated as of March 25, 2003, providing for the issuance of CERC Corp.'s 7.75% Senior Notes due 2013	Form 8-K dated March 18, 2003	1-3187	4.1
4(g)	- Supplemental Indenture No. 6 to Exhibit 4(a), dated as of April 14, 2003, providing for the issuance of additional CERC Corp. 7.875% Senior Notes due 2013	Form 8-K dated April 7, 2003	1-3187	4.2
+4(h)	- Registration Rights Agreement, dated as of March 25, 2003, among CERC Corp. and the initial purchasers named therein relating to CERC Corp.'s 7.875% Senior Notes due 2013			
+4(i)	- Registration Rights Agreement, dated as of April 14, 2003, among CERC Corp. and the initial purchasers named therein relating to CERC Corp.'s 7.875% Senior Notes due 2013			
+31(a)	- Section 302 Certification of David M. McClanahan			
+31(b)	- Section 302 Certification of Gary L. Whitlock			
+32(a)	- Section 906 Certification of David M. McClanahan			
+32(b)	- Section 906 Certification of Gary L. Whitlock			
+99(a)	- Items incorporated by reference from the CERC Corp. Form 10-K. Item 1 "Business -- Regulation" and "Business -- Environmental Matters" and Item 3 "Legal Proceedings."			
+99(b)	- Items incorporated by reference from the Current Report on Form 8-K dated June 16, 2003. Exhibit 99.1 "Management's Narrative Analysis of the Results of Operations -- Certain Factors Affecting Future Earnings" and the following Notes from Exhibit 99.2: 3(e) (Regulatory Matters), 5 (Derivative Instruments), 7 (Trust Preferred Securities), 8(a) (Pension Plans), 10 (Commitments and Contingencies) and 13 (Reportable Segments).			

(b) Reports on Form 8-K.

On April 8, 2003, we filed a Current Report on Form 8-K dated April 8, 2003, to furnish information under Item 9 of that form regarding our external debt balances as of March 31, 2003.

On May 1, 2003, we filed a Current Report on Form 8-K dated April 7, 2003, announcing the pricing and closing of \$112 million of senior notes which will be added to and form a single series with our prior existing 7.875% senior notes due on April 1, 2013, in a private placement with institutions pursuant to Rule 144A under the Securities Act of 1933, as amended.

On June 16, 2003, we filed a Current Report on Form 8-K dated June 16, 2003, to provide information giving effect to a reclassification within our historical consolidated financial statements and Management's Narrative Analysis of Results of Operations as reported in our Annual Report on Form 10-K for the year ended December 31, 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CENTERPOINT ENERGY RESOURCES CORP.

By: /s/ James S. Brian

James S. Brian
Senior Vice President and Chief Accounting Officer

Date: August 13, 2003

INDEX TO EXHIBITS

The following exhibits are filed herewith:

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated by reference to a prior filing as indicated.

REPORT OR SEC FILE OR EXHIBIT REGISTRATION REGISTRATION EXHIBIT NUMBER DESCRIPTION STATEMENT NUMBER REFERENCE -	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-- 3(a)(1) - Certificate of Incorporation of RERC Form 10-K for the year ended December 1- 3187 3(a)(1) Corp. 31, 1997 3(a)(2)	-
Certificate of Merger merging former Form 10-K for the year ended December 1- 3187 3(a)(2) NorAm Energy Corp. with and into HI 31, 1997 Merger, Inc. dated August 6, 1997 3(a)	(3) -
Certificate of Amendment changing the Form 10-K for the year ended December 1- 3187 3(a)(3) name to Reliant Energy Resources Corp. 31, 1998 +3(a)	(4) -
Certificate of Amendment changing the name to CenterPoint Energy Resources Corp. 3(b) - Bylaws of RERC Corp. Form 10-K for the year ended December 1- 3187 3(b) 31, 1997 4(a) - Indenture, dated as of February 1, 1998, Form 8-K dated	

February 5,
1998 1-13265
4.1 between
RERC Corp.
and Chase
Bank of
Texas,
National
Association,
as Trustee
4(b) -
Supplemental
Indenture
No. 1 to
Exhibit Form
8-K dated
February 5,
1998 1-13265
4.2 4(a),
dated as of
February 1,
1998,
providing
for the
issuance of
RERC Corp.'s
6 1/2%
Debentures
due February
1, 2008 4(c)

-
Supplemental
Indenture
No. 2 to
Exhibit Form
8-K dated
November 9,
1998 1-13265
4.1 4(a),
dated as of
November 1,
1998,
providing
for the
issuance of
RERC Corp.'s
6 3/8% Term
Enhanced
ReMarketable
Securities
4(d) -

Supplemental
Indenture
No. 3 to
Exhibit
Registration
Statement on
Form S-4
333-49162
4.2 4(a),
dated as of
July 1,
2000,
providing
for the
issuance of
RERC Corp.'s
8.125% Notes
due 2005
4(e) -

Supplemental
Indenture
No. 4 to
Exhibit Form
8-K dated
February 21,
2001 1-13265
4.1 4(a),
dated as of
February 15,
2001,
providing
for the
issuance of
RERC Corp.'s
7.75% Notes
due 2011
4(f) -

Supplemental
Indenture
No. 5 to
Exhibit Form
8-K dated
March 18,
2003 1-3187
4.1 4(a),
dated as of
March 25,
2003,
providing

for the
issuance of
CERC Corp.'s
7.75% Senior
Notes due
2013 4(g) -
Supplemental
Indenture
No. 6 to
Exhibit Form
8-K dated
April 7,
2003 1-3187
4.2 4(a),
dated as of
April 14,
2003,
providing
for the
issuance of
additional
CERC Corp.
7.875%
Senior Notes
due 2013

REPORT OR SEC
FILE OR
EXHIBIT
REGISTRATION
REGISTRATION
EXHIBIT
NUMBER
DESCRIPTION
STATEMENT
NUMBER
REFERENCE - -

+4(h) -
Registration
Rights
Agreement,
dated as of
March 25,
2003, among
CERC Corp.
and the
initial
purchasers
named therein
relating to
CERC Corp.'s
7.875% Senior
Notes due
2013 +4(i) -
Registration
Rights
Agreement,
dated as of
April 14,
2003, among
CERC Corp.
and the
initial
purchasers
named therein
relating to
CERC Corp.'s
7.875% Senior
Notes due
2013 +31(a) -
Section 302
Certification
of David M.
McClanahan
+31(b) -
Section 302
Certification
of Gary L.
Whitlock
+32(a) -
Section 906
Certification
of David M.
McClanahan
+32(b) -
Section 906
Certification
of Gary L.
Whitlock
+99(a) -
Items
incorporated
by reference
from the CERC
Corp. Form
10-K. Item 1
"Business --
Regulation"
and "Business
--
Environmental
Matters" and
Item 3 "Legal
Proceedings."
+99(b) -
Items
incorporated
by reference
from the
Current
Report on
Form 8-K
dated June

16, 2003.
Exhibit 99.1
"Management's
Narrative
Analysis of
the Results
of Operations
-- Certain
Factors
Affecting
Future
Earnings" and
the following
Notes from
Exhibit 99.2:
3(e)
(Regulatory
Matters), 5
(Derivative
Instruments),
7 (Trust
Preferred
Securities),
8(a) (Pension
Plans), 10
(Commitments
and
Contingencies)
and 13
(Reportable
Segments).

CERTIFICATE OF AMENDMENT
TO THE
CERTIFICATE OF INCORPORATION
OF
RELIANT ENERGY RESOURCES CORP.

Reliant Energy Resources Corp. (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "DGCL"), hereby adopts this Certificate of Amendment (this "Certificate of Amendment"), which amends its Certificate of Incorporation, as described below, and does hereby further certify that:

1. The name of the Corporation is Reliant Energy Resources Corp.; and

2. The Board of Directors of the Corporation duly adopted a resolution proposing and declaring advisable the amendment to the Certificate of Incorporation as described herein, and the Corporation's sole stockholder duly adopted such amendment, all in accordance with the provisions of Sections 242 and 228 of the DGCL.

3. The amendment to the Certificate of Incorporation effected by this Certificate of Amendment changes the name of the Corporation to CenterPoint Energy Resources Corp.

4. The Certificate of Incorporation is hereby amended by deleting the text of Article I thereof in its entirety and replacing in lieu thereof the following:

"ARTICLE I

The name of the Corporation is CenterPoint Energy Resources Corp."

IN WITNESS WHEREOF, the Corporation has caused this certificate to be executed this 27th day of September, 2002.

RELIANT ENERGY RESOURCES CORP.

By: /s/ Richard B. Dauphin

Name: Richard B. Dauphin

Title: Assistant Secretary

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into this 25th day of March, 2003 among CenterPoint Energy Resources Corp. (formerly named Reliant Energy Resources Corp.), a Delaware corporation (the "Company"), Salomon Smith Barney Inc., Wachovia Securities, Inc. and Banc One Capital Markets, Inc., as the initial purchasers (the "Initial Purchasers") listed on Schedule I to the Purchase Agreement (defined below).

This Agreement is made pursuant to the Purchase Agreement dated March 18, 2003, among the Company and the Initial Purchasers (the "Purchase Agreement"), which provides for the sale by the Company to the Initial Purchasers of an aggregate of \$650,000,000 principal amount of the Company's 7.875% Senior Notes due 2013 (the "Securities"). In order to induce the Initial Purchasers to enter into the Purchase Agreement, the Company has agreed to provide to the Initial Purchasers and their direct and indirect transferees the registration rights set forth in this Agreement. The execution and delivery of this Agreement is a condition to the closing under the Purchase Agreement.

In consideration of the foregoing, the parties hereto agree as follows:

1. Definitions. As used in this Agreement, the following capitalized defined terms shall have the following meanings:

"1933 Act" shall mean the Securities Act of 1933, as amended from time to time.

"1934 Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

"Business Day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in The City of New York are authorized or obligated by law or executive order to close.

"Company" shall have the meaning set forth in the preamble and shall also include the Company's successors.

"Depository" shall mean The Depository Trust Company, or any other depository for the Securities appointed by the Company; provided, however, that such depository must have an address in the Borough of Manhattan, in the City of New York.

"Exchange Offer" shall mean the exchange offer by the Company of Exchange Securities for Registrable Securities pursuant to Section 2.1 hereof.

"Exchange Offer Registration Statement" shall mean an exchange offer registration statement on Form S-4 (or, if applicable, on another appropriate form), and all amendments and supplements to such registration statement, including the Prospectus contained therein, all exhibits thereto and all documents incorporated by reference therein.

"Exchange Period" shall have the meaning set forth in Section 2.1 hereof.

"Exchange Securities" shall mean the notes issued by the Company under the Indenture containing terms identical to the Securities in all material respects (except for references to certain interest rate provisions, restrictions on transfers and restrictive legends), to be offered to Holders of Securities in exchange for Registrable Securities pursuant to the Exchange Offer.

"Expiration Date" shall mean the date on which all the Participating Broker-Dealers have sold all Exchange Securities held by them.

"Holder" shall mean an Initial Purchaser, for so long as it owns any Registrable Securities, and each of its successors, assigns and direct and indirect transferees who become owners of Registrable Securities under the Indenture and each Participating Broker-Dealer that holds Exchange Securities for so long as such Participating Broker-Dealer is required to deliver a prospectus meeting the requirements of the 1933 Act in connection with any resale of such Exchange Securities.

"Indenture" shall mean the Indenture, dated as of February 1, 1998 between the Company and JPMorgan Chase Bank, as trustee, as supplemented by a Supplemental Indenture No. 5, dated as of March 25, 2003, as the same may be amended, supplemented, waived or otherwise modified from time to time in accordance with the terms thereof.

"Initial Purchaser" or "Initial Purchasers" shall have the meaning set forth in the preamble.

"Majority Holders" shall mean the Holders of a majority of the aggregate principal amount of Outstanding (as defined in the Indenture) Registrable Securities or such smaller amount of Registrable Securities for which action is to be taken; provided that whenever the consent or approval of Holders of a specified percentage of Registrable Securities is required hereunder, Registrable Securities held by the Company and other obligors on the Securities or any Affiliate (as defined in the Indenture) of the Company shall be disregarded in determining whether such consent or approval was given by the Holders of such required percentage amount.

"Participating Broker-Dealer" shall mean any Initial Purchaser, and any other broker-dealer who acquired the Registrable Securities for its own account as a result of market-making or other trading activities and exchanges Registrable Securities in the Exchange Offer for Exchange Securities.

"Person" shall mean any individual, corporation, partnership, joint venture, trust, limited liability company, unincorporated organization or government or any agency or political subdivision thereof.

"Prospectus" shall mean the prospectus included in a Registration Statement, including any preliminary prospectus, and any such prospectus as amended or supplemented by any prospectus supplement, including any such prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by a Shelf Registration Statement, and by all other amendments and supplements to a prospectus, including post-effective amendments, and in each case including all material incorporated by reference therein.

"Purchase Agreement" shall have the meaning set forth in the preamble.

"Registrable Securities" shall mean the Securities; provided, however, that Securities shall cease to be Registrable Securities when (i) a Registration Statement with respect to such Securities shall have been declared effective under the 1933 Act and such Securities shall have been disposed of pursuant to such Registration Statement, (ii) such Securities have been sold to the public pursuant to Rule 144 under the 1933 Act or may be sold pursuant to Rule 144(k) (or any similar provision then in force, but not Rule 144A) under the 1933 Act, (iii) such Securities shall have ceased to be outstanding or (iv) the Exchange Offer is consummated (except in the case of Securities purchased from the Company and continued to be held by the Initial Purchasers).

"Registration Expenses" shall mean any and all expenses incident to performance of or compliance by the Company with this Agreement, including, without limitation: (i) all SEC, stock exchange or National Association of Securities Dealers, Inc. ("NASD") registration and filing fees, including, if applicable, the reasonable fees and expenses of any "qualified independent underwriter" (and its counsel) that is required to be retained by any holder of Registrable Securities in accordance with the rules and regulations of the NASD, (ii) all fees and expenses incurred in connection with compliance with state securities or blue sky laws and compliance with the rules of the NASD (including reasonable fees and disbursements of counsel for any underwriters or Holders in connection with blue sky qualification of any of the Exchange Securities or Registrable Securities and any filings with the NASD), (iii) all expenses of any Persons in preparing or assisting in preparing, word processing, printing and distributing any Registration Statement, any Prospectus, any amendments or supplements thereto, any underwriting agreements, securities sales agreements and other documents relating to the performance of and compliance with this Agreement, (iv) all fees and expenses incurred in connection with the listing, if any, of any of the Registrable Securities on any securities exchange or exchanges, (v) all rating agency fees, (vi) the fees and disbursements of counsel for the Company and of the independent public accountants of the Company, including the expenses of any special audits or "cold comfort" letters required by or incident to such performance and compliance, (vii) the fees and expenses of the Trustee, and any escrow agent or custodian, (viii) the reasonable fees and disbursements of one firm, at any one time, of legal counsel selected by the Representatives or the Majority Holders to represent the Holders of Registrable Securities and (ix) any reasonable fees and disbursements of the underwriters customarily required to be paid by issuers or sellers of securities and the fees and expenses of any special experts retained by the Company in connection with any Registration Statement, but excluding underwriting discounts and commissions and transfer taxes, if any, relating to the sale or disposition of Registrable Securities by a Holder.

"Registration Statement" shall mean any registration statement of the Company which covers any of the Exchange Securities or Registrable Securities pursuant to the provisions of this Agreement, and all amendments and supplements to any such Registration Statement, including post-effective amendments, in each case including the Prospectus contained therein, all exhibits thereto and all material incorporated by reference therein.

"SEC" shall mean the United States Securities and Exchange Commission or any successor agency or governmental body performing the functions currently performed by the United States Securities and Exchange Commission.

"Securities" shall have the meaning set forth in the preamble.

"Shelf Registration" shall mean a registration effected pursuant to Section 2.2 hereof.

"Shelf Registration Statement" shall mean a "shelf" registration statement of the Company pursuant to the provisions of Section 2.2 of this Agreement which covers all of the Registrable Securities on an appropriate form under Rule 415 under the 1933 Act, or any similar rule that may be adopted by the SEC, and all amendments and supplements to such registration statement, including post-effective amendments, in each case including the Prospectus contained therein, all exhibits thereto and all material incorporated by reference therein.

"TIA" shall mean the Trust Indenture Act of 1939, as amended.

"Trustee" shall mean the trustee with respect to the Securities under the Indenture.

2. Registration Under the 1933 Act.

2.1 Exchange Offer. The Company shall, for the benefit of the Holders, at the Company's cost, use its reasonable commercial efforts (A) to file with the SEC the Exchange Offer Registration Statement not later than 180 days following the original issuance of the Securities with respect to a proposed Exchange Offer and the issuance and delivery to the Holders, in exchange for the Registrable Securities, of a like principal amount of Exchange Securities, (B) to cause the Exchange Offer Registration Statement to be declared effective under the 1933 Act within 270 days of the original issuance of the Securities, (C) to keep the Exchange Offer Registration Statement effective until the closing of the Exchange Offer and (D) unless the Exchange Offer would not be permitted by applicable law or SEC policy, to cause the Exchange Offer to be consummated within 315 days following the original issuance of the Securities. The Exchange Securities will be issued under the Indenture. Upon the effectiveness of the Exchange Offer Registration Statement, the Company shall promptly commence the Exchange Offer, it being the objective of such Exchange Offer to enable each Holder eligible and electing to exchange Registrable Securities for Exchange Securities (assuming that such Holder (A) is not an affiliate of the Company within the meaning of Rule 405 under the 1933 Act (an "Affiliate"), (B) is not a broker-dealer tendering Registrable Securities acquired directly from the Company or one of its Affiliates for its own account, (C) acquired the Exchange Securities in the ordinary course of such Holder's business and (D) at the time of the consummation of the Exchange Offer has no arrangements or understandings with any Person to participate in the Exchange Offer for the purpose of distributing the Exchange Securities) to transfer such Exchange Securities from and after their receipt without any limitations or restrictions under the 1933 Act and without material restrictions under the securities laws of a substantial portion of the several states of the United States.

In connection with the Exchange Offer, the Company will:

(A) as promptly as practicable after the Exchange Offer Registration Statement has been declared effective by the SEC, mail to each Holder a copy of the Prospectus forming part of the Exchange Offer Registration Statement, together with an appropriate letter of transmittal and related documents;

(B) keep the Exchange Offer open for acceptance for a period of not less than 20 Business Days after the date notice thereof is mailed to the Holders (or longer if required by applicable law) (such period referred to herein as the "Exchange Period");

(C) utilize the services of the Depository for the Exchange Offer;

(D) notify each Holder that any Holder electing to have a Registrable Security exchanged pursuant to the Exchange Offer will be required to surrender such Registrable Security, together with the appropriate letters of transmittal, to the institution and at the address and in the manner specified in the notice prior to 5:00 p.m. (Eastern Time) on the last Business Day of the Exchange Period;

(E) permit Holders to (i) withdraw tendered Registrable Securities at any time prior to 5:00 p.m. (Eastern Time) on the last business day of the Exchange Period, by sending to the institution specified in the notice a telegram, telex, facsimile transmission or letter setting forth the name of such Holder, the principal amount of Registrable Securities delivered for exchange and a statement that such Holder is withdrawing such Holder's election to have such Securities exchanged and (ii) tender Registrable Securities according to customary guaranteed delivery procedures if such Holder cannot deliver such Registrable Securities or complete the procedures relating thereto on a timely basis prior to 5:00 p.m. (Eastern Time) on the last business day of the Exchange Period;

(F) notify each Holder that any Registrable Security not tendered will remain outstanding and continue to accrue interest, but will not retain any rights under this Agreement (except in the case of the Initial Purchasers and Participating Broker Dealers as provided herein); and

(G) otherwise comply in all material respects with all applicable laws relating to the Exchange Offer.

As soon as practicable after the close of the Exchange Offer the Company shall:

(A) accept for exchange all Registrable Securities duly tendered and not validly withdrawn pursuant to the Exchange Offer in accordance with the terms of the Exchange Offer Registration Statement and the letter of transmittal which shall be an exhibit thereto;

(B) deliver or cause to be delivered all Registrable Securities accepted for exchange to the Trustee for cancellation; and

(C) cause the Trustee promptly to authenticate and deliver Exchange Securities, to each Holder of Registrable Securities so accepted for exchange in a

principal amount equal to the principal amount of the Registrable Securities of such Holder so accepted for exchange.

Interest on each Exchange Security will accrue from the last date on which interest was paid on the Registrable Securities surrendered in exchange therefor or, if no interest has been paid on the Registrable Securities, from the date of original issuance. The Exchange Offer shall not be subject to any conditions, other than (A) that the Exchange Offer, or the making of any exchange by a Holder, does not violate applicable law or any applicable interpretation of the staff of the SEC, (B) the valid tendering of Registrable Securities in accordance with the Exchange Offer, (C) that each Holder of Registrable Securities exchanged in the Exchange Offer shall have represented that (i) it is not an affiliate of the Company within the meaning of Rule 405 under the 1933 Act, (ii) it is not a broker-dealer tendering Registrable Securities acquired directly from the Company or one of its Affiliates for its own account, (iii) all of the Exchange Securities to be received by it shall be acquired in the ordinary course of its business and (iv) at the time of the consummation of the Exchange Offer it shall have no arrangement or understanding with any Person to participate in the distribution (within the meaning of the 1933 Act) of the Exchange Securities, and shall have made such other representations as may be reasonably necessary under applicable SEC rules, regulations or interpretations to render the use of Form S-4 or other appropriate form under the 1933 Act available and (D) that no action or proceeding shall have been instituted or threatened in any court or by or before any governmental agency with respect to the Exchange Offer which, in the Company's judgment, would reasonably be expected to impair the ability of the Company to proceed with the Exchange Offer. The Company shall use its reasonable commercial efforts to inform the Initial Purchasers of the names and addresses of the Holders to whom the Exchange Offer is made, and the Initial Purchasers shall have the right, subject to applicable securities laws, to contact such Holders and otherwise facilitate the tender of Registrable Securities in the Exchange Offer.

The Company shall use its reasonable commercial efforts to keep the Exchange Offer Registration Statement effective and to amend and supplement the Prospectus contained therein, in order to permit such Prospectus to be lawfully delivered by all persons subject to the prospectus delivery requirements of the 1933 Act for such period of time as such persons must comply with such requirements in order to resell the Exchange Securities; provided, however, that (i) in the case where such prospectus and any amendment or supplement thereto must be delivered by a Participating Broker-Dealer, such period shall terminate at the earlier to occur of (i) the expiration of 180 days following the Exchange Offer and (ii) the Expiration Date.

The Company shall not be obligated to keep the Exchange Offer Registration Statement effective or to permit the use of any Prospectus forming a part of the Exchange Offer Registration Statement if (i) the Company determines, in its reasonable judgment, upon advice of counsel that the continued effectiveness and use of the Exchange Offer Registration Statement would (x) require the disclosure of material information which the Company has a bona fide business reason for preserving as confidential or (y) interfere with any financing, acquisition, corporate reorganization or other material transaction involving the Company or any of its subsidiaries; and provided, further, that the failure to keep the Exchange Offer Registration Statement effective and usable for offers and sales of Registrable Securities for such reasons shall last no longer than 45 consecutive calendar days or no more than an aggregate of 90 calendar days during any consecutive twelve-month period (whereafter a Registration Default, as

hereinafter defined, shall occur) and (ii) the Company promptly thereafter complies with the requirements of Section 3(L) hereof, if applicable; any such period during which the Company is excused from keeping the Exchange Offer Registration Statement effective and usable for offers and sales of Registrable Securities is referred to herein as a "Exchange Offer Suspension Period"; an Exchange Offer Suspension Period shall commence on and include the date that the Company gives notice to the Holders that the Exchange Offer Registration Statement is no longer effective or the Prospectus included therein is no longer usable for offers and sales of Registrable Securities as a result of the application of the proviso of the foregoing sentence, stating the reason therefor, and shall end on the earlier to occur of the date on which each seller of Registrable Securities covered by the Exchange Offer Registration Statement either receives the copies of the supplemented or amended Prospectus or is advised in writing by the Company that use of the Prospectus may be resumed.

The Company acknowledges that pursuant to current interpretations by the SEC's staff of Section 5 of the 1933 Act, in the absence of applicable exemption therefrom, (i) each Holder which is a broker-dealer electing to exchange Securities for Exchange Securities (an "Exchanging Dealer"), is required to deliver a prospectus containing information substantially in the form set forth in (a) Annex A hereto, (b) Annex B hereto in the "Exchange Offer Procedures" section and the "Purpose of the Exchange Offer" section, (c) Annex C hereto in the "Plan of Distribution" section of such prospectus in connection with a sale of any such Exchange Securities received by such Exchanging Dealer pursuant to the Exchange Offer and to include in the Letter of Transmittal delivered pursuant to the Exchange Offer, the information set forth in Annex D hereto and (ii) an Initial Purchaser that elects to sell Exchange Securities acquired in an exchange for Securities constituting any portion of an unsold allotment, is required to deliver a prospectus containing the information required by Item 507 or Item 508 of Regulation S-K under the 1933 Act, as applicable, in connection with such sale.

2.2 Shelf Registration. In the event that (A) the Company reasonably determines that changes in law, SEC rules or regulations or applicable interpretations thereof by the staff of the SEC do not permit the Company to effect the Exchange Offer as contemplated by Section 2.1 hereof, (B) for any other reason, the Exchange Offer is not consummated within 315 days after the original issuance of the Securities or (C) an Initial Purchaser notifies the Company within 20 Business Days following the consummation of the Exchange Offer that (i) it is not permitted by applicable law, SEC rules or regulations or applicable interpretations thereof by the staff of the SEC to participate in the Exchange Offer, (ii) it may not resell Exchange Securities with the Prospectus included as part of the Exchange Offer Registration Statement or (iii) it is a broker-dealer and owns Registrable Securities acquired directly from the Company or one of the Company's Affiliates, then in case of each of clauses (A) through (C) the Company shall, at its cost, in lieu of effecting (or, in the case of clause (C), in addition to effecting) the registration of the Exchange Securities pursuant to the Exchange Offer Registration Statement:

(A) as promptly as practicable, file with the SEC, and thereafter shall use its reasonable commercial efforts to cause to be declared effective no later than 345 days after the original issuance of the Securities, a Shelf Registration Statement relating to the offer and sale of the Registrable Securities by the Holders from time to time in accordance with the methods of distribution elected by the Majority Holders participating in the Shelf Registration and set forth in such Shelf Registration Statement;

(B) use its reasonable commercial efforts to keep the Shelf Registration Statement continuously effective in order to permit the Prospectus forming a part thereof to be usable by Holders for a period of two years from the date of the original issuance of the Securities (plus the number of days in any Suspension Period), or until all of the Registrable Securities have been sold pursuant thereto; provided, however, that the Company shall not be obligated to keep the Shelf Registration Statement effective or to permit the use of any Prospectus forming a part of the Shelf Registration Statement if (i) the Company determines, in its reasonable judgment, upon advice of counsel that the continued effectiveness and use of the Shelf Registration Statement would (x) require the disclosure of material information which the Company has a bona fide business reason for preserving as confidential or (y) interfere with any financing, acquisition, corporate reorganization or other material transaction involving the Company or any of its subsidiaries; and provided, further, that the failure to keep the Shelf Registration Statement effective and usable for offers and sales of Registrable Securities for such reasons shall last no longer than 45 consecutive calendar days or no more than an aggregate of 90 calendar days during any consecutive twelve-month period (whereafter a Registration Default, as hereinafter defined, shall occur) and (ii) the Company promptly thereafter complies with the requirements of Section 3(L) hereof, if applicable; any such period during which the Company is excused from keeping the Shelf Registration Statement effective and usable for offers and sales of Registrable Securities is referred to herein as a "Suspension Period"; a Suspension Period shall commence on and include the date that the Company gives notice to the Holders that the Shelf Registration Statement is no longer effective or the Prospectus included therein is no longer usable for offers and sales of Registrable Securities as a result of the application of the proviso of the foregoing sentence, stating the reason therefor, and shall end on the earlier to occur of the date on which each seller of Registrable Securities covered by the Shelf Registration Statement either receives the copies of the supplemented or amended Prospectus or is advised in writing by the Company that use of the Prospectus may be resumed.

The Company shall not permit any securities other than Registrable Securities to be included in the Shelf Registration Statement. The Company further agrees, if necessary, to supplement or amend the Shelf Registration Statement, as required by Section 3(B) below, and to furnish to the Holders of Registrable Securities copies of any such supplement or amendment promptly after its being used or filed with the SEC.

2.3 Expenses. The Company shall pay all Registration Expenses in connection with the registration pursuant to Section 2.1 or 2.2 hereof. Each Holder shall pay all underwriting discounts and commissions and transfer taxes, if any, relating to the sale or disposition of such Holder's Registrable Securities pursuant to the Shelf Registration Statement.

2.4 Effectiveness.

(A) The Company will be deemed not to have used its reasonable commercial efforts to cause the Exchange Offer Registration Statement or the Shelf Registration Statement, as the case may be, to become, or to remain, effective during the requisite period if the Company voluntarily takes any action that would, or omits to take any action (other than any action specifically permitted by the last paragraph of Section 2.1 or by

Section 2.2(B) hereof) which omission would, result in any such Registration Statement not being declared effective or in the Holders of Registrable Securities covered thereby not being able to exchange or offer and sell such Registrable Securities during that period as and to the extent contemplated hereby, unless such action is required by applicable law.

(B) An Exchange Offer Registration Statement pursuant to Section 2.1 hereof or a Shelf Registration Statement pursuant to Section 2.2 hereof will not be deemed to have become effective unless it has been declared effective by the SEC; provided, however, that if, after it has been declared effective, the offering of Registrable Securities pursuant to an Exchange Offer Registration Statement or a Shelf Registration Statement is interfered with by any stop order, injunction or other order or requirement of the SEC or any other governmental agency or court, such Registration Statement will be deemed not to have become effective during the period of such interference, until the offering of Registrable Securities pursuant to such Registration Statement may legally resume.

2.5 Interest. In the event that (A) the Exchange Offer Registration Statement is not filed with the SEC on or prior to the 180th day following the date of original issuance of the Securities, (B) the Exchange Offer Registration Statement is not declared effective on or prior to the 270th calendar day following the date of original issuance of the Securities, (C) the Exchange Offer is not consummated or a Shelf Registration Statement is not declared effective, in either case, on or prior to the 315th calendar day following the date of original issuance of the Securities or (D) the Exchange Offer Registration Statement or the Shelf Registration Statement is filed and declared effective but shall thereafter either be withdrawn by the Company or becomes subject to an effective stop order suspending the effectiveness of such registration statement, except as specifically permitted by the last paragraph of Section 2.1 or Section 2.2(B) hereof, in each case without being succeeded within 30 days by an amendment thereto or an additional registration statement filed and declared effective (each such event referred to in clauses (A) through (D) above, a "Registration Default"), the interest rate borne by the Registrable Securities shall be increased ("Additional Interest") by one-fourth of one percent (0.25%) per annum upon the occurrence of each Registration Default, which rate will increase by an additional one-fourth of one percent (0.25%) per annum if such Registration Default has not been cured within 90 days after occurrence thereof and continuing until all Registration Defaults have been cured, provided that the aggregate amount of any such increase in the interest rate on the Registrable Securities shall in no event exceed one-half of one percent (0.50%) per annum; and provided, further, that if the Exchange Offer Registration Statement is not declared effective on or prior to the 270th calendar day following the original issuance of the Securities and the Company shall request Holders of Securities to provide information required by the applicable rules of the SEC for inclusion in the Shelf Registration Statement, then Registrable Securities owned by Holders who do not deliver such information to the Company or who do not provide comments on the Shelf Registration Statement when reasonably requested by the Company will not be entitled to any such increase in the interest rate for any day after the 315th day following the date of original issuance of the Securities. All accrued Additional Interest shall be paid to Holders of Registrable Securities in the same manner and at the same time as regular payments of interest on the Registrable Securities. Following the cure of all Registration Defaults, the accrual of Additional Interest will cease and the interest rate on the Registrable Securities will revert to the original rate.

3. Registration Procedures. In connection with the obligations of the Company with respect to Registration Statements pursuant to Sections 2.1 and 2.2 hereof, the Company shall:

(A) prepare and file with the SEC a Registration Statement, within the relevant time period specified in Section 2, on the appropriate form under the 1933 Act, which form shall (i) be selected by the Company, (ii) in the case of a Shelf Registration, be available for the sale of the Registrable Securities by the selling Holders thereof and (iii) comply as to form in all material respects with the requirements of the applicable form and include or incorporate by reference all financial statements required by the SEC to be filed therewith or incorporated by reference therein, and use its reasonable commercial efforts to cause such Registration Statement to become effective and remain effective in accordance with Section 2 hereof;

(B) use reasonable commercial efforts to cause (i) any Registration Statement and any amendment thereto, when it becomes effective, not to contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (ii) subject to the last paragraph of Section 2.1 and Section 2.2(B), any Prospectus forming part of any Registration Statement, and any supplement to such Prospectus (as amended or supplemented from time to time), not to include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(C) prepare and file with the SEC such amendments and post-effective amendments to each Registration Statement as may be necessary under applicable law to keep such Registration Statement effective for the applicable period; and cause each Prospectus to be supplemented by any required prospectus supplement, and as so supplemented to be filed pursuant to Rule 424 (or any similar provision then in force) under the 1933 Act and comply with the provisions of the 1933 Act, the 1934 Act and the rules and regulations thereunder applicable to them with respect to the disposition of all securities covered by each Registration Statement during the applicable period in accordance with the intended method or methods of distribution reasonably requested by the selling Holders thereof (including sales by any Participating Broker-Dealer);

(D) in the case of a Shelf Registration, (i) notify each Holder of Registrable Securities, at least fifteen (15) calendar days prior to filing, that a Shelf Registration Statement with respect to the Registrable Securities is being filed and advising such Holders that the distribution of Registrable Securities will be made in accordance with the methods reasonably requested by the Majority Holders participating in the Shelf Registration, (ii) furnish to each Holder of Registrable Securities and to each underwriter of an underwritten offering of Registrable Securities, if any, without charge, as many copies of each Prospectus, including each preliminary Prospectus, and any amendment or supplement thereto, and such other documents as such Holder or underwriter may reasonably request, including financial statements and schedules and, if the Holder so requests, all exhibits in order to facilitate the public sale or other disposition of the Registrable Securities and (iii) hereby consent to the use of the Prospectus or any

amendment or supplement thereto by each of the selling Holders of Registrable Securities in connection with the offering and sale of the Registrable Securities covered by the Prospectus or any amendment or supplement thereto, save and except during any Suspension Period;

(E) use its reasonable commercial efforts to register or qualify the Registrable Securities under such state securities or blue sky laws of such jurisdictions as any Holder of Registrable Securities covered by a Registration Statement and each underwriter of an underwritten offering of Registrable Securities shall reasonably request by the time the applicable Registration Statement is declared effective by the SEC, and do any and all other acts and things which may be reasonably necessary or advisable to enable each such Holder and underwriter to consummate the disposition in each such jurisdiction of such Registrable Securities owned by such Holder; provided, however, that the Company shall not be required to (i) qualify as a foreign corporation or as a dealer in securities in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(E) or (ii) take any action which would subject it to general service of process or taxation in any such jurisdiction where it is not then so subject;

(F) notify promptly each Holder of Registrable Securities under a Shelf Registration or any Participating Broker-Dealer who has notified the Company that it is utilizing the Prospectus contained in the Exchange Offer Registration Statement as provided in Section 3(G) hereof and, if requested by such Holder or Participating Broker-Dealer, confirm such advice in writing promptly (i) when a Registration Statement has become effective and when any post-effective amendments and supplements thereto become effective, (ii) of any request by the SEC or any state securities authority for post-effective amendments and supplements to a Registration Statement and Prospectus or for additional information after the Registration Statement has become effective, (iii) of the issuance by the SEC or any state securities authority of any stop order suspending the effectiveness of a Registration Statement or the initiation of any proceedings for that purpose, (iv) in the case of a Shelf Registration, if, between the effective date of the Shelf Registration Statement and the closing of any sale of Registrable Securities covered thereby, the representations and warranties of the Company contained in any underwriting agreement, securities sales agreement or other similar agreement, if any, relating to the offering cease to be true and correct in all material respects, (v) of the happening of any event or the discovery of any facts during the period the Shelf Registration Statement is effective which makes any statement made in such Registration Statement or the related Prospectus untrue in any material respect or which requires the making of any changes in such Registration Statement or Prospectus in order to make the statements therein not misleading, (vi) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Registrable Securities or the Exchange Securities, as the case may be, for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose and (vii) of any determination by the Company that a post-effective amendment to a Registration Statement would be appropriate;

(G) (1) in the case of the Exchange Offer Registration Statement (a) include in the Exchange Offer Registration Statement a section entitled "Plan of Distribution,"

which section shall be reasonably acceptable to the Representatives on behalf of the Participating Broker-Dealers, and which shall contain a summary statement of the positions taken or policies made by the staff of the SEC with respect to the potential "underwriter" status of any broker-dealer that holds Registrable Securities acquired for its own account as a result of market-making activities or other trading activities and that will be the beneficial owner (as defined in Rule 13d-3 under the 1934 Act) of Exchange Securities to be received by such broker-dealer in the Exchange Offer, including a statement that any such broker-dealer who receives Exchange Securities for Registrable Securities pursuant to the Exchange Offer may be deemed a statutory underwriter and must deliver a prospectus meeting the requirements of the 1933 Act in connection with any resale of such Exchange Securities, (b) furnish to each Participating Broker-Dealer who has delivered to the Company the notice referred to in Section 3(F), without charge, as many copies of each Prospectus included in the Exchange Offer Registration Statement, including any preliminary prospectus, and any amendment or supplement thereto, as such Participating Broker-Dealer may reasonably request, (c) hereby consent to the use of the Prospectus forming part of the Exchange Offer Registration Statement or any amendment or supplement thereto, by any Person subject to the prospectus delivery requirements of the SEC, including all Participating Broker-Dealers, in connection with the sale or transfer of the Exchange Securities covered by the Prospectus or any amendment or supplement thereto for up to 180 days following the Exchange Offer except during any Exchange Offer Suspension Period, and (d) include in the transmittal letter or similar documentation to be executed by an exchange offeree in order to participate in the Exchange Offer (i) the following provision:

"If the exchange offeree is a broker-dealer holding Registrable Securities acquired for its own account as a result of market-making activities or other trading activities, it will deliver a prospectus meeting the requirements of the 1933 Act in connection with any resale of Exchange Securities received in respect of such Registrable Securities pursuant to the Exchange Offer,"

and (ii) a statement to the effect that a broker-dealer by making the acknowledgment described in clause (i) and by delivering a Prospectus in connection with the exchange of Registrable Securities, the broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the 1933 Act; and (2) in the case of any Exchange Offer Registration Statement, the Company agrees to deliver to any Participating Broker-Dealers upon the effectiveness of the Exchange Offer Registration Statement (a) an opinion of counsel or opinions of counsel substantially in the form attached hereto as Annex E, (b) officers' certificates substantially in the form customarily delivered by the Company in its public offerings of debt securities and (c) a comfort letter or comfort letters in customary form to the extent permitted by Statement on Auditing Standards No. 72 of the American Institute of Certified Public Accountants (or if such a comfort letter is not permitted, an agreed upon procedures letter in customary form) from the Company's independent certified public accountants (and, if necessary, any other independent certified public accountants of any subsidiary of the Company or of any business acquired by the Company for which financial statements are, or are required to be, included in the Registration Statement) at least as broad in scope and coverage as the

comfort letter or comfort letters delivered to the Initial Purchasers in connection with the initial sale of the Securities to the Initial Purchasers;

(H) (i) in the case of an Exchange Offer, furnish counsel for the Initial Purchasers and (ii) in the case of a Shelf Registration, furnish counsel for the Holders of Registrable Securities, copies of any comment letters received from the SEC or any other request by the SEC or any state securities authority for amendments or supplements to a Registration Statement and Prospectus or for additional information;

(I) make every reasonable effort to obtain the withdrawal of any order suspending the effectiveness of a Registration Statement as soon as practicable and provide prompt notice to legal counsel for the Holders of the withdrawal of any such order;

(J) in the case of a Shelf Registration, furnish to each Holder of Registrable Securities, and each underwriter, if any, without charge, at least one conformed copy of each Registration Statement and any post-effective amendment thereto, including financial statements and schedules (without documents incorporated therein by reference and all exhibits thereto, unless requested);

(K) in the case of a Shelf Registration, cooperate with the selling Holders of Registrable Securities to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold to the extent not held with the Depository through Cede & Co., to remove any restrictive legends, and enable such Registrable Securities to be in such denominations (consistent with the provisions of the Indenture) and registered in such names as the selling Holders or the underwriters, if any, may reasonably request at least three Business Days prior to the closing of any sale of Registrable Securities;

(L) upon the occurrence of any event or the discovery of any facts, each as contemplated by Sections 3(F)(ii), (iii), (v), (vi) and (vii) hereof and subject to the provisions of the second paragraph immediately following Section 3(U) hereof, as promptly as practicable after the occurrence of such an event, use its reasonable commercial efforts to prepare a supplement or post-effective amendment to the Registration Statement or the related Prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the purchasers of the Registrable Securities or Participating Broker-Dealers, such Prospectus will not contain at the time of such delivery any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading or will remain so qualified. At such time as such public disclosure is otherwise made or the Company determines that such disclosure is not necessary, in each case to correct any misstatement of a material fact or to include any omitted material fact, the Company agrees promptly to notify each Holder of such determination and to furnish each Holder such number of copies of the Prospectus as amended or supplemented, as such Holder may reasonably request;

(M) obtain a CUSIP number for all Exchange Securities or Registrable Securities, as the case may be, not later than the effective date of a Registration Statement, and provide the Trustee with certificates for the Exchange Securities or the Registrable Securities, as the case may be, in a form eligible for deposit with the Depositary;

(N) unless the Indenture, as it relates to the Exchange Securities or the Registrable Securities, as the case may be, has already been so qualified, use its reasonable commercial efforts to (i) cause the Indenture to be qualified under the TIA in connection with the registration of the Exchange Securities or Registrable Securities, as the case may be, (ii) cooperate with the Trustee and the Holders to effect such changes to the Indenture as may be required for the Indenture to be so qualified in accordance with the terms of the TIA and (iii) execute, and use its reasonable commercial efforts to cause the Trustee to execute, all documents as may be required to effect such changes, and all other forms and documents required to be filed with the SEC to enable the Indenture to be so qualified in a timely manner;

(O) in the case of a Shelf Registration, enter into agreements (including underwriting agreements) and take all other customary and appropriate actions in order to expedite or facilitate the disposition of such Registrable Securities and in such connection whether or not an underwriting agreement is entered into and whether or not the registration is an underwritten registration:

(i) make such representations and warranties to the Holders of such Registrable Securities and the underwriters, if any, in form, substance and scope as has been customarily made by the Company to underwriters in similar offerings of debt securities of the Company;

(ii) obtain opinions of counsel of the Company and updates thereof (which counsel and opinions (in form, scope and substance) shall be reasonably satisfactory to the managing underwriters, if any, and the Holders of a majority in principal amount of the Registrable Securities being sold) addressed to each selling Holder and the underwriters, if any, covering the matters customarily covered in opinions requested in sales of securities or underwritten offerings of the Company;

(iii) obtain "cold comfort" letters and updates thereof from the Company's independent certified public accountants (and, if necessary, any other independent certified public accountants of any subsidiary of the Company or of any business acquired by the Company for which financial statements are, or are required to be, included in the Registration Statement) addressed to the underwriters, if any, and use reasonable efforts to have such letter addressed to the selling Holders of Registrable Securities (to the extent consistent with Statement on Auditing Standards No. 72 of the American Institute of Certified Public Accountants), such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters to underwriters in connection with similar underwritten offerings of the Company;

(iv) if an underwriting agreement is entered into, cause the same to set forth indemnification provisions and procedures substantially equivalent to the indemnification provisions and procedures set forth in Section 4 hereof with respect to the underwriters and all other parties to be indemnified pursuant to said Section; and

(v) deliver such documents and certificates as may be reasonably requested and as are customarily delivered in similar offerings to the Holders of a majority in principal amount of the Registrable Securities being sold and the managing underwriters, if any;

the above shall be done at (i) the effectiveness of such Registration Statement (and each post-effective amendment thereto) and (ii) each closing under any underwriting or similar agreement as and to the extent required thereunder;

(P) in the case of a Shelf Registration or if a Prospectus is required to be delivered by any Participating Broker-Dealer in the case of an Exchange Offer, make available for inspection by representatives of the Holders of the Registrable Securities, any underwriters participating in any disposition pursuant to a Shelf Registration Statement, any Participating Broker-Dealer and any counsel or accountant retained by any of the foregoing, all financial and other records, pertinent corporate documents and properties of the Company reasonably requested by any such persons, and cause the respective officers, directors, employees and any other agents of the Company to supply all information reasonably requested by any such representative, underwriter, special counsel or accountant in connection with a Registration Statement, and make such representatives of the Company available for discussion of such documents as shall be reasonably requested by the Initial Purchasers in order to enable such persons to conduct a reasonable investigation within the meaning of Section 11 of the 1933 Act; provided, however, that such persons shall first agree in writing with the Company that any information that is reasonably and in good faith designated by the Company in writing as confidential at the time of delivery of such information shall be kept confidential by such persons, unless (i) disclosure of such information is required by court or administrative order or is necessary to respond to inquiries of regulatory authorities, (ii) disclosure of such information is required by law (including any disclosure requirements pursuant to federal securities laws in connection with the filing of the Shelf Registration Statement or the use of any Prospectus), (iii) such information becomes generally available to the public other than as a result of a disclosure or failure to safeguard such information by such persons or (iv) such information becomes available to such persons from a source other than the Company and its subsidiaries and such source is not known by such persons to be bound by a confidentiality agreement; and provided, further, that the foregoing inspection and information gathering shall be coordinated by (x) the managing underwriter in connection with any underwritten offering pursuant to a Shelf Registration, (y) the Holder or Holders designated by the participating Majority Holders in connection with any nonunderwritten offering pursuant to a Shelf Registration or (z) the Participating Broker-Dealer holding the largest amount of Registrable Securities in the case of use of a Prospectus included in the Exchange Offer Registration Statement, together with one counsel designated by and on behalf of such persons;

(Q) (i) in the case of an Exchange Offer Registration Statement, within a reasonable time prior to the filing of any Exchange Offer Registration Statement, any Prospectus forming a part thereof, any amendment to an Exchange Offer Registration Statement or amendment or supplement to such Prospectus, provide copies of such document to the Initial Purchasers and to counsel to the Holders of Registrable Securities and make such changes in any such document prior to the filing thereof as the Initial Purchasers or counsel to the Holders of Registrable Securities may reasonably request and, except as otherwise required by applicable law, not file any such document in a form to which the Initial Purchasers on behalf of the Holders of Registrable Securities and counsel to the Holders of Registrable Securities shall not have previously been advised and furnished a copy of or to which the Initial Purchasers on behalf of the Holders of Registrable Securities or counsel to the Holders of Registrable Securities shall reasonably object (which objection shall be made within a reasonable period of time), and make the representatives of the Company available for discussion of such documents as shall be reasonably requested by the Initial Purchasers; and (ii) in the case of a Shelf Registration, a reasonable time prior to filing any Shelf Registration Statement, any Prospectus forming a part thereof, any amendment to such Shelf Registration Statement or amendment or supplement to such Prospectus, provide copies of such document to the Holders of Registrable Securities, to the Initial Purchasers, to counsel for the Holders and to the underwriter or underwriters of an underwritten offering of Registrable Securities, if any, make such changes in any such document prior to the filing thereof as the Initial Purchasers, the counsel to the Holders or the underwriter or underwriters reasonably request and not file any such document in a form to which the Majority Holders, the Initial Purchasers on behalf of the Holders of Registrable Securities, counsel for the Holders of Registrable Securities or any underwriter shall not have previously been advised and furnished a copy of or to which the Majority Holders, the Initial Purchasers on behalf of the Holders of Registrable Securities, counsel to the Holders of Registrable Securities or any underwriter shall reasonably object (which objection shall be made within a reasonable period of time), and make the representatives of the Company available for discussion of such document as shall be reasonably requested by the Holders of Registrable Securities, the Initial Purchasers on behalf of such Holders, counsel for the Holders of Registrable Securities or any underwriter;

(R) use its reasonable commercial efforts to (a) if the Securities have been rated prior to the initial sale of such Securities, confirm such ratings will apply to the Securities covered by a Registration Statement, or (b) if the Securities were not previously rated, cause the Securities covered by a Registration Statement to be rated with the appropriate rating agencies, if so requested by Holders of a majority in aggregate principal amount of Securities covered by such Registration Statement, or by the managing underwriters, if any.

(S) otherwise comply with all applicable rules and regulations of the SEC and make available to its security holders, as soon as reasonably practicable, an earnings statement covering at least 12 months which shall satisfy the provisions of Section 11(a) of the 1933 Act and Rule 158 thereunder;

(T) cooperate and assist in any filings required to be made with the NASD and, in the case of a Shelf Registration, in the performance of any due diligence investigation by any underwriter and its counsel (including any "qualified independent underwriter" that is required to be retained in accordance with the rules and regulations of the NASD); and

(U) upon consummation of an Exchange Offer, obtain a customary opinion of counsel to the Company addressed to the Trustee for the benefit of all Holders of Registrable Securities participating in the Exchange Offer, and which includes an opinion substantially to the effect that (i) the Company has duly authorized, executed and delivered the Exchange Securities and the related supplemental indenture and (ii) each of the Exchange Securities and related indenture constitute a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its respective terms (with customary exceptions).

In the case of a Shelf Registration Statement, the Company may (as a condition to such Holder's participation in the Shelf Registration) require each Holder of Registrable Securities to furnish to the Company such information regarding the Holder and the proposed distribution by such Holder of such Registrable Securities as the Company may from time to time reasonably require for inclusion in the Shelf Registration Statement and request in writing.

In the case of a Shelf Registration Statement, each Holder agrees, and in the case of the Exchange Offer Registration Statement, each Participating Broker-Dealer agrees, that, upon receipt of any notice from the Company of (a) the happening of any event or the discovery of any facts, each of the kind described in Sections 3(F)(ii), (iii) or (v) hereof or (b) the Company's determination, in its reasonable judgment, upon advice of counsel, that the continued effectiveness and use of the Shelf Registration Statement or the Prospectus included in the Shelf Registration Statement or the Exchange Offer Registration Statement would (x) require the disclosure of material information, which the Company has a bona fide business reason for preserving as confidential, or (y) interfere with any financing, acquisition, corporate reorganization or other material transaction involving the Company or any of its subsidiaries, such Holder or Participating Broker-Dealer, as the case may be, will forthwith discontinue disposition of Registrable Securities pursuant to such Registration Statement or Prospectus until the receipt by such Holder or Participating Broker-Dealer, as the case may be, of either copies of the supplemented or amended Prospectus contemplated by Section 3(L) hereof, and, if so directed by the Company, such Holder or Participating Broker-Dealers will deliver to the Company (at its expense) all copies in its possession of the Prospectus covering such Registrable Securities current at the time of receipt of such notice, or notice in writing from the Company that such Holder or Participating Broker-Dealers may resume disposition of Registrable Securities pursuant to such Registration Statement or Prospectus. If the Company shall give any such notice described in clause (a) above to suspend the disposition of Registrable Securities pursuant to a Registration Statement as a result of the happening of any event or the discovery of any facts, each of the kind described in Section 3(F)(ii), (iii) and (v) hereof, the Company shall be deemed to have used its reasonable commercial efforts to keep such Registration Statement effective during such Suspension Period provided that the Company shall use its reasonable commercial efforts to file and have declared effective (if an amendment) as soon as practicable an amendment or supplement to such Registration Statement. The Company shall extend the

period during which such Registration Statement shall be maintained effective or the Prospectus used pursuant to this Agreement by the number of days during the period from and including the date of the giving of the notice described in clauses (a) and (b) above to and including the date when the Holders or Participating Broker-Dealers shall have received copies of the supplemented or amended Prospectus necessary to resume such dispositions or notification that they may resume such disposition under an existing Prospectus.

If any of the Registrable Securities covered by any Shelf Registration Statement are to be sold in an underwritten offering, the underwriter or underwriters and manager or managers that will manage such offering will be selected by the Majority Holders of such Registrable Securities included in such offering and shall be reasonably acceptable to the Company. No Holder of Registrable Securities may participate in any underwritten registration hereunder unless such Holder (a) agrees to sell such Holder's Registrable Securities on the basis provided in any underwriting arrangements approved by the persons entitled hereunder to approve such arrangements and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements.

4. Indemnification; Contribution.

(A) In the event of a Shelf Registration Statement or in connection with any prospectus delivery pursuant to an Exchange Offer Registration Statement by an Initial Purchaser or Participating Broker-Dealer, the Company agrees to indemnify and hold harmless the Initial Purchasers, each Holder, each Participating Broker-Dealer, each Person who participates as an underwriter (any such Person being an "Underwriter") and each Person, if any, who controls any Initial Purchaser, Holder, Participating Broker-Dealer or Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act (collectively, the "Section 4 Persons"), against any losses, claims, damages, liabilities or expenses (including the reasonable cost of investigating and defending against any claims therefore and counsel fees incurred in connection therewith as such expenses are incurred), joint or several, which may be based upon either the 1933 Act, or the 1934 Act, or any other statute or at common law, on the ground or alleged ground that any Registration Statement (or any amendment or supplement thereto) pursuant to which Exchange Securities or Registrable Securities were registered under the 1933 Act or any Prospectus included therein (or any amendment or supplement thereto) included or allegedly included an untrue statement of material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, unless such statement or omission was made in reliance upon, and in conformity with, written information furnished to the Company by any such Section 4 Person specifically for use in the preparation thereof; provided that in no case is the Company to be liable with respect to any claims made against any Section 4 Person unless such Section 4 Person shall have notified the Company in writing within a reasonable time after the summons or other first legal process giving information of the nature of the claim shall have been served upon such Section 4 Person, but failure to notify the Company of any such claim shall not relieve it from any liability which it may have to such Section 4 Person otherwise than on account of the indemnity agreement contained in this paragraph; and provided, further, that the foregoing indemnity with respect to any Prospectus, including any preliminary prospectus or preliminary prospectus supplement, shall not inure to the benefit of any Section 4 Person if a copy of the Prospectus (as amended or

supplemented, exclusive of the material incorporated by reference) had not been sent or given by or on behalf of such Section 4 Person to the Person asserting any such losses, claims, damages or liabilities concurrently with or prior to delivery of the written confirmation of the sale of Exchange Securities or Registrable Securities, as the case may be, to such Person and the untrue statement or omission of a material fact contained in any such Prospectus was corrected in the Prospectus (as amended or supplemented) if the Company had previously furnished copies thereof to such Section 4 Persons.

The Company will be entitled to participate at its own expense in the defense, or, if it so elects, to assume the defense of any suit brought to enforce any such liability, but, if the Company elects to assume the defense, such defense shall be conducted by counsel chosen by it. In the event that the Company elects to assume the defense of any such suit and retains such counsel, each Section 4 Person may retain additional counsel but shall bear the fees and expenses of such counsel unless (i) the Company shall have specifically authorized the retaining of such counsel or (ii) the parties to such suit include the Section 4 Person or Section 4 Persons and such persons have been advised by such counsel that one or more legal defenses may be available to it or them which may not be available to the Company, in which case the Company shall not be entitled to assume the defense of such suit on behalf of such Section 4 Person, notwithstanding its obligation to bear the reasonable fees and expenses of such counsel, it being understood, however, that the Company shall not, in connection with any one such suit or proceeding or separate but substantially similar or related actions or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys at any time for all such Section 4 Persons, which firm shall be designated in writing by the Initial Purchasers. The Company shall not be liable to indemnify any Person for any settlement of any such claim effected without the Company's prior written consent. This indemnity agreement will be in addition to any liability, which the Company might otherwise have.

(B) Each Section 4 Person agrees severally and not jointly to indemnify and hold harmless the Company, each of the Company's directors, each of the Company's officers who have signed the Registration Statement and each person, if any, who controls the Company within the meaning of the 1933 Act or the 1934 Act, against any losses, claims, damages, liabilities or expenses (including the reasonable cost of investigating and defending against any claims therefor and counsel fees incurred in connection therewith as such expenses are incurred), joint or several, which may be based upon the 1933 Act, or any other statute or at common law, on the ground or alleged ground that any Registration Statement (or any amendment or supplement thereto) pursuant to which Exchange Securities or Registrable Securities were registered under the 1933 Act or any Prospectus included therein (or any amendment or supplement thereto) included or allegedly included an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, but only insofar as any such statement or omission was made in reliance upon, and in conformity with, written information furnished to the Company by such Section 4 Person specifically for use in the preparation thereof; provided that in no case is such Section 4 Person to be liable with respect to any claims made against the Company or any such director, officer or controlling person unless the Company or any such director, officer or controlling person shall have notified such Section 4 Person in writing within a reasonable time after the summons or other first legal process giving information of the nature of the claim shall

have been served upon the Company or any such director, officer or controlling person, but failure to notify such Section 4 Person of any such claim shall not relieve it from any liability which it may have to the Company or any such director, officer or controlling person otherwise than on account of the indemnity agreement contained in this paragraph. Notwithstanding any other provision of this subsection (B), with respect to any amount due to an indemnified person under this subsection (B), such Section 4 Person shall not be liable for any amount in excess of the amount by which the net proceeds received by such Section 4 Person from the sale of Exchange Securities or Registrable Securities pursuant to a Registration Statement exceeds the amount of damages which such Section 4 Person has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission.

Such Section 4 Person will be entitled to participate at its own expense in the defense, or, if it so elects, to assume the defense of any suit brought to enforce any such liability, but, if such Section 4 Person elects to assume the defense, such defense shall be conducted by counsel chosen by it. In the event that such Section 4 Person elects to assume the defense of any such suit and retain such counsel, the Company or such director, officer or controlling person, defendant or defendants in the suit, may retain additional counsel but shall bear the fees and expenses of such counsel unless (i) such Section 4 Person shall have specifically authorized the retaining of such counsel or (ii) the parties to such suit include the Company or any such director, officer, trustee or controlling person and such Section 4 Person and the Company or such director, officer, trustee or controlling person have been advised by such counsel that one or more legal defenses may be available to it or them which may not be available to such Section 4 Person, in which case such Section 4 Person shall not be entitled to assume the defense of such suit on behalf of the Company or such director, officer, trustee or controlling person, notwithstanding its obligation to bear the reasonable fees and expenses of such counsel, it being understood, however, that such Section 4 Person shall not, in connection with any one such suit or proceeding or separate but substantially similar or related actions or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one a separate firm of attorneys at any time for all of the Company and any such director, officer or controlling person, which firm shall be designated in writing by the Company. Such Section 4 Person shall not be liable to indemnify any person for any settlement of any such claim effected without such Section 4 Person's prior written consent. This indemnity agreement will be in addition to any liability which such Section 4 Person might otherwise have.

(C) If the indemnification provided for in this Section 4 is unavailable or insufficient to hold harmless an indemnified party under subsections (A) or (B) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to in subsection (A) or (B) above in such proportion as is appropriate to reflect the relative fault of the indemnifying party or parties on the one hand and the indemnified party on the other in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof) as well as any other relevant equitable considerations. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or such Holder or such other indemnified party, as the case may be, on the other, and the parties' relative

intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (C) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (C). Notwithstanding any other provision of this subsection (C), the Holders of the Securities and the Exchange Securities shall not be required to contribute any amount in excess of the amount by which the net proceeds received by such Holders from the sale of such securities pursuant to a Registration Statement exceeds the amount of damages which such Holders have otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. The obligations of the Holders of the Securities and Exchange Securities in this subsection (C) to contribute are several in proportion to the net proceeds received from the sale of such securities by such Holder and not joint. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this subsection (C), each person, if any, who controls such indemnified party within the meaning of the 1933 Act or the 1934 Act shall have the same rights to contribution as such indemnified party and each person, if any, who controls the Company within the meaning of the 1933 Act or the 1934 Act shall have the same rights to contribution as the Company.

5. Miscellaneous.

5.1 Rule 144 and Rule 144A. For so long as the Company is subject to the reporting requirements of Section 13 or 15 of the 1934 Act, the Company covenants that it will file the reports required to be filed by it under the 1933 Act and Section 13(a) or 15(d) of the 1934 Act and the rules and regulations adopted by the SEC thereunder. If the Company ceases to be so required to file such reports, the Company covenants that it will upon the request of any Holder of Registrable Securities (A) make publicly available such information as is necessary to permit sales pursuant to Rule 144 under the 1933 Act, (B) deliver such information to a prospective purchaser as is necessary to permit sales pursuant to Rule 144A under the 1933 Act and (C) take such further action that is reasonable in the circumstances, in each case, to the extent required from time to time to enable such Holder to sell its Registrable Securities without registration under the 1933 Act within the limitation of the exemptions provided by (i) Rule 144 under the 1933 Act, as such Rule may be amended from time to time, (ii) Rule 144A under the 1933 Act, as such Rule may be amended from time to time or (iii) any similar rules or regulations hereafter adopted by the SEC. Upon the request of any Holder of Registrable Securities, the Company will deliver to such Holder a written statement as to whether it has complied with such requirements.

5.2 No Inconsistent Agreements. The Company has not entered into and the Company will not after the date of this Agreement enter into any agreement which is inconsistent with the rights granted to the Holders of Registrable Securities in this Agreement or otherwise conflicts with the provisions hereof. The rights granted to the Holders hereunder do not and will not for the term of this Agreement in any way conflict with the rights granted to the holders of the Company's other issued and outstanding securities under any such agreements.

5.3 Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given unless the Company has obtained the written consent of Holders of at least a majority in aggregate principal amount of the outstanding Registrable Securities affected by such amendment, modification, supplement, waiver or departure. Without the consent of the Holder of each Security however, no modification may change the provisions relating to the payment of Additional Interest.

5.4 Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, registered first-class mail, telex, telecopier, or any courier guaranteeing overnight delivery (a) if to a Holder, at the most current address given by such Holder to the Company by means of a notice given in accordance with the provisions of this Section 5.4, which address initially is the address set forth in the Purchase Agreement with respect to the Initial Purchasers; and (b) if to the Company, initially at the Company's address set forth in the Purchase Agreement, and thereafter at such other address of which notice is given in accordance with the provisions of this Section 5.4.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; two Business Days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; when receipt is acknowledged, if telecopied; and on the next Business Day if timely delivered to an air courier guaranteeing overnight delivery.

Copies of all such notices, demands or other communications shall be concurrently delivered by the person giving the same to the Trustee under the Indenture, at the address specified in such Indenture.

5.5 Successor and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors, assigns and transferees of each of the parties, including, without limitation and without the need for an express assignment, subsequent Holders; provided that nothing herein shall be deemed to permit any assignment, transfer or other disposition of Registrable Securities in violation of the terms of the Purchase Agreement or the Indenture. If any transferee of any Holder shall acquire Registrable Securities, in any manner, whether by operation of law or otherwise, such Registrable Securities shall be held subject to all of the terms of this Agreement, and by taking and holding such Registrable Securities such person shall be conclusively deemed to have agreed to be bound by and to perform all of the terms and provisions of this Agreement, including the restrictions on resale set forth in this Agreement and, if applicable, the Purchase Agreement, and such person shall be entitled to receive the benefits hereof.

5.6 Third Party Beneficiaries. The Initial Purchasers (even if the Initial Purchasers are not Holders of Registrable Securities) shall be third party beneficiaries to the agreements made hereunder between the Company, on the one hand, and the Holders, on the other hand, and shall have the right to enforce such agreements directly to the extent they deem such enforcement necessary or advisable to protect their rights or the rights of Holders hereunder. Each Holder of Registrable Securities shall be a third party beneficiary to the agreements made hereunder between the Company, on the one hand, and the Initial Purchasers,

on the other hand, and shall have the right to enforce such agreements directly to the extent it deems such enforcement necessary or advisable to protect its rights hereunder.

5.7 Specific Performance. Without limiting the remedies available to the Initial Purchasers and the Holders, the Company acknowledges that any failure by the Company to comply with its obligations under Sections 2.1 through 2.4 hereof may result in material irreparable injury to the Initial Purchasers or the Holders for which there is no adequate remedy at law, that it would not be possible to measure damages for such injuries precisely and that, in the event of any such failure, the Initial Purchasers or any Holder may obtain such relief as may be required to specifically enforce the Company's obligations under Sections 2.1 through 2.4 hereof.

5.8 Restriction on Resales. Until the expiration of two years after the original issuance of the Securities, the Company will not, and will cause its "affiliates" (as such term is defined in Rule 144(a)(1) under the 1933 Act) not to, resell any Securities which are "restricted securities" (as such term is defined under Rule 144(a)(3) under the 1933 Act) that have been reacquired by any of them and shall immediately upon any purchase of any such Securities submit such Securities to the Trustee for cancellation.

5.9 Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

5.10 Headings. The headings in this Agreement are for the convenience of reference only and shall not limit or otherwise affect the meaning hereof.

5.11 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO THE PRINCIPLES OF CONFLICT OF LAWS THEREOF.

5.12 Severability. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

5.13 Entire Agreement. This Agreement and the Purchase Agreement represent the entire agreement among the parties hereto with respect to the subject matter hereof and supercedes and replaces any and all prior agreements and understandings, whether oral or written, with respect thereto.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

CENTERPOINT ENERGY RESOURCES CORP.

By: /s/ MARC KILBRIDE

Name: Marc Kilbride
Title: Vice President and Treasurer

CONFIRMED AND ACCEPTED
AS OF THE DATE FIRST ABOVE WRITTEN:

SALOMON SMITH BARNEY INC., for itself and
as representative of the Initial Purchasers

By: /s/ PETER KIND

Name: Peter Kind
Title: Managing Director

WACHOVIA SECURITIES, INC., for itself and
as representative of the Initial Purchasers

By: /s/ KEITH MAUNEY

Name: Keith Mauney
Title: Managing Director

BANC ONE CAPITAL MARKETS, INC., for itself and
as representative of the Initial Purchasers

By: /s/ C. VICTOR MANNY

Name: C. Victor Manny
Title: Managing Director

Each broker-dealer that receives Exchange Securities for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the 1933 Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Securities received in exchange for Securities where such Securities were acquired by such broker-dealer as a result of market-making activities or other trading activities. The Company has agreed that, for a period of 180 days after the Expiration Date (as defined herein), it will make this Prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."

Each broker-dealer that receives Exchange Securities for its own account in exchange for Securities, where such Securities were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities. See "Plan of Distribution."

PLAN OF DISTRIBUTION

Each broker-dealer that receives Exchange Securities for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Securities received in exchange for Securities where such Securities were acquired as a result of market-making activities or other trading activities. The Company has agreed that, for a period of 180 days after the Expiration Date, it will make this Prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition, until , 200 , all dealers effecting transactions in the Exchange Securities may be required to deliver a prospectus.(1)

The Company will not receive any proceeds from any sale of Exchange Securities by broker-dealers. Exchange Securities received by broker-dealers for their own account pursuant to the Exchange Offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the Exchange Securities or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer or the purchasers of any such Exchange Securities. Any broker-dealer that resells Exchange Securities that were received by it for its own account pursuant to the Exchange Offer and any broker or dealer that participates in a distribution of such Exchange Securities may be deemed to be an "underwriter" within the meaning of the 1933 Act and any profit on any such resale of Exchange Securities and any commission or concessions received by any such persons may be deemed to be underwriting compensation under the 1933 Act. The Letter of Transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the 1933 Act.

For a period of 180 days after the Expiration Date the Company will promptly send additional copies of this Prospectus and any amendment or supplement to this Prospectus to any broker-dealer that requests such documents in the Letter of Transmittal. The Company has agreed to pay all expenses incident to the Exchange Offer (including the expenses of one counsel for the Holders of the Securities) other than commissions or concessions of any brokers or dealers and will indemnify the Holders of the Securities (including any broker-dealers) against certain liabilities, including liabilities under the 1933 Act.

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 (1) In addition, the legend required by Item 502(b) of Regulation S-K will appear on the inside front cover page of the Exchange Offer prospectus below the Table of Contents.

CHECK HERE IF YOU ARE A BROKER-DEALER AND WISH TO RECEIVE 10 ADDITIONAL COPIES OF THE PROSPECTUS AND 10 COPIES OF ANY AMENDMENTS OR SUPPLEMENTS THERETO.

Name: _____
Address: _____

If the undersigned is not a broker-dealer, the undersigned represents that it is not engaged in, and does not intend to engage in, a distribution of Exchange Securities. If the undersigned is a broker-dealer that will receive Exchange Securities for its own account in exchange for Securities that were acquired as a result of market-making activities or other trading activities, it acknowledges that it will deliver a prospectus in connection with any resale of such Exchange Securities; however, by so acknowledging and by delivering a prospectus, the undersigned will not be deemed to admit that it is an "underwriter" within the meaning of the 1933 Act.

FORM OF OPINION OF COUNSEL

The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

The Registration Statement has become effective under the 1933 Act, and, to the best of our knowledge, no stop order suspending the effectiveness of the Registration Statement or any part thereof has been issued and no proceedings for that purpose have been instituted and are pending or are threatened by the SEC under the 1933 Act.

The Exchange Offer Registration Statement and the Prospectus (except for (A) the financial statements, including the notes and schedules, if any thereto (except to the extent such notes describe legal and governmental proceedings to which the Company is a party and are incorporated by reference into one or more items of a report that is incorporated by reference or included in therein other than an item that requires financial statements to be provided) or the auditor's reports on the audited portions thereof, (B) the other accounting, financial and related statistical data, and (C) the exhibits thereto, as to which we have not been asked to comment) comply as to form in all material respects with the applicable requirements of the 1933 Act and the applicable rules and regulations promulgated under the 1933 Act.

We have participated in conferences with certain officers and other representatives of the Company, representatives of the independent public accountants of the Company, representatives of the [Initial Purchasers] [Holders] and counsel for the [Initial Purchasers] [Holders], at which the contents of the Registration Statement and the Prospectus and related matters were discussed. Although we have not undertaken to determine independently, and do not assume any responsibility for, the accuracy, completeness or fairness of the statements contained in or incorporated by reference in the Registration Statement or the Prospectus, we advise you that, on the basis of the foregoing (relying as to materiality to a large extent upon statements and other representations of officers and other representatives of the Company), no facts have come to our attention that lead us to believe that the Registration Statement and any amendment made thereto prior to the date hereof (except for (A) the financial statements, including the notes and schedules, if any thereto (except to the extent such notes describe legal and governmental proceedings to which the Company is a party and are incorporated by reference into one or more items of a report that is incorporated by reference or included in the Registration Statement or the Prospectus other than an item that requires financial statements to be provided) or the auditor's reports on the audited portions thereof, (B) the other accounting, financial and related statistical data, and (C) the exhibits thereto, as to which we have not been asked to comment), as of the time the Registration Statement became effective or such amendment was filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus, and any amendment or supplement thereto made prior to the date hereof (except for (A) the financial

statements, including the notes and schedules, if any thereto (except to the extent such notes describe legal and governmental proceedings to which the Company is a party and are incorporated by reference into one or more items of a report that is incorporated by reference or included in the Registration Statement or Prospectus other than an item that requires financial statements to be provided) or the auditor's reports on the audited portions thereof, (B) the other accounting, financial and related statistical data , and (C) the exhibits thereto, as to which we have not been asked to comment), as of the date of the Prospectus or such amendment or supplement contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into this 14th day of April, 2003 among CenterPoint Energy Resources Corp. (formerly named Reliant Energy Resources Corp.), a Delaware corporation (the "Company"), Citigroup Global Markets Inc. and Credit Suisse First Boston LLC, as the initial purchasers (the "Initial Purchasers") listed on Schedule I to the Purchase Agreement (defined below).

This Agreement is made pursuant to the Purchase Agreement dated April 7, 2003, among the Company and the Initial Purchasers (the "Purchase Agreement"), which provides for the sale by the Company to the Initial Purchasers of an aggregate of \$112,000,000 principal amount of the Company's 7.875% Senior Notes due 2013 (the "Securities") and is a further issuance of the Company's 7.875% Senior Notes due 2013 issued on March 25, 2003 in the aggregate principal amount of \$650,000,000 (the "Notes"). The Securities form a single series with the Notes and have the same CUSIP number as the Notes and, immediately upon settlement, will trade interchangeably with the Notes. In order to induce the Initial Purchasers to enter into this Purchase Agreement, the Company has agreed to provide to the Initial Purchasers and their direct and indirect transferees the registration rights set forth in this Agreement. The execution and delivery of this Agreement is a condition to the closing under the Purchase Agreement.

In consideration of the foregoing, the parties hereto agree as follows:

1. Definitions. As used in this Agreement, the following capitalized defined terms shall have the following meanings:

"1933 Act" shall mean the Securities Act of 1933, as amended from time to time.

"1934 Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

"Business Day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in The City of New York are authorized or obligated by law or executive order to close.

"Company" shall have the meaning set forth in the preamble and shall also include the Company's successors.

"Depository" shall mean The Depository Trust Company, or any other depository for the Securities appointed by the Company; provided, however, that such depository must have an address in the Borough of Manhattan, in the City of New York.

"Exchange Offer" shall mean the exchange offer by the Company of Exchange Securities for Registrable Securities pursuant to Section 2.1 hereof.

"Exchange Offer Registration Statement" shall mean an exchange offer registration statement on Form S-4 (or, if applicable, on another appropriate form), and all amendments and supplements to such registration statement, including the Prospectus contained

therein, all exhibits thereto and all documents incorporated by reference therein. The parties hereto agree that an Exchange Offer Registration Statement hereunder may be combined with the Exchange Offer Registration Statement (as defined under the March 25 Registration Rights Agreement) filed pursuant to the March 25 Registration Rights Agreement.

"Exchange Period" shall have the meaning set forth in Section 2.1 hereof.

"Exchange Securities" shall mean the notes issued by the Company under the Indenture containing terms identical to the Securities in all material respects (except for references to certain interest rate provisions, restrictions on transfers and restrictive legends), to be offered to Holders of Securities in exchange for Registrable Securities pursuant to the Exchange Offer.

"Expiration Date" shall mean the date on which all the Participating Broker-Dealers have sold all Exchange Securities held by them.

"Holder" shall mean an Initial Purchaser, for so long as it owns any Registrable Securities, and each of its successors, assigns and direct and indirect transferees who become owners of Registrable Securities under the Indenture and each Participating Broker-Dealer that holds Exchange Securities for so long as such Participating Broker-Dealer is required to deliver a prospectus meeting the requirements of the 1933 Act in connection with any resale of such Exchange Securities.

"Indenture" shall mean the Indenture, dated as of February 1, 1998 between the Company and JPMorgan Chase Bank, as trustee, as the same may be amended, supplemented, waived or otherwise modified from time to time in accordance with the terms thereof, including as supplemented by a Supplemental Indenture No. 5, dated as of March 25, 2003, and by a Supplemental Indenture No. 6, dated as of April 14, 2003.

"Initial Purchaser" or "Initial Purchasers" shall have the meaning set forth in the preamble.

"March 25 Registration Rights Agreement" shall mean the Registration Rights Agreement dated March 25, 2003 among the Company, Citigroup Global Markets Inc. (formerly Salomon Smith Barney Inc.), Wachovia Securities, Inc. and Banc One Capital Markets, Inc.

"Majority Holders" shall mean the Holders of a majority of the aggregate principal amount of Outstanding (as defined in the Indenture) Registrable Securities or such smaller amount of Registrable Securities for which action is to be taken; provided that whenever the consent or approval of Holders of a specified percentage of Registrable Securities is required hereunder, Registrable Securities held by the Company and other obligors on the Securities or any Affiliate (as defined in the Indenture) of the Company shall be disregarded in determining whether such consent or approval was given by the Holders of such required percentage amount.

"Participating Broker-Dealer" shall mean any Initial Purchaser, and any other broker-dealer who acquired the Registrable Securities for its own account as a result of market-making or other trading activities and exchanges Registrable Securities in the Exchange Offer for Exchange Securities.

"Person" shall mean any individual, corporation, partnership, joint venture, trust, limited liability company, unincorporated organization or government or any agency or political subdivision thereof.

"Prospectus" shall mean the prospectus included in a Registration Statement, including any preliminary prospectus, and any such prospectus as amended or supplemented by any prospectus supplement, including any such prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by a Shelf Registration Statement, and by all other amendments and supplements to a prospectus, including post-effective amendments, and in each case including all material incorporated by reference therein.

"Purchase Agreement" shall have the meaning set forth in the preamble.

"Registrable Securities" shall mean the Securities; provided, however, that Securities shall cease to be Registrable Securities when (i) a Registration Statement with respect to such Securities shall have been declared effective under the 1933 Act and such Securities shall have been disposed of pursuant to such Registration Statement, (ii) such Securities have been sold to the public pursuant to Rule 144 under the 1933 Act or may be sold pursuant to Rule 144(k) (or any similar provision then in force, but not Rule 144A) under the 1933 Act, (iii) such Securities shall have ceased to be outstanding or (iv) the Exchange Offer is consummated (except in the case of Securities purchased from the Company and continued to be held by the Initial Purchasers).

"Registration Expenses" shall mean any and all expenses incident to performance of or compliance by the Company with this Agreement, including, without limitation: (i) all SEC, stock exchange or National Association of Securities Dealers, Inc. ("NASD") registration and filing fees, including, if applicable, the reasonable fees and expenses of any "qualified independent underwriter" (and its counsel) that is required to be retained by any holder of Registrable Securities in accordance with the rules and regulations of the NASD, (ii) all fees and expenses incurred in connection with compliance with state securities or blue sky laws and compliance with the rules of the NASD (including reasonable fees and disbursements of counsel for any underwriters or Holders in connection with blue sky qualification of any of the Exchange Securities or Registrable Securities and any filings with the NASD), (iii) all expenses of any Persons in preparing or assisting in preparing, word processing, printing and distributing any Registration Statement, any Prospectus, any amendments or supplements thereto, any underwriting agreements, securities sales agreements and other documents relating to the performance of and compliance with this Agreement, (iv) all fees and expenses incurred in connection with the listing, if any, of any of the Registrable Securities on any securities exchange or exchanges, (v) all rating agency fees, (vi) the fees and disbursements of counsel for the Company and of the independent public accountants of the Company, including the expenses of any special audits or "cold comfort" letters required by or incident to such performance and compliance, (vii) the fees and expenses of the Trustee, and any escrow agent or custodian, (viii) the reasonable fees and disbursements of one firm, at any one time, of legal counsel selected by the Representatives or the Majority Holders to represent the Holders of Registrable Securities and (ix) any reasonable fees and disbursements of the underwriters customarily required to be paid by issuers or sellers of securities and the fees and expenses of any special experts retained by the Company in connection with any Registration Statement, but excluding underwriting

discounts and commissions and transfer taxes, if any, relating to the sale or disposition of Registrable Securities by a Holder.

"Registration Statement" shall mean any registration statement of the Company which covers any of the Exchange Securities or Registrable Securities pursuant to the provisions of this Agreement, and all amendments and supplements to any such Registration Statement, including post-effective amendments, in each case including the Prospectus contained therein, all exhibits thereto and all material incorporated by reference therein.

"SEC" shall mean the United States Securities and Exchange Commission or any successor agency or governmental body performing the functions currently performed by the United States Securities and Exchange Commission.

"Securities" shall have the meaning set forth in the preamble.

"Shelf Registration" shall mean a registration effected pursuant to Section 2.2 hereof.

"Shelf Registration Statement" shall mean a "shelf" registration statement of the Company pursuant to the provisions of Section 2.2 of this Agreement which covers all of the Registrable Securities on an appropriate form under Rule 415 under the 1933 Act, or any similar rule that may be adopted by the SEC, and all amendments and supplements to such registration statement, including post-effective amendments, in each case including the Prospectus contained therein, all exhibits thereto and all material incorporated by reference therein. The parties hereto agree that a Shelf Registration Statement hereunder may be combined with the Shelf Registration Statement (as defined under the March 25 Registration Rights Agreement) filed pursuant to the March 25 Registration Rights Agreement.

"TIA" shall mean the Trust Indenture Act of 1939, as amended.

"Trustee" shall mean the trustee with respect to the Securities under the Indenture.

2. Registration Under the 1933 Act.

2.1 Exchange Offer. The Company shall, for the benefit of the Holders, at the Company's cost, use its reasonable commercial efforts (A) to file with the SEC the Exchange Offer Registration Statement not later than 180 days following March 25, 2003 with respect to a proposed Exchange Offer and the issuance and delivery to the Holders, in exchange for the Registrable Securities, of a like principal amount of Exchange Securities, (B) to cause the Exchange Offer Registration Statement to be declared effective under the 1933 Act within 270 days of March 25, 2003, (C) to keep the Exchange Offer Registration Statement effective until the closing of the Exchange Offer and (D) unless the Exchange Offer would not be permitted by applicable law or SEC policy, to cause the Exchange Offer to be consummated within 315 days following March 25, 2003. The Exchange Securities will be issued under the Indenture. Upon the effectiveness of the Exchange Offer Registration Statement, the Company shall promptly commence the Exchange Offer, it being the objective of such Exchange Offer to enable each Holder eligible and electing to exchange Registrable Securities for Exchange Securities (assuming that such Holder (A) is not an affiliate of the Company within the meaning of Rule

405 under the 1933 Act (an "Affiliate"), (B) is not a broker-dealer tendering Registrable Securities acquired directly from the Company or one of its Affiliates for its own account, (C) acquired the Exchange Securities in the ordinary course of such Holder's business and (D) at the time of the consummation of the Exchange Offer has no arrangements or understandings with any Person to participate in the Exchange Offer for the purpose of distributing the Exchange Securities) to transfer such Exchange Securities from and after their receipt without any limitations or restrictions under the 1933 Act and without material restrictions under the securities laws of a substantial portion of the several states of the United States.

In connection with the Exchange Offer, the Company will:

(A) as promptly as practicable after the Exchange Offer Registration Statement has been declared effective by the SEC, mail to each Holder a copy of the Prospectus forming part of the Exchange Offer Registration Statement, together with an appropriate letter of transmittal and related documents;

(B) keep the Exchange Offer open for acceptance for a period of not less than 20 Business Days after the date notice thereof is mailed to the Holders (or longer if required by applicable law) (such period referred to herein as the "Exchange Period");

(C) utilize the services of the Depository for the Exchange Offer;

(D) notify each Holder that any Holder electing to have a Registrable Security exchanged pursuant to the Exchange Offer will be required to surrender such Registrable Security, together with the appropriate letters of transmittal, to the institution and at the address and in the manner specified in the notice prior to 5:00 p.m. (Eastern Time) on the last Business Day of the Exchange Period;

(E) permit Holders to (i) withdraw tendered Registrable Securities at any time prior to 5:00 p.m. (Eastern Time) on the last business day of the Exchange Period, by sending to the institution specified in the notice a telegram, telex, facsimile transmission or letter setting forth the name of such Holder, the principal amount of Registrable Securities delivered for exchange and a statement that such Holder is withdrawing such Holder's election to have such Securities exchanged and (ii) tender Registrable Securities according to customary guaranteed delivery procedures if such Holder cannot deliver such Registrable Securities or complete the procedures relating thereto on a timely basis prior to 5:00 p.m. (Eastern Time) on the last business day of the Exchange Period;

(F) notify each Holder that any Registrable Security not tendered will remain outstanding and continue to accrue interest, but will not retain any rights under this Agreement (except in the case of the Initial Purchasers and Participating Broker Dealers as provided herein); and

(G) otherwise comply in all material respects with all applicable laws relating to the Exchange Offer.

As soon as practicable after the close of the Exchange Offer the Company shall:

(A) accept for exchange all Registrable Securities duly tendered and not validly withdrawn pursuant to the Exchange Offer in accordance with the terms of the Exchange Offer Registration Statement and the letter of transmittal which shall be an exhibit thereto;

(B) deliver or cause to be delivered all Registrable Securities accepted for exchange to the Trustee for cancellation; and

(C) cause the Trustee promptly to authenticate and deliver Exchange Securities, to each Holder of Registrable Securities so accepted for exchange in a principal amount equal to the principal amount of the Registrable Securities of such Holder so accepted for exchange.

Interest on each Exchange Security will accrue from the last date on which interest was paid on the Registrable Securities surrendered in exchange therefor or, if no interest has been paid on the Registrable Securities, from March 25, 2003. The Exchange Offer shall not be subject to any conditions, other than (A) that the Exchange Offer, or the making of any exchange by a Holder, does not violate applicable law or any applicable interpretation of the staff of the SEC, (B) the valid tendering of Registrable Securities in accordance with the Exchange Offer, (C) that each Holder of Registrable Securities exchanged in the Exchange Offer shall have represented that (i) it is not an affiliate of the Company within the meaning of Rule 405 under the 1933 Act, (ii) it is not a broker-dealer tendering Registrable Securities acquired directly from the Company or one of its Affiliates for its own account, (iii) all of the Exchange Securities to be received by it shall be acquired in the ordinary course of its business and (iv) at the time of the consummation of the Exchange Offer it shall have no arrangement or understanding with any Person to participate in the distribution (within the meaning of the 1933 Act) of the Exchange Securities, and shall have made such other representations as may be reasonably necessary under applicable SEC rules, regulations or interpretations to render the use of Form S-4 or other appropriate form under the 1933 Act available and (D) that no action or proceeding shall have been instituted or threatened in any court or by or before any governmental agency with respect to the Exchange Offer which, in the Company's judgment, would reasonably be expected to impair the ability of the Company to proceed with the Exchange Offer. The Company shall use its reasonable commercial efforts to inform the Initial Purchasers of the names and addresses of the Holders to whom the Exchange Offer is made, and the Initial Purchasers shall have the right, subject to applicable securities laws, to contact such Holders and otherwise facilitate the tender of Registrable Securities in the Exchange Offer.

The Company shall use its reasonable commercial efforts to keep the Exchange Offer Registration Statement effective and to amend and supplement the Prospectus contained therein, in order to permit such Prospectus to be lawfully delivered by all persons subject to the prospectus delivery requirements of the 1933 Act for such period of time as such persons must comply with such requirements in order to resell the Exchange Securities; provided, however, that (i) in the case where such prospectus and any amendment or supplement thereto must be delivered by a Participating Broker-Dealer, such period shall terminate at the earlier to occur of (i) the expiration of 180 days following the Exchange Offer and (ii) the Expiration Date.

The Company shall not be obligated to keep the Exchange Offer Registration Statement effective or to permit the use of any Prospectus forming a part of the Exchange Offer Registration Statement if (i) the Company determines, in its reasonable judgment, upon advice of counsel that the continued effectiveness and use of the Exchange Offer Registration Statement would (x) require the disclosure of material information which the Company has a bona fide business reason for preserving as confidential or (y) interfere with any financing, acquisition, corporate reorganization or other material transaction involving the Company or any of its subsidiaries; and provided, further, that the failure to keep the Exchange Offer Registration Statement effective and usable for offers and sales of Registrable Securities for such reasons shall last no longer than 45 consecutive calendar days or no more than an aggregate of 90 calendar days during any consecutive twelve-month period (whereafter a Registration Default, as hereinafter defined, shall occur) and (ii) the Company promptly thereafter complies with the requirements of Section 3(L) hereof, if applicable; any such period during which the Company is excused from keeping the Exchange Offer Registration Statement effective and usable for offers and sales of Registrable Securities is referred to herein as a "Exchange Offer Suspension Period"; an Exchange Offer Suspension Period shall commence on and include the date that the Company gives notice to the Holders that the Exchange Offer Registration Statement is no longer effective or the Prospectus included therein is no longer usable for offers and sales of Registrable Securities as a result of the application of the proviso of the foregoing sentence, stating the reason therefor, and shall end on the earlier to occur of the date on which each seller of Registrable Securities covered by the Exchange Offer Registration Statement either receives the copies of the supplemented or amended Prospectus or is advised in writing by the Company that use of the Prospectus may be resumed.

The Company acknowledges that pursuant to current interpretations by the SEC's staff of Section 5 of the 1933 Act, in the absence of applicable exemption therefrom, (i) each Holder which is a broker-dealer electing to exchange Securities for Exchange Securities (an "Exchanging Dealer"), is required to deliver a prospectus containing information substantially in the form set forth in (a) Annex A hereto, (b) Annex B hereto in the "Exchange Offer Procedures" section and the "Purpose of the Exchange Offer" section, (c) Annex C hereto in the "Plan of Distribution" section of such prospectus in connection with a sale of any such Exchange Securities received by such Exchanging Dealer pursuant to the Exchange Offer and to include in the Letter of Transmittal delivered pursuant to the Exchange Offer, the information set forth in Annex D hereto and (ii) an Initial Purchaser that elects to sell Exchange Securities acquired in an exchange for Securities constituting any portion of an unsold allotment, is required to deliver a prospectus containing the information required by Item 507 or Item 508 of Regulation S-K under the 1933 Act, as applicable, in connection with such sale.

2.2 Shelf Registration. In the event that (A) the Company reasonably determines that changes in law, SEC rules or regulations or applicable interpretations thereof by the staff of the SEC do not permit the Company to effect the Exchange Offer as contemplated by Section 2.1 hereof, (B) for any other reason, the Exchange Offer is not consummated within 315 days after March 25, 2003 or (C) an Initial Purchaser notifies the Company within 20 Business Days following the consummation of the Exchange Offer that (i) it is not permitted by applicable law, SEC rules or regulations or applicable interpretations thereof by the staff of the SEC to participate in the Exchange Offer, (ii) it may not resell Exchange Securities with the Prospectus included as part of the Exchange Offer Registration Statement or (iii) it is a broker-dealer and

owns Registrable Securities acquired directly from the Company or one of the Company's Affiliates, then in case of each of clauses (A) through (C) the Company shall, at its cost, in lieu of effecting (or, in the case of clause (C), in addition to effecting) the registration of the Exchange Securities pursuant to the Exchange Offer Registration Statement:

(A) as promptly as practicable, file with the SEC, and thereafter shall use its reasonable commercial efforts to cause to be declared effective no later than 345 days after March 25, 2003, a Shelf Registration Statement relating to the offer and sale of the Registrable Securities by the Holders from time to time in accordance with the methods of distribution elected by the Majority Holders participating in the Shelf Registration and set forth in such Shelf Registration Statement;

(B) use its reasonable commercial efforts to keep the Shelf Registration Statement continuously effective in order to permit the Prospectus forming a part thereof to be usable by Holders for a period of two years from the date of the original issuance of the Securities (plus the number of days in any Suspension Period), or until all of the Registrable Securities have been sold pursuant thereto; provided, however, that the Company shall not be obligated to keep the Shelf Registration Statement effective or to permit the use of any Prospectus forming a part of the Shelf Registration Statement if (i) the Company determines, in its reasonable judgment, upon advice of counsel that the continued effectiveness and use of the Shelf Registration Statement would (x) require the disclosure of material information which the Company has a bona fide business reason for preserving as confidential or (y) interfere with any financing, acquisition, corporate reorganization or other material transaction involving the Company or any of its subsidiaries; and provided, further, that the failure to keep the Shelf Registration Statement effective and usable for offers and sales of Registrable Securities for such reasons shall last no longer than 45 consecutive calendar days or no more than an aggregate of 90 calendar days during any consecutive twelve-month period (whereafter a Registration Default, as hereinafter defined, shall occur) and (ii) the Company promptly thereafter complies with the requirements of Section 3(L) hereof, if applicable; any such period during which the Company is excused from keeping the Shelf Registration Statement effective and usable for offers and sales of Registrable Securities is referred to herein as a "Suspension Period"; a Suspension Period shall commence on and include the date that the Company gives notice to the Holders that the Shelf Registration Statement is no longer effective or the Prospectus included therein is no longer usable for offers and sales of Registrable Securities as a result of the application of the proviso of the foregoing sentence, stating the reason therefor, and shall end on the earlier to occur of the date on which each seller of Registrable Securities covered by the Shelf Registration Statement either receives the copies of the supplemented or amended Prospectus or is advised in writing by the Company that use of the Prospectus may be resumed.

The Company shall not permit any securities other than Registrable Securities to be included in the Shelf Registration Statement. The Company further agrees, if necessary, to supplement or amend the Shelf Registration Statement, as required by Section 3(B) below, and to furnish to the Holders of Registrable Securities copies of any such supplement or amendment promptly after its being used or filed with the SEC.

2.3 Expenses. The Company shall pay all Registration Expenses in connection with the registration pursuant to Section 2.1 or 2.2 hereof. Each Holder shall pay all underwriting discounts and commissions and transfer taxes, if any, relating to the sale or disposition of such Holder's Registrable Securities pursuant to the Shelf Registration Statement.

2.4 Effectiveness.

(A) The Company will be deemed not to have used its reasonable commercial efforts to cause the Exchange Offer Registration Statement or the Shelf Registration Statement, as the case may be, to become, or to remain, effective during the requisite period if the Company voluntarily takes any action that would, or omits to take any action (other than any action specifically permitted by the last paragraph of Section 2.1 or by Section 2.2(B) hereof) which omission would, result in any such Registration Statement not being declared effective or in the Holders of Registrable Securities covered thereby not being able to exchange or offer and sell such Registrable Securities during that period as and to the extent contemplated hereby, unless such action is required by applicable law.

(B) An Exchange Offer Registration Statement pursuant to Section 2.1 hereof or a Shelf Registration Statement pursuant to Section 2.2 hereof will not be deemed to have become effective unless it has been declared effective by the SEC; provided, however, that if, after it has been declared effective, the offering of Registrable Securities pursuant to an Exchange Offer Registration Statement or a Shelf Registration Statement is interfered with by any stop order, injunction or other order or requirement of the SEC or any other governmental agency or court, such Registration Statement will be deemed not to have become effective during the period of such interference, until the offering of Registrable Securities pursuant to such Registration Statement may legally resume.

2.5 Interest. In the event that (A) the Exchange Offer Registration Statement is not filed with the SEC on or prior to the 180th day following March 25, 2003, (B) the Exchange Offer Registration Statement is not declared effective on or prior to the 270th calendar day following March 25, 2003, (C) the Exchange Offer is not consummated or a Shelf Registration Statement is not declared effective, in either case, on or prior to the 315th calendar day following March 25, 2003 or (D) the Exchange Offer Registration Statement or the Shelf Registration Statement is filed and declared effective but shall thereafter either be withdrawn by the Company or becomes subject to an effective stop order suspending the effectiveness of such registration statement, except as specifically permitted by the last paragraph of Section 2.1 or Section 2.2(B) hereof, in each case without being succeeded within 30 days by an amendment thereto or an additional registration statement filed and declared effective (each such event referred to in clauses (A) through (D) above, a "Registration Default"), the interest rate borne by the Registrable Securities shall be increased ("Additional Interest") by one-fourth of one percent (0.25%) per annum upon the occurrence of each Registration Default, which rate will increase by an additional one-fourth of one percent (0.25%) per annum if such Registration Default has not been cured within 90 days after occurrence thereof and continuing until all Registration Defaults have been cured, provided that the aggregate amount of any such increase in the interest rate on the Registrable Securities shall in no event exceed one-half of one percent (0.50%) per annum; and provided, further, that if the Exchange Offer Registration Statement is not declared effective

on or prior to the 270th calendar day following March 25, 2003 and the Company shall request Holders of Securities to provide information required by the applicable rules of the SEC for inclusion in the Shelf Registration Statement, then Registrable Securities owned by Holders who do not deliver such information to the Company or who do not provide comments on the Shelf Registration Statement when reasonably requested by the Company will not be entitled to any such increase in the interest rate for any day after the 315th day following March 25, 2003. All accrued Additional Interest shall be paid to Holders of Registrable Securities in the same manner and at the same time as regular payments of interest on the Registrable Securities. Following the cure of all Registration Defaults, the accrual of Additional Interest will cease and the interest rate on the Registrable Securities will revert to the original rate.

3. Registration Procedures. In connection with the obligations of the Company with respect to Registration Statements pursuant to Sections 2.1 and 2.2 hereof, the Company shall:

(A) prepare and file with the SEC a Registration Statement, within the relevant time period specified in Section 2, on the appropriate form under the 1933 Act, which form shall (i) be selected by the Company, (ii) in the case of a Shelf Registration, be available for the sale of the Registrable Securities by the selling Holders thereof and (iii) comply as to form in all material respects with the requirements of the applicable form and include or incorporate by reference all financial statements required by the SEC to be filed therewith or incorporated by reference therein, and use its reasonable commercial efforts to cause such Registration Statement to become effective and remain effective in accordance with Section 2 hereof;

(B) use reasonable commercial efforts to cause (i) any Registration Statement and any amendment thereto, when it becomes effective, not to contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (ii) subject to the last paragraph of Section 2.1 and Section 2.2(B), any Prospectus forming part of any Registration Statement, and any supplement to such Prospectus (as amended or supplemented from time to time), not to include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(C) prepare and file with the SEC such amendments and post-effective amendments to each Registration Statement as may be necessary under applicable law to keep such Registration Statement effective for the applicable period; and cause each Prospectus to be supplemented by any required prospectus supplement, and as so supplemented to be filed pursuant to Rule 424 (or any similar provision then in force) under the 1933 Act and comply with the provisions of the 1933 Act, the 1934 Act and the rules and regulations thereunder applicable to them with respect to the disposition of all securities covered by each Registration Statement during the applicable period in accordance with the intended method or methods of distribution reasonably requested by the selling Holders thereof (including sales by any Participating Broker-Dealer);

(D) in the case of a Shelf Registration, (i) notify each Holder of Registrable Securities, at least fifteen (15) calendar days prior to filing, that a Shelf Registration Statement with respect to the Registrable Securities is being filed and advising such Holders that the distribution of Registrable Securities will be made in accordance with the methods reasonably requested by the Majority Holders participating in the Shelf Registration, (ii) furnish to each Holder of Registrable Securities and to each underwriter of an underwritten offering of Registrable Securities, if any, without charge, as many copies of each Prospectus, including each preliminary Prospectus, and any amendment or supplement thereto, and such other documents as such Holder or underwriter may reasonably request, including financial statements and schedules and, if the Holder so requests, all exhibits in order to facilitate the public sale or other disposition of the Registrable Securities and (iii) hereby consent to the use of the Prospectus or any amendment or supplement thereto by each of the selling Holders of Registrable Securities in connection with the offering and sale of the Registrable Securities covered by the Prospectus or any amendment or supplement thereto, save and except during any Suspension Period;

(E) use its reasonable commercial efforts to register or qualify the Registrable Securities under such state securities or blue sky laws of such jurisdictions as any Holder of Registrable Securities covered by a Registration Statement and each underwriter of an underwritten offering of Registrable Securities shall reasonably request by the time the applicable Registration Statement is declared effective by the SEC, and do any and all other acts and things which may be reasonably necessary or advisable to enable each such Holder and underwriter to consummate the disposition in each such jurisdiction of such Registrable Securities owned by such Holder; provided, however, that the Company shall not be required to (i) qualify as a foreign corporation or as a dealer in securities in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(E) or (ii) take any action which would subject it to general service of process or taxation in any such jurisdiction where it is not then so subject;

(F) notify promptly each Holder of Registrable Securities under a Shelf Registration or any Participating Broker-Dealer who has notified the Company that it is utilizing the Prospectus contained in the Exchange Offer Registration Statement as provided in Section 3(G) hereof and, if requested by such Holder or Participating Broker-Dealer, confirm such advice in writing promptly (i) when a Registration Statement has become effective and when any post-effective amendments and supplements thereto become effective, (ii) of any request by the SEC or any state securities authority for post-effective amendments and supplements to a Registration Statement and Prospectus or for additional information after the Registration Statement has become effective, (iii) of the issuance by the SEC or any state securities authority of any stop order suspending the effectiveness of a Registration Statement or the initiation of any proceedings for that purpose, (iv) in the case of a Shelf Registration, if, between the effective date of the Shelf Registration Statement and the closing of any sale of Registrable Securities covered thereby, the representations and warranties of the Company contained in any underwriting agreement, securities sales agreement or other similar agreement, if any, relating to the offering cease to be true and correct in all material respects, (v) of the happening of any event or the discovery of any facts during the period the Shelf

Registration Statement is effective which makes any statement made in such Registration Statement or the related Prospectus untrue in any material respect or which requires the making of any changes in such Registration Statement or Prospectus in order to make the statements therein not misleading, (vi) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Registrable Securities or the Exchange Securities, as the case may be, for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose and (vii) of any determination by the Company that a post-effective amendment to a Registration Statement would be appropriate;

(G) (1) in the case of the Exchange Offer Registration Statement (a) include in the Exchange Offer Registration Statement a section entitled "Plan of Distribution," which section shall be reasonably acceptable to the Representatives on behalf of the Participating Broker-Dealers, and which shall contain a summary statement of the positions taken or policies made by the staff of the SEC with respect to the potential "underwriter" status of any broker-dealer that holds Registrable Securities acquired for its own account as a result of market-making activities or other trading activities and that will be the beneficial owner (as defined in Rule 13d-3 under the 1934 Act) of Exchange Securities to be received by such broker-dealer in the Exchange Offer, including a statement that any such broker-dealer who receives Exchange Securities for Registrable Securities pursuant to the Exchange Offer may be deemed a statutory underwriter and must deliver a prospectus meeting the requirements of the 1933 Act in connection with any resale of such Exchange Securities, (b) furnish to each Participating Broker-Dealer who has delivered to the Company the notice referred to in Section 3(F), without charge, as many copies of each Prospectus included in the Exchange Offer Registration Statement, including any preliminary prospectus, and any amendment or supplement thereto, as such Participating Broker-Dealer may reasonably request, (c) hereby consent to the use of the Prospectus forming part of the Exchange Offer Registration Statement or any amendment or supplement thereto, by any Person subject to the prospectus delivery requirements of the SEC, including all Participating Broker-Dealers, in connection with the sale or transfer of the Exchange Securities covered by the Prospectus or any amendment or supplement thereto for up to 180 days following the Exchange Offer except during any Exchange Offer Suspension Period, and (d) include in the transmittal letter or similar documentation to be executed by an exchange offeree in order to participate in the Exchange Offer (i) the following provision:

"If the exchange offeree is a broker-dealer holding Registrable Securities acquired for its own account as a result of market-making activities or other trading activities, it will deliver a prospectus meeting the requirements of the 1933 Act in connection with any resale of Exchange Securities received in respect of such Registrable Securities pursuant to the Exchange Offer,"

and (ii) a statement to the effect that a broker-dealer by making the acknowledgment described in clause (i) and by delivering a Prospectus in connection with the exchange of Registrable Securities, the broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the 1933 Act; and (2) in the case of any Exchange

Offer Registration Statement, the Company agrees to deliver to any Participating Broker-Dealers upon the effectiveness of the Exchange Offer Registration Statement (a) an opinion of counsel or opinions of counsel substantially in the form attached hereto as Annex E, (b) officers' certificates substantially in the form customarily delivered by the Company in its public offerings of debt securities and (c) a comfort letter or comfort letters in customary form to the extent permitted by Statement on Auditing Standards No. 72 of the American Institute of Certified Public Accountants (or if such a comfort letter is not permitted, an agreed upon procedures letter in customary form) from the Company's independent certified public accountants (and, if necessary, any other independent certified public accountants of any subsidiary of the Company or of any business acquired by the Company for which financial statements are, or are required to be, included in the Registration Statement) at least as broad in scope and coverage as the comfort letter or comfort letters delivered to the Initial Purchasers in connection with the initial sale of the Securities to the Initial Purchasers;

(H) (i) in the case of an Exchange Offer, furnish counsel for the Initial Purchasers and (ii) in the case of a Shelf Registration, furnish counsel for the Holders of Registrable Securities, copies of any comment letters received from the SEC or any other request by the SEC or any state securities authority for amendments or supplements to a Registration Statement and Prospectus or for additional information;

(I) make every reasonable effort to obtain the withdrawal of any order suspending the effectiveness of a Registration Statement as soon as practicable and provide prompt notice to legal counsel for the Holders of the withdrawal of any such order;

(J) in the case of a Shelf Registration, furnish to each Holder of Registrable Securities, and each underwriter, if any, without charge, at least one conformed copy of each Registration Statement and any post-effective amendment thereto, including financial statements and schedules (without documents incorporated therein by reference and all exhibits thereto, unless requested);

(K) in the case of a Shelf Registration, cooperate with the selling Holders of Registrable Securities to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold to the extent not held with the Depositary through Cede & Co., to remove any restrictive legends, and enable such Registrable Securities to be in such denominations (consistent with the provisions of the Indenture) and registered in such names as the selling Holders or the underwriters, if any, may reasonably request at least three Business Days prior to the closing of any sale of Registrable Securities;

(L) upon the occurrence of any event or the discovery of any facts, each as contemplated by Sections 3(F)(ii), (iii), (v), (vi) and (vii) hereof and subject to the provisions of the second paragraph immediately following Section 3(U) hereof, as promptly as practicable after the occurrence of such an event, use its reasonable commercial efforts to prepare a supplement or post-effective amendment to the Registration Statement or the related Prospectus or any document incorporated therein by

reference or file any other required document so that, as thereafter delivered to the purchasers of the Registrable Securities or Participating Broker-Dealers, such Prospectus will not contain at the time of such delivery any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading or will remain so qualified. At such time as such public disclosure is otherwise made or the Company determines that such disclosure is not necessary, in each case to correct any misstatement of a material fact or to include any omitted material fact, the Company agrees promptly to notify each Holder of such determination and to furnish each Holder such number of copies of the Prospectus as amended or supplemented, as such Holder may reasonably request;

(M) obtain a CUSIP number for all Exchange Securities or Registrable Securities, as the case may be, not later than the effective date of a Registration Statement, and provide the Trustee with certificates for the Exchange Securities or the Registrable Securities, as the case may be, in a form eligible for deposit with the Depositary;

(N) unless the Indenture, as it relates to the Exchange Securities or the Registrable Securities, as the case may be, has already been so qualified, use its reasonable commercial efforts to (i) cause the Indenture to be qualified under the TIA in connection with the registration of the Exchange Securities or Registrable Securities, as the case may be, (ii) cooperate with the Trustee and the Holders to effect such changes to the Indenture as may be required for the Indenture to be so qualified in accordance with the terms of the TIA and (iii) execute, and use its reasonable commercial efforts to cause the Trustee to execute, all documents as may be required to effect such changes, and all other forms and documents required to be filed with the SEC to enable the Indenture to be so qualified in a timely manner;

(O) in the case of a Shelf Registration, enter into agreements (including underwriting agreements) and take all other customary and appropriate actions in order to expedite or facilitate the disposition of such Registrable Securities and in such connection whether or not an underwriting agreement is entered into and whether or not the registration is an underwritten registration:

(i) make such representations and warranties to the Holders of such Registrable Securities and the underwriters, if any, in form, substance and scope as has been customarily made by the Company to underwriters in similar offerings of debt securities of the Company;

(ii) obtain opinions of counsel of the Company and updates thereof (which counsel and opinions (in form, scope and substance) shall be reasonably satisfactory to the managing underwriters, if any, and the Holders of a majority in principal amount of the Registrable Securities being sold) addressed to each selling Holder and the underwriters, if any, covering the matters customarily covered in opinions requested in sales of securities or underwritten offerings of the Company;

(iii) obtain "cold comfort" letters and updates thereof from the Company's independent certified public accountants (and, if necessary, any other independent certified public accountants of any subsidiary of the Company or of any business acquired by the Company for which financial statements are, or are required to be, included in the Registration Statement) addressed to the underwriters, if any, and use reasonable efforts to have such letter addressed to the selling Holders of Registrable Securities (to the extent consistent with Statement on Auditing Standards No. 72 of the American Institute of Certified Public Accounts), such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters to underwriters in connection with similar underwritten offerings of the Company;

(iv) if an underwriting agreement is entered into, cause the same to set forth indemnification provisions and procedures substantially equivalent to the indemnification provisions and procedures set forth in Section 4 hereof with respect to the underwriters and all other parties to be indemnified pursuant to said Section; and

(v) deliver such documents and certificates as may be reasonably requested and as are customarily delivered in similar offerings to the Holders of a majority in principal amount of the Registrable Securities being sold and the managing underwriters, if any;

the above shall be done at (i) the effectiveness of such Registration Statement (and each post-effective amendment thereto) and (ii) each closing under any underwriting or similar agreement as and to the extent required thereunder;

(P) in the case of a Shelf Registration or if a Prospectus is required to be delivered by any Participating Broker-Dealer in the case of an Exchange Offer, make available for inspection by representatives of the Holders of the Registrable Securities, any underwriters participating in any disposition pursuant to a Shelf Registration Statement, any Participating Broker-Dealer and any counsel or accountant retained by any of the foregoing, all financial and other records, pertinent corporate documents and properties of the Company reasonably requested by any such persons, and cause the respective officers, directors, employees and any other agents of the Company to supply all information reasonably requested by any such representative, underwriter, special counsel or accountant in connection with a Registration Statement, and make such representatives of the Company available for discussion of such documents as shall be reasonably requested by the Initial Purchasers in order to enable such persons to conduct a reasonable investigation within the meaning of Section 11 of the 1933 Act; provided, however, that such persons shall first agree in writing with the Company that any information that is reasonably and in good faith designated by the Company in writing as confidential at the time of delivery of such information shall be kept confidential by such persons, unless (i) disclosure of such information is required by court or administrative order or is necessary to respond to inquiries of regulatory authorities, (ii) disclosure of such information is required by law (including any disclosure requirements pursuant to federal securities laws in connection with the filing of the Shelf Registration Statement or

the use of any Prospectus), (iii) such information becomes generally available to the public other than as a result of a disclosure or failure to safeguard such information by such persons or (iv) such information becomes available to such persons from a source other than the Company and its subsidiaries and such source is not known by such persons to be bound by a confidentiality agreement; and provided, further, that the foregoing inspection and information gathering shall be coordinated by (x) the managing underwriter in connection with any underwritten offering pursuant to a Shelf Registration, (y) the Holder or Holders designated by the participating Majority Holders in connection with any nonunderwritten offering pursuant to a Shelf Registration or (z) the Participating Broker-Dealer holding the largest amount of Registrable Securities in the case of use of a Prospectus included in the Exchange Offer Registration Statement, together with one counsel designated by and on behalf of such persons;

(Q) (i) in the case of an Exchange Offer Registration Statement, within a reasonable time prior to the filing of any Exchange Offer Registration Statement, any Prospectus forming a part thereof, any amendment to an Exchange Offer Registration Statement or amendment or supplement to such Prospectus, provide copies of such document to the Initial Purchasers and to counsel to the Holders of Registrable Securities and make such changes in any such document prior to the filing thereof as the Initial Purchasers or counsel to the Holders of Registrable Securities may reasonably request and, except as otherwise required by applicable law, not file any such document in a form to which the Initial Purchasers on behalf of the Holders of Registrable Securities and counsel to the Holders of Registrable Securities shall not have previously been advised and furnished a copy of or to which the Initial Purchasers on behalf of the Holders of Registrable Securities or counsel to the Holders of Registrable Securities shall reasonably object (which objection shall be made within a reasonable period of time), and make the representatives of the Company available for discussion of such documents as shall be reasonably requested by the Initial Purchasers; and (ii) in the case of a Shelf Registration, a reasonable time prior to filing any Shelf Registration Statement, any Prospectus forming a part thereof, any amendment to such Shelf Registration Statement or amendment or supplement to such Prospectus, provide copies of such document to the Holders of Registrable Securities, to the Initial Purchasers, to counsel for the Holders and to the underwriter or underwriters of an underwritten offering of Registrable Securities, if any, make such changes in any such document prior to the filing thereof as the Initial Purchasers, the counsel to the Holders or the underwriter or underwriters reasonably request and not file any such document in a form to which the Majority Holders, the Initial Purchasers on behalf of the Holders of Registrable Securities, counsel for the Holders of Registrable Securities or any underwriter shall not have previously been advised and furnished a copy of or to which the Majority Holders, the Initial Purchasers on behalf of the Holders of Registrable Securities, counsel to the Holders of Registrable Securities or any underwriter shall reasonably object (which objection shall be made within a reasonable period of time), and make the representatives of the Company available for discussion of such document as shall be reasonably requested by the Holders of Registrable Securities, the Initial Purchasers on behalf of such Holders, counsel for the Holders of Registrable Securities or any underwriter;

(R) use its reasonable commercial efforts to (a) if the Securities have been rated prior to the initial sale of such Securities, confirm such ratings will apply to the Securities covered by a Registration Statement, or (b) if the Securities were not previously rated, cause the Securities covered by a Registration Statement to be rated with the appropriate rating agencies, if so requested by Holders of a majority in aggregate principal amount of Securities covered by such Registration Statement, or by the managing underwriters, if any.

(S) otherwise comply with all applicable rules and regulations of the SEC and make available to its security holders, as soon as reasonably practicable, an earnings statement covering at least 12 months which shall satisfy the provisions of Section 11(a) of the 1933 Act and Rule 158 thereunder;

(T) cooperate and assist in any filings required to be made with the NASD and, in the case of a Shelf Registration, in the performance of any due diligence investigation by any underwriter and its counsel (including any "qualified independent underwriter" that is required to be retained in accordance with the rules and regulations of the NASD); and

(U) upon consummation of an Exchange Offer, obtain a customary opinion of counsel to the Company addressed to the Trustee for the benefit of all Holders of Registrable Securities participating in the Exchange Offer, and which includes an opinion substantially to the effect that (i) the Company has duly authorized, executed and delivered the Exchange Securities and the related supplemental indenture and (ii) each of the Exchange Securities and related indenture constitute a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its respective terms (with customary exceptions).

In the case of a Shelf Registration Statement, the Company may (as a condition to such Holder's participation in the Shelf Registration) require each Holder of Registrable Securities to furnish to the Company such information regarding the Holder and the proposed distribution by such Holder of such Registrable Securities as the Company may from time to time reasonably require for inclusion in the Shelf Registration Statement and request in writing.

In the case of a Shelf Registration Statement, each Holder agrees, and in the case of the Exchange Offer Registration Statement, each Participating Broker-Dealer agrees, that, upon receipt of any notice from the Company of (a) the happening of any event or the discovery of any facts, each of the kind described in Sections 3(F)(ii), (iii) or (v) hereof or (b) the Company's determination, in its reasonable judgment, upon advice of counsel, that the continued effectiveness and use of the Shelf Registration Statement or the Prospectus included in the Shelf Registration Statement or the Exchange Offer Registration Statement would (x) require the disclosure of material information, which the Company has a bona fide business reason for preserving as confidential, or (y) interfere with any financing, acquisition, corporate reorganization or other material transaction involving the Company or any of its subsidiaries, such Holder or Participating Broker-Dealer, as the case may be, will forthwith discontinue disposition of Registrable Securities pursuant to such Registration Statement or Prospectus until the receipt by such Holder or Participating Broker-Dealer, as the case may be, of either copies of

the supplemented or amended Prospectus contemplated by Section 3(L) hereof, and, if so directed by the Company, such Holder or Participating Broker-Dealers will deliver to the Company (at its expense) all copies in its possession of the Prospectus covering such Registrable Securities current at the time of receipt of such notice, or notice in writing from the Company that such Holder or Participating Broker-Dealers may resume disposition of Registrable Securities pursuant to such Registration Statement or Prospectus. If the Company shall give any such notice described in clause (a) above to suspend the disposition of Registrable Securities pursuant to a Registration Statement as a result of the happening of any event or the discovery of any facts, each of the kind described in Section 3(F)(ii), (iii) and (v) hereof, the Company shall be deemed to have used its reasonable commercial efforts to keep such Registration Statement effective during such Suspension Period provided that the Company shall use its reasonable commercial efforts to file and have declared effective (if an amendment) as soon as practicable an amendment or supplement to such Registration Statement. The Company shall extend the period during which such Registration Statement shall be maintained effective or the Prospectus used pursuant to this Agreement by the number of days during the period from and including the date of the giving of the notice described in clauses (a) and (b) above to and including the date when the Holders or Participating Broker-Dealers shall have received copies of the supplemented or amended Prospectus necessary to resume such dispositions or notification that they may resume such disposition under an existing Prospectus.

If any of the Registrable Securities covered by any Shelf Registration Statement are to be sold in an underwritten offering, the underwriter or underwriters and manager or managers that will manage such offering will be selected by the Majority Holders of such Registrable Securities included in such offering and shall be reasonably acceptable to the Company. No Holder of Registrable Securities may participate in any underwritten registration hereunder unless such Holder (a) agrees to sell such Holder's Registrable Securities on the basis provided in any underwriting arrangements approved by the persons entitled hereunder to approve such arrangements and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements.

4. Indemnification; Contribution.

(A) In the event of a Shelf Registration Statement or in connection with any prospectus delivery pursuant to an Exchange Offer Registration Statement by an Initial Purchaser or Participating Broker-Dealer, the Company agrees to indemnify and hold harmless the Initial Purchasers, each Holder, each Participating Broker-Dealer, each Person who participates as an underwriter (any such Person being an "Underwriter") and each Person, if any, who controls any Initial Purchaser, Holder, Participating Broker-Dealer or Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act (collectively, the "Section 4 Persons"), against any losses, claims, damages, liabilities or expenses (including the reasonable cost of investigating and defending against any claims therefore and counsel fees incurred in connection therewith as such expenses are incurred), joint or several, which may be based upon either the 1933 Act, or the 1934 Act, or any other statute or at common law, on the ground or alleged ground that any Registration Statement (or any amendment or supplement thereto) pursuant to which Exchange Securities or Registrable Securities were registered under the 1933 Act or any Prospectus included therein (or any amendment or supplement thereto) included or allegedly

included an untrue statement of material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, unless such statement or omission was made in reliance upon, and in conformity with, written information furnished to the Company by any such Section 4 Person specifically for use in the preparation thereof; provided that in no case is the Company to be liable with respect to any claims made against any Section 4 Person unless such Section 4 Person shall have notified the Company in writing within a reasonable time after the summons or other first legal process giving information of the nature of the claim shall have been served upon such Section 4 Person, but failure to notify the Company of any such claim shall not relieve it from any liability which it may have to such Section 4 Person otherwise than on account of the indemnity agreement contained in this paragraph; and provided, further, that the foregoing indemnity with respect to any Prospectus, including any preliminary prospectus or preliminary prospectus supplement, shall not inure to the benefit of any Section 4 Person if a copy of the Prospectus (as amended or supplemented, exclusive of the material incorporated by reference) had not been sent or given by or on behalf of such Section 4 Person to the Person asserting any such losses, claims, damages or liabilities concurrently with or prior to delivery of the written confirmation of the sale of Exchange Securities or Registrable Securities, as the case may be, to such Person and the untrue statement or omission of a material fact contained in any such Prospectus was corrected in the Prospectus (as amended or supplemented) if the Company had previously furnished copies thereof to such Section 4 Persons.

The Company will be entitled to participate at its own expense in the defense, or, if it so elects, to assume the defense of any suit brought to enforce any such liability, but, if the Company elects to assume the defense, such defense shall be conducted by counsel chosen by it. In the event that the Company elects to assume the defense of any such suit and retains such counsel, each Section 4 Person may retain additional counsel but shall bear the fees and expenses of such counsel unless (i) the Company shall have specifically authorized the retaining of such counsel or (ii) the parties to such suit include the Section 4 Person or Section 4 Persons and such persons have been advised by such counsel that one or more legal defenses may be available to it or them which may not be available to the Company, in which case the Company shall not be entitled to assume the defense of such suit on behalf of such Section 4 Person, notwithstanding its obligation to bear the reasonable fees and expenses of such counsel, it being understood, however, that the Company shall not, in connection with any one such suit or proceeding or separate but substantially similar or related actions or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys at any time for all such Section 4 Persons, which firm shall be designated in writing by the Initial Purchasers. The Company shall not be liable to indemnify any Person for any settlement of any such claim effected without the Company's prior written consent. This indemnity agreement will be in addition to any liability, which the Company might otherwise have.

(B) Each Section 4 Person agrees severally and not jointly to indemnify and hold harmless the Company, each of the Company's directors, each of the Company's officers who have signed the Registration Statement and each person, if any, who controls the Company within the meaning of the 1933 Act or the 1934 Act, against any losses, claims, damages, liabilities or expenses (including the reasonable cost of investigating and defending against any claims therefor and counsel fees incurred in connection therewith as such expenses are incurred),

joint or several, which may be based upon the 1933 Act, or any other statute or at common law, on the ground or alleged ground that any Registration Statement (or any amendment or supplement thereto) pursuant to which Exchange Securities or Registrable Securities were registered under the 1933 Act or any Prospectus included therein (or any amendment or supplement thereto) included or allegedly included an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, but only insofar as any such statement or omission was made in reliance upon, and in conformity with, written information furnished to the Company by such Section 4 Person specifically for use in the preparation thereof; provided that in no case is such Section 4 Person to be liable with respect to any claims made against the Company or any such director, officer or controlling person unless the Company or any such director, officer or controlling person shall have notified such Section 4 Person in writing within a reasonable time after the summons or other first legal process giving information of the nature of the claim shall have been served upon the Company or any such director, officer or controlling person, but failure to notify such Section 4 Person of any such claim shall not relieve it from any liability which it may have to the Company or any such director, officer or controlling person otherwise than on account of the indemnity agreement contained in this paragraph. Notwithstanding any other provision of this subsection (B), with respect to any amount due to an indemnified person under this subsection (B), such Section 4 Person shall not be liable for any amount in excess of the amount by which the net proceeds received by such Section 4 Person from the sale of Exchange Securities or Registrable Securities pursuant to a Registration Statement exceeds the amount of damages which such Section 4 Person has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission.

Such Section 4 Person will be entitled to participate at its own expense in the defense, or, if it so elects, to assume the defense of any suit brought to enforce any such liability, but, if such Section 4 Person elects to assume the defense, such defense shall be conducted by counsel chosen by it. In the event that such Section 4 Person elects to assume the defense of any such suit and retain such counsel, the Company or such director, officer or controlling person, defendant or defendants in the suit, may retain additional counsel but shall bear the fees and expenses of such counsel unless (i) such Section 4 Person shall have specifically authorized the retaining of such counsel or (ii) the parties to such suit include the Company or any such director, officer, trustee or controlling person and such Section 4 Person and the Company or such director, officer, trustee or controlling person have been advised by such counsel that one or more legal defenses may be available to it or them which may not be available to such Section 4 Person, in which case such Section 4 Person shall not be entitled to assume the defense of such suit on behalf of the Company or such director, officer, trustee or controlling person, notwithstanding its obligation to bear the reasonable fees and expenses of such counsel, it being understood, however, that such Section 4 Person shall not, in connection with any one such suit or proceeding or separate but substantially similar or related actions or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one a separate firm of attorneys at any time for all of the Company and any such director, officer or controlling person, which firm shall be designated in writing by the Company. Such Section 4 Person shall not be liable to indemnify any person for any settlement of any such claim effected without such Section 4 Person's prior written consent. This indemnity agreement will be in addition to any liability which such Section 4 Person might otherwise have.

(C) If the indemnification provided for in this Section 4 is unavailable or insufficient to hold harmless an indemnified party under subsections (A) or (B) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to in subsection (A) or (B) above in such proportion as is appropriate to reflect the relative fault of the indemnifying party or parties on the one hand and the indemnified party on the other in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof) as well as any other relevant equitable considerations. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or such Holder or such other indemnified party, as the case may be, on the other, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (C) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (C). Notwithstanding any other provision of this subsection (C), the Holders of the Securities and the Exchange Securities shall not be required to contribute any amount in excess of the amount by which the net proceeds received by such Holders from the sale of such securities pursuant to a Registration Statement exceeds the amount of damages which such Holders have otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. The obligations of the Holders of the Securities and Exchange Securities in this subsection (C) to contribute are several in proportion to the net proceeds received from the sale of such securities by such Holder and not joint. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this subsection (C), each person, if any, who controls such indemnified party within the meaning of the 1933 Act or the 1934 Act shall have the same rights to contribution as such indemnified party and each person, if any, who controls the Company within the meaning of the 1933 Act or the 1934 Act shall have the same rights to contribution as the Company.

5. Miscellaneous.

5.1 Rule 144 and Rule 144A. For so long as the Company is subject to the reporting requirements of Section 13 or 15 of the 1934 Act, the Company covenants that it will file the reports required to be filed by it under the 1933 Act and Section 13(a) or 15(d) of the 1934 Act and the rules and regulations adopted by the SEC thereunder. If the Company ceases to be so required to file such reports, the Company covenants that it will upon the request of any Holder of Registrable Securities (A) make publicly available such information as is necessary to permit sales pursuant to Rule 144 under the 1933 Act, (B) deliver such information to a prospective purchaser as is necessary to permit sales pursuant to Rule 144A under the 1933 Act and (C) take such further action that is reasonable in the circumstances, in each case, to the extent required from time to time to enable such Holder to sell its Registrable Securities without registration under the 1933 Act within the limitation of the exemptions provided by (i) Rule 144 under the 1933 Act, as such Rule may be amended from time to time, (ii) Rule 144A under the 1933 Act, as such Rule may be amended from time to time or (iii) any similar rules or

regulations hereafter adopted by the SEC. Upon the request of any Holder of Registrable Securities, the Company will deliver to such Holder a written statement as to whether it has complied with such requirements.

5.2 No Inconsistent Agreements. The Company has not entered into and the Company will not after the date of this Agreement enter into any agreement which is inconsistent with the rights granted to the Holders of Registrable Securities in this Agreement or otherwise conflicts with the provisions hereof. The rights granted to the Holders hereunder do not and will not for the term of this Agreement in any way conflict with the rights granted to the holders of the Company's other issued and outstanding securities under any such agreements.

5.3 Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given unless the Company has obtained the written consent of Holders of at least a majority in aggregate principal amount of the outstanding Registrable Securities affected by such amendment, modification, supplement, waiver or departure; provided that in the event the Company increases the aggregate principal amount of, and issues additional, 7.875% Senior Notes due 2013 pursuant to Section 202 of the Supplemental Indenture No. 5 dated March 25, 2003, such additional 7.875% Senior Notes issued shall be deemed to be included in the definition of Securities hereunder, and any initial purchasers named in any purchase agreement executed in connection with such additional 7.875% Senior Notes issued shall be deemed to be included in the definition of Initial Purchasers hereunder, and provided further that the Company may amend, modify or supplement the provisions hereof to reflect the increase in the aggregate principal amount of the Securities, including any modification of the Initial Purchasers and any other changes deemed by the Company to be necessary, advisable or appropriate to reflect such increase, without the written consent of the Holders to the extent such amendment, modification or supplement does not have a material adverse effect on the Holders. Without the consent of the Holder of each Security however, no modification may change the provisions relating to the payment of Additional Interest.

5.4 Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, registered first-class mail, telex, telecopier, or any courier guaranteeing overnight delivery (a) if to a Holder, at the most current address given by such Holder to the Company by means of a notice given in accordance with the provisions of this Section 5.4, which address initially is the address set forth in the Purchase Agreement with respect to the Initial Purchasers; and (b) if to the Company, initially at the Company's address set forth in the Purchase Agreement, and thereafter at such other address of which notice is given in accordance with the provisions of this Section 5.4.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; two Business Days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; when receipt is acknowledged, if telecopied; and on the next Business Day if timely delivered to an air courier guaranteeing overnight delivery.

Copies of all such notices, demands or other communications shall be concurrently delivered by the person giving the same to the Trustee under the Indenture, at the address specified in such Indenture.

5.5 Successor and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors, assigns and transferees of each of the parties, including, without limitation and without the need for an express assignment, subsequent Holders; provided that nothing herein shall be deemed to permit any assignment, transfer or other disposition of Registrable Securities in violation of the terms of the Purchase Agreement or the Indenture. If any transferee of any Holder shall acquire Registrable Securities, in any manner, whether by operation of law or otherwise, such Registrable Securities shall be held subject to all of the terms of this Agreement, and by taking and holding such Registrable Securities such person shall be conclusively deemed to have agreed to be bound by and to perform all of the terms and provisions of this Agreement, including the restrictions on resale set forth in this Agreement and, if applicable, the Purchase Agreement, and such person shall be entitled to receive the benefits hereof.

5.6 Third Party Beneficiaries. The Initial Purchasers (even if the Initial Purchasers are not Holders of Registrable Securities) shall be third party beneficiaries to the agreements made hereunder between the Company, on the one hand, and the Holders, on the other hand, and shall have the right to enforce such agreements directly to the extent they deem such enforcement necessary or advisable to protect their rights or the rights of Holders hereunder. Each Holder of Registrable Securities shall be a third party beneficiary to the agreements made hereunder between the Company, on the one hand, and the Initial Purchasers, on the other hand, and shall have the right to enforce such agreements directly to the extent it deems such enforcement necessary or advisable to protect its rights hereunder.

5.7 Specific Performance. Without limiting the remedies available to the Initial Purchasers and the Holders, the Company acknowledges that any failure by the Company to comply with its obligations under Sections 2.1 through 2.4 hereof may result in material irreparable injury to the Initial Purchasers or the Holders for which there is no adequate remedy at law, that it would not be possible to measure damages for such injuries precisely and that, in the event of any such failure, the Initial Purchasers or any Holder may obtain such relief as may be required to specifically enforce the Company's obligations under Sections 2.1 through 2.4 hereof.

5.8 Restriction on Resales. Until the expiration of two years after the original issuance of the Securities, the Company will not, and will cause its "affiliates" (as such term is defined in Rule 144(a)(1) under the 1933 Act) not to, resell any Securities which are "restricted securities" (as such term is defined under Rule 144(a)(3) under the 1933 Act) that have been reacquired by any of them and shall immediately upon any purchase of any such Securities submit such Securities to the Trustee for cancellation.

5.9 Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

5.10 Headings. The headings in this Agreement are for the convenience of reference only and shall not limit or otherwise affect the meaning hereof.

5.11 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO THE PRINCIPLES OF CONFLICT OF LAWS THEREOF.

5.12 Severability. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

5.13 Entire Agreement. This Agreement and the Purchase Agreement represent the entire agreement among the parties hereto with respect to the subject matter hereof and supercedes and replaces any and all prior agreements and understandings, whether oral or written, with respect thereto.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

CENTERPOINT ENERGY RESOURCES CORP.

By: /s/ MARC KILBRIDE

Name: Marc Kilbride
Title: Vice President and Treasurer

CONFIRMED AND ACCEPTED
AS OF THE DATE FIRST ABOVE WRITTEN:

CITIGROUP GLOBAL MARKETS INC., for itself and
as representative of the Initial Purchasers

By: /s/ PETER KIND

Name: Peter Kind
Title: Managing Director

CREDIT SUISSE FIRST BOSTON LLC, for itself and
as representative of the Initial Purchasers

By: /s/ BRUCE MacLENNAN

Name: Bruce MacLennan
Title: Director

Each broker-dealer that receives Exchange Securities for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the 1933 Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Securities received in exchange for Securities where such Securities were acquired by such broker-dealer as a result of market-making activities or other trading activities. The Company has agreed that, for a period of 180 days after the Expiration Date (as defined herein), it will make this Prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."

Each broker-dealer that receives Exchange Securities for its own account in exchange for Securities, where such Securities were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities. See "Plan of Distribution."

PLAN OF DISTRIBUTION

Each broker-dealer that receives Exchange Securities for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Securities received in exchange for Securities where such Securities were acquired as a result of market-making activities or other trading activities. The Company has agreed that, for a period of 180 days after the Expiration Date, it will make this Prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition, until , 200 , all dealers effecting transactions in the Exchange Securities may be required to deliver a prospectus.(1)

The Company will not receive any proceeds from any sale of Exchange Securities by broker-dealers. Exchange Securities received by broker-dealers for their own account pursuant to the Exchange Offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the Exchange Securities or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer or the purchasers of any such Exchange Securities. Any broker-dealer that resells Exchange Securities that were received by it for its own account pursuant to the Exchange Offer and any broker or dealer that participates in a distribution of such Exchange Securities may be deemed to be an "underwriter" within the meaning of the 1933 Act and any profit on any such resale of Exchange Securities and any commission or concessions received by any such persons may be deemed to be underwriting compensation under the 1933 Act. The Letter of Transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the 1933 Act.

For a period of 180 days after the Expiration Date the Company will promptly send additional copies of this Prospectus and any amendment or supplement to this Prospectus to any broker-dealer that requests such documents in the Letter of Transmittal. The Company has agreed to pay all expenses incident to the Exchange Offer (including the expenses of one counsel for the Holders of the Securities) other than commissions or concessions of any brokers or dealers and will indemnify the Holders of the Securities (including any broker-dealers) against certain liabilities, including liabilities under the 1933 Act.

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(1) In addition, the legend required by Item 502(b) of Regulation S-K will appear on the inside front cover page of the Exchange Offer prospectus below the Table of Contents.

CHECK HERE IF YOU ARE A BROKER-DEALER AND WISH TO RECEIVE 10 ADDITIONAL COPIES OF THE PROSPECTUS AND 10 COPIES OF ANY AMENDMENTS OR SUPPLEMENTS THERETO.

Name: _____

Address: _____

If the undersigned is not a broker-dealer, the undersigned represents that it is not engaged in, and does not intend to engage in, a distribution of Exchange Securities. If the undersigned is a broker-dealer that will receive Exchange Securities for its own account in exchange for Securities that were acquired as a result of market-making activities or other trading activities, it acknowledges that it will deliver a prospectus in connection with any resale of such Exchange Securities; however, by so acknowledging and by delivering a prospectus, the undersigned will not be deemed to admit that it is an "underwriter" within the meaning of the 1933 Act.

FORM OF OPINION OF COUNSEL

The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

The Registration Statement has become effective under the 1933 Act, and, to the best of our knowledge, no stop order suspending the effectiveness of the Registration Statement or any part thereof has been issued and no proceedings for that purpose have been instituted and are pending or are threatened by the SEC under the 1933 Act.

The Exchange Offer Registration Statement and the Prospectus (except for (A) the financial statements, including the notes and schedules, if any thereto (except to the extent such notes describe legal and governmental proceedings to which the Company is a party and are incorporated by reference into one or more items of a report that is incorporated by reference or included in therein other than an item that requires financial statements to be provided) or the auditor's reports on the audited portions thereof, (B) the other accounting, financial and related statistical data, and (C) the exhibits thereto, as to which we have not been asked to comment) comply as to form in all material respects with the applicable requirements of the 1933 Act and the applicable rules and regulations promulgated under the 1933 Act.

We have participated in conferences with certain officers and other representatives of the Company, representatives of the independent public accountants of the Company, representatives of the [Initial Purchasers] [Holders] and counsel for the [Initial Purchasers] [Holders], at which the contents of the Registration Statement and the Prospectus and related matters were discussed. Although we have not undertaken to determine independently, and do not assume any responsibility for, the accuracy, completeness or fairness of the statements contained in or incorporated by reference in the Registration Statement or the Prospectus, we advise you that, on the basis of the foregoing (relying as to materiality to a large extent upon statements and other representations of officers and other representatives of the Company), no facts have come to our attention that lead us to believe that the Registration Statement and any amendment made thereto prior to the date hereof (except for (A) the financial statements, including the notes and schedules, if any thereto (except to the extent such notes describe legal and governmental proceedings to which the Company is a party and are incorporated by reference into one or more items of a report that is incorporated by reference or included in the Registration Statement or the Prospectus other than an item that requires financial statements to be provided) or the auditor's reports on the audited portions thereof, (B) the other accounting, financial and related statistical data, and (C) the exhibits thereto, as to which we have not been asked to comment), as of the time the Registration Statement became effective or such amendment was filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus, and any amendment or supplement thereto made prior to the date hereof (except for (A) the financial

statements, including the notes and schedules, if any thereto (except to the extent such notes describe legal and governmental proceedings to which the Company is a party and are incorporated by reference into one or more items of a report that is incorporated by reference or included in the Registration Statement or Prospectus other than an item that requires financial statements to be provided) or the auditor's reports on the audited portions thereof, (B) the other accounting, financial and related statistical data , and (C) the exhibits thereto, as to which we have not been asked to comment), as of the date of the Prospectus or such amendment or supplement contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

CERTIFICATIONS

I, David M. McClanahan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy Resources Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2003

/s/ DAVID M. McCLANAHAN

 David M. McClanahan
 President and Chief Executive Officer

CERTIFICATIONS

I, Gary L. Whitlock, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy Resources Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2003

/s/ GARY L. WHITLOCK

Gary L. Whitlock
Executive Vice President and
Chief Financial Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (a) AND (b) OF SECTION 1350, CHAPTER 63
OF TITLE 18, UNITED STATES CODE)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) (the "Act"), I, David M. McClanahan, President and Chief Executive Officer of CenterPoint Energy Resources Corp. (the "Company"), hereby certify, to the best of my knowledge:

- (1) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 13, 2003

/s/ DAVID M. McCLANAHAN

David M. McClanahan
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to Section 906 of the Act and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (a) AND (b) OF SECTION 1350, CHAPTER 63
OF TITLE 18, UNITED STATES CODE)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) (the "Act"), I, Gary L. Whitlock, Executive Vice President and Chief Financial Officer of CenterPoint Energy Resources Corp. (the "Company"), hereby certify, to the best of my knowledge:

- (1) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 13, 2003

/s/ GARY L. WHITLOCK

Gary L. Whitlock
Executive Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to Section 906 of the Act and is not being filed as part of the Report or as a separate disclosure document.

ITEM 1. BUSINESS

REGULATION

We are subject to regulation by various federal, state, local and foreign governmental agencies, including the regulations described below.

PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

As a subsidiary of a registered public utility holding company, we are subject to a comprehensive regulatory scheme imposed by the SEC in order to protect customers, investors and the public interest. Although the SEC does not regulate rates and charges under the 1935 Act, it does regulate the structure, financing, lines of business and internal transactions of public utility holding companies and their system companies. In order to obtain financing, acquire additional public utility assets or stock, or engage in other significant transactions, we are generally required to obtain approval from the SEC under the 1935 Act.

Prior to the Restructuring, CenterPoint Energy and Reliant Energy obtained an order from the SEC that authorized the Restructuring transactions, including the Distribution, and granted CenterPoint Energy certain authority with respect to system financing, dividends and other matters. The financing authority granted by that order will expire on June 30, 2003, and CenterPoint Energy must obtain a further order from the SEC under the 1935 Act, related, among other things, to the financing activities of CenterPoint Energy and its subsidiaries, including us, subsequent to June 30, 2003.

In a July 2002 order, the SEC limited the aggregate amount of our external borrowings to \$2.7 billion. Our ability to pay dividends is restricted by the SEC's requirement that common equity as a percentage of total capitalization must be at least 30% after the payment of any dividend. In addition, the order restricts our ability to pay dividends out of capital accounts to the extent current or retained earnings are insufficient for those dividends. Under these restrictions, we are permitted to pay dividends in excess of our current or retained earnings in an amount up to \$100 million.

In 2002, we obtained authority from each state in which such authority was required to restructure in a manner that would allow CenterPoint Energy to claim an exemption from registration under the 1935 Act. CenterPoint Energy has concluded that a restructuring would not be beneficial and has elected to remain a registered holding company under the 1935 Act.

FEDERAL ENERGY REGULATORY COMMISSION

The transportation and sale or resale of natural gas in interstate commerce is subject to regulation by the Federal Energy Regulatory Commission (FERC) under the Natural Gas Act and the Natural Gas Policy Act of 1978, as amended. The FERC has jurisdiction over, among other things, the construction of pipeline and related facilities used in the transportation and storage of natural gas in interstate commerce, including the extension, expansion or abandonment of these facilities. The rates charged by interstate pipelines for interstate transportation and storage services are also regulated by the FERC.

Our natural gas pipeline subsidiaries may periodically file applications with the FERC for changes in their generally available maximum rates and charges designed to allow them to recover their costs of providing service to customers (to the extent allowed by prevailing market conditions), including a reasonable rate of return. These rates are normally allowed to become effective after a suspension period and, in some cases, are subject to refund under applicable law until such time as the FERC issues an order on the allowable level of rates.

In February 2000, the FERC issued Order No. 637, which introduced several measures to increase competition for interstate pipeline transportation services. Order No. 637 authorizes interstate pipelines to propose term-differentiated and peak/off-peak rates, and requires pipelines to make tariff filings to expand pipeline service options for customers. Both of our natural gas pipeline subsidiaries made two Order No. 637

compliance filings in 2000, and both obtained uncontested settlements filed with the FERC in 2001. In 2002, the FERC issued orders accepting both settlements, subject to certain modifications. The FERC has denied requests for rehearing and clarification of the orders and has accepted, with modification, the compliance tariff filed under one of the orders and ordered additional revised tariff sheets to be filed under the other order.

STATE AND LOCAL REGULATION

In almost all communities in which we provide natural gas distribution services, we operate under franchises, certificates or licenses obtained from state and local authorities. The terms of the franchises, with various expiration dates, typically range from 10 to 30 years. None of our material franchises expires before 2005. We expect to be able to renew expiring franchises. In most cases, franchises to provide natural gas utility services are not exclusive.

Substantially all of our retail natural gas sales are subject to traditional cost-of-service regulation at rates regulated by the relevant state public service commissions and, in Texas, by the Railroad Commission of Texas (Railroad Commission) and municipalities we serve.

Arkansas Rate Case. In November 2001, Arkla filed a rate request in Arkansas seeking rates to yield approximately \$47 million in additional annual gross revenue. In August 2002, a settlement was approved by the Arkansas Public Service Commission (APSC) which is expected to result in an increase in base rates of approximately \$32 million annually. In addition, the APSC approved a gas main replacement surcharge which is expected to provide \$2 million of additional gross revenue in 2003 and additional amounts in subsequent years. The new rates included in the final settlement were effective with all bills rendered on and after September 21, 2002.

Oklahoma Rate Case. In May 2002, Arkla filed a request in Oklahoma to increase its base rates by \$13.7 million annually. In December 2002, a settlement was approved by the Oklahoma Corporation Commission which is expected to result in an increase in base rates of approximately \$7.3 million annually. The new rates included in the final settlement were effective with all bills rendered on and after December 29, 2002.

City of Tyler, Texas, Gas Costs Review. By letter to Entex dated July 31, 2002, the City of Tyler, Texas, forwarded various computations of what it believes to be excessive costs ranging from \$2.8 million to \$39.2 million for gas purchases by Entex for resale to residential and small commercial customers in that city under supply agreements in effect since 1992. Entex's gas costs for its Tyler system are recovered from customers pursuant to tariffs approved by the city and filed with both the city and the Railroad Commission. Pursuant to an agreement, on January 29, 2003, Entex and the city filed a Joint Petition for Review of Charges for Gas Sales (Joint Petition) with the Railroad Commission. The Joint Petition requests that the Railroad Commission determine whether Entex has properly and lawfully charged and collected for gas service to its residential and commercial customers in its Tyler distribution system for the period beginning November 1, 1992, and ending October 31, 2002. We believe that all costs for Entex's Tyler distribution system have been properly included and recovered from customers pursuant to Entex's filed tariffs and that the city has no legal or factual support for the statements made in its letter.

DEPARTMENT OF TRANSPORTATION

In December 2002, Congress enacted the Pipeline Safety Improvement Act of 2002. This legislation applies to our interstate pipelines as well as our intra-state pipelines and local distribution companies. The legislation imposes several requirements related to ensuring pipeline safety and integrity. It requires companies to assess the integrity of their pipeline transmission and distribution facilities in areas of high population concentration and further requires companies to perform remediation activities in accordance with the requirements of the legislation over a 10-year period.

In January 2003, the U.S. Department of Transportation published a notice of proposed rulemaking to implement provisions of the legislation. The Department of Transportation is expected to issue final rules by the end of 2003.

While we anticipate that increased capital and operating expenses will be required to comply with the legislation, we will not be able to quantify the level of spending required until the Department of Transportation's final rules are issued.

ENVIRONMENTAL MATTERS

GENERAL ENVIRONMENTAL ISSUES

We are subject to numerous federal, state and local requirements relating to the protection of the environment and the safety and health of personnel and the public. These requirements relate to a broad range of our activities, including: the discharge of pollutants into water and soil; the proper handling of solid, hazardous, and toxic materials; and waste, noise, and safety and health standards applicable to the workplace. In order to comply with these requirements, we will spend substantial amounts from time to time to construct, modify and retrofit equipment, and to clean up or decommission disposal or fuel storage areas and other locations as necessary.

Our facilities are subject to state and federal laws and regulations governing the discharge of pollutants into the air and waterways. In many cases we must obtain permits or other governmental authorizations that prescribe the parameters for discharges from our facilities. There are ongoing efforts to modify standards relating to both the discharge of pollutants into streams and waterways and to air quality. These efforts may result in more restrictive regulations and permit terms applicable to our facilities in the future.

We anticipate no significant capital and other special project expenditures between 2002 and 2006 for environmental compliance. If we do not comply with environmental requirements that apply to our operations, regulatory agencies could seek to impose on us civil, administrative and/or criminal liabilities as well as seek to curtail our operations. Under some statutes, private parties could also seek to impose civil fines or liabilities for property damage, personal injury and possibly other costs.

Under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, owners and operators of facilities from which there has been a release or threatened release of hazardous substances, together with those who have transported or arranged for the disposal of those substances, are liable for:

- the costs of responding to that release or threatened release; and
- the restoration of natural resources damaged by any such release.

We are not aware of any liabilities under CERCLA that would have a material adverse effect on us, our financial position, results of operations or cash flows.

LIABILITY FOR PREEXISTING CONDITIONS AND REMEDIATION

Manufactured Gas Plant Sites. We and our predecessors operated manufactured gas plants (MGP) in the past. In Minnesota, remediation has been completed on two sites, other than ongoing monitoring and water treatment. There are five remaining sites in our Minnesota service territory, two of which we believe were neither owned nor operated by us, and for which we believe we have no liability.

At December 31, 2002, we had accrued \$19 million for remediation of the Minnesota sites. At December 31, 2002, the estimated range of possible remediation costs was \$8 million to \$44 million based on remediation continuing for 30 to 50 years. The cost estimates are based on studies of a site or industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites to be remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used. We have an environmental expense tracker mechanism in our rates in Minnesota. We have collected \$12 million at December 31, 2002 to be used for future environmental remediation.

We have received notices from the United States Environmental Protection Agency and others regarding our status as a PRP for sites in other states. Based on current information, we have not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

Hydrocarbon Contamination. In August 2001, a number of Louisiana residents who live near the Wilcox Aquifer filed suit in the 1st Judicial District Court, Caddo Parish, Louisiana against us and others. The suit alleges that we and the other defendants allowed or caused hydrocarbon or chemical contamination of the Wilcox Aquifer, which lies beneath property owned or leased by the defendants and is the sole or primary drinking water aquifer in the area. The monetary damages sought are unspecified. In April 2002, a separate suit with identical allegations against the same parties was filed in the same court. Additionally in January 2003, a third suit with similar allegations was filed against the same parties in the 26th Judicial Court, Bossier Parish, Louisiana.

Mercury Contamination. Like similar companies, our pipeline and natural gas distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area around the meters with elemental mercury. We have found this type of contamination in the past, and we have conducted remediation at sites found to be contaminated. Although we are not aware of additional specific sites, it is possible that other contaminated sites may exist and that remediation costs may be incurred for these sites. Although the total amount of these costs cannot be known at this time, based on our experience and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, we believe that the cost of any remediation of these sites will not be material to our financial position, results of operations or cash flows.

ITEM 3. LEGAL PROCEEDINGS

For a brief descriptions of certain legal and regulatory proceedings affecting us, see "Regulation" and "Environmental Matters" in Item 1 of this report and Notes 10(c) and 10(d) to our consolidated financial statements.

MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

Our past earnings and results of operations are not necessarily indicative of our future earnings and results of operations. The magnitude of our future earnings and results of our operations will depend on numerous factors including:

- state and federal legislative and regulatory actions or developments, constraints placed on our activities or business by the 1935 Act, changes in or application of laws or regulations applicable to other aspects of our business and actions;
- timely rate increases including recovery of costs;
- the successful and timely completion of our capital projects;
- industrial, commercial and residential growth in our service territory and changes in market demand and demographic patterns;
- our pursuit of potential business strategies, including acquisitions or dispositions of assets;
- changes in business strategy or development plans;
- the timing and extent of changes in commodity prices, particularly natural gas;
- changes in interest rates or rates of inflation;
- unanticipated changes in operating expenses and capital expenditures;
- weather variations and other natural phenomena;
- the timing and extent of changes in the supply of natural gas;
- commercial bank and financial market conditions, our access to capital, the costs of such capital and the results of our financing and refinancing efforts, including availability of funds in the debt capital markets;
- actions by rating agencies;
- legal and administrative proceedings and settlements;
- changes in tax laws;
- inability of various counterparties to meet their obligations with respect to our financial instruments;
- any lack of effectiveness of our disclosure controls and procedures;
- changes in technology;
- significant changes in our relationship with our employees, including the availability of qualified personnel and the potential adverse effects if labor disputes or grievances were to occur;
- significant changes in critical accounting policies;
- acts of terrorism or war, including any direct or indirect effect on our business resulting from terrorist attacks such as occurred on September 11, 2001 or any similar incidents or responses to those incidents;
- the availability and price of insurance;
- political, legal, regulatory and economic conditions and developments in the United States; and
- other factors discussed in Item 1 of this report under "Risk Factors."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(e) REGULATORY MATTERS

CERC applies the accounting policies established in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71) to the accounts of the utility operations of Natural Gas Distribution and MRT. As of December 31, 2001 and 2002, CERC had recorded \$6 million and \$12 million, respectively, of net regulatory assets.

If, as a result of changes in regulation or competition, CERC's ability to recover these assets and liabilities would not be probable, CERC would be required to write off or write down these regulatory assets and liabilities. In addition, CERC would be required to determine any impairment of the carrying costs of plant and inventory assets.

Arkansas Rate Case

In November 2001, Arkla filed a rate request in Arkansas seeking rates to yield approximately \$47 million in additional annual gross revenue. In August 2002, a settlement was approved by the Arkansas Public Service Commission (APSC) that is expected to result in an increase in base rates of approximately \$32 million annually. In addition, the APSC approved a gas main replacement surcharge that is expected to provide \$2 million of additional gross revenue in 2003 and additional amounts in subsequent years. The new rates included in the final settlement were effective with all bills rendered on and after September 21, 2002.

Oklahoma Rate Case

In May 2002, Arkla filed a request in Oklahoma to increase its base rates by \$13.7 million annually. In December 2002, a settlement was approved by the Oklahoma Corporation Commission that is expected to result in an increase in base rates of approximately \$7.3 million annually. The new rates included in the final settlement were effective with all bills rendered on and after December 29, 2002.

5. DERIVATIVE INSTRUMENTS

Effective January 1, 2001, CERC adopted SFAS No. 133, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. This statement requires that derivatives be recognized at fair value in the balance sheet and that changes in fair value be recognized either currently in earnings or deferred as a component of other comprehensive income, depending on the intended use of the derivative instrument as hedging (a) the exposure to changes in the fair value of an asset or liability (Fair Value Hedge), (b) the exposure to variability in expected future cash flows (Cash Flow Hedge), or (c) the foreign currency exposure of a net investment in a foreign operation. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period it occurs.

Adoption of SFAS No. 133 on January 1, 2001 resulted in a cumulative after-tax increase in accumulated other comprehensive income of \$38 million. The adoption also increased current assets, long-term assets, current liabilities and long-term liabilities by approximately \$88 million, \$5 million, \$53 million and \$2 million, respectively, in CERC's Consolidated Balance Sheet.

CERC is exposed to various market risks. These risks arise from transactions entered into in the normal course of business. CERC utilizes derivative financial instruments such as physical forward contracts, swaps and options (Energy Derivatives) to mitigate the impact of changes and cash flows of its natural gas businesses on its operating results and cash flows.

(a) Non-Trading Activities

Cash Flow Hedges. To reduce the risk from market fluctuations associated with purchased gas costs, CERC enters into energy derivatives in order to hedge certain expected purchases and sales of natural gas. CERC applies hedge accounting for its non-trading energy derivatives utilized in non-trading activities only if there is a high correlation between price movements in the derivative and the item designated as being hedged. CERC analyzes its physical transaction portfolio to determine its net exposure by delivery location and delivery period. Because CERC's physical transactions with similar delivery locations and periods are highly correlated and share similar risk exposures, CERC facilitates hedging for customers by aggregating physical transactions and subsequently entering into non-trading energy derivatives to mitigate exposures created by the physical positions.

During 2002, no hedge ineffectiveness was recognized in earnings from derivatives that are designated and qualify as Cash Flow Hedges. No component of the derivative instruments' gain or loss was excluded from the assessment of effectiveness. If it becomes probable that an anticipated transaction will not occur, CERC realizes in net income the deferred gains and losses recognized in accumulated other comprehensive income. During the year ended December 31, 2002, there was a \$0.9 million deferred loss recognized in earnings as a result of the discontinuance of cash flow hedges because it was no longer probable that the forecasted

transaction would occur. Once the anticipated transaction occurs, the accumulated deferred gain or loss recognized in accumulated other comprehensive income is reclassified and included in CERC's Statements of Consolidated Income under the caption "Natural Gas and Purchased Power." Cash flows resulting from these transactions in non-trading energy derivatives are included in the Statements of Consolidated Cash Flows in the same category as the item being hedged. As of December 31, 2002, CERC expects \$17 million in accumulated other comprehensive income to be reclassified into net income during the next twelve months.

The maximum length of time CERC is hedging its exposure to the variability in future cash flows for forecasted transactions on existing financial instruments is primarily two years with a limited amount of exposure up to three years. CERC's policy is not to exceed five years in hedging its exposure.

(b) CREDIT RISKS

In addition to the risk associated with price movements, credit risk is also inherent in CERC's non-trading derivative activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. The following table shows the composition of the non-trading derivative assets of CERC as of December 31, 2001 and 2002:

DECEMBER 31, 2001	DECEMBER 31, 2002	-----
INVESTMENT DERIVATIVE ASSETS	INVESTMENT DERIVATIVE ASSETS	NON-TRADING GRADE(1)(2) TOTAL
GRADE(1)(2) TOTAL(3)	GRADE(1)(2) TOTAL(3)	-----
----- (IN MILLIONS) Energy		
marketers.....	\$ 9	\$ 9
institutions.....	\$ 7	\$ 7
	\$ 22	\$ 22
	9	9
Total.....	\$ 9	\$ 9
	\$ 16	\$ 16
	\$ 31	\$ 31

- (1) "Investment Grade" is primarily determined using publicly available credit ratings along with the consideration of credit support (such as parent company guarantees) and collateral, which encompasses cash and standby letters of credit.
- (2) For unrated counterparties, the Company performs financial statement analysis, considering contractual rights and restrictions and collateral, to create a synthetic credit rating.
- (3) The \$22 million non-trading derivative asset includes a \$15 million asset due to trades with Reliant Energy Services, an affiliate until the date of the Distribution. As of December 31, 2002, Reliant Energy Services did not have an Investment Grade rating.

(c) GENERAL POLICY

CenterPoint Energy has established a Risk Oversight Committee comprised of corporate and business segment officers that oversees all commodity price and credit risk activities, including CenterPoint Energy's trading, marketing, risk management services and hedging activities. The committee's duties are to establish CenterPoint Energy's commodity risk policies, allocate risk capital within limits established by CenterPoint Energy's board of directors, approve trading of new products and commodities, monitor risk positions and ensure compliance with CenterPoint Energy's risk management policies and procedures and trading limits established by CenterPoint Energy's board of directors.

CenterPoint Energy's policies prohibit the use of leveraged financial instruments. A leveraged financial instrument, for this purpose, is a transaction involving a derivative whose financial impact will be based on an amount other than the notional amount or volume of the instrument.

7. TRUST PREFERRED SECURITIES

In June 1996, a Delaware statutory business trust created by CERC Corp. (CERC Trust) issued \$173 million aggregate amount of convertible preferred securities to the public. CERC Corp. accounts for CERC Trust as a wholly owned consolidated subsidiary. CERC Trust used the proceeds of the offering to purchase convertible junior subordinated debentures issued by CERC Corp. having an interest rate and maturity date that correspond to the distribution rate and mandatory redemption date of the convertible preferred securities. The convertible junior subordinated debentures represent CERC Trust's sole asset and its entire operations. CERC Corp. considers its obligation under the Amended and Restated Declaration of Trust, Indenture and Guaranty Agreement relating to the convertible preferred securities, taken together, to constitute a full and unconditional guarantee by CERC Corp. of CERC Trust's obligations with respect to the convertible preferred securities.

The convertible preferred securities are mandatorily redeemable upon the repayment of the convertible junior subordinated debentures at their stated maturity or earlier redemption. Effective January 7, 2003, the convertible preferred securities are convertible at the option of the holder into \$33.62 of cash and 2.34 shares of CenterPoint Energy common stock for each \$50 of liquidation value. As of December 31, 2001 and 2002, \$0.4 million liquidation amount of convertible preferred securities were outstanding. The securities, and their

underlying convertible junior subordinated debentures, bear interest at 6.25% and mature in June 2026. Subject to some limitations, CERC Corp. has the option of deferring payments of interest on the convertible junior subordinated debentures. During any deferral or event of default, CERC Corp. may not pay dividends on its common stock to CenterPoint Energy. As of December 31, 2002, no interest payments on the convertible junior subordinated debentures had been deferred.

8. EMPLOYEE BENEFIT PLANS

(a) PENSION PLANS

Substantially all of CERC's employees participate in CenterPoint Energy's qualified non-contributory pension plan. Under the cash balance formula, participants accumulate a retirement benefit based upon 4% of eligible earnings and accrued interest. Prior to 1999, the pension plan accrued benefits based on years of service, final average pay and covered compensation. As a result, certain employees participating in the plan as of December 31, 1998 are eligible to receive the greater of the accrued benefit calculated under the prior plan through 2008 or the cash balance formula.

CenterPoint Energy's funding policy is to review amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations. Pension expense is allocated to CERC based on covered employees. This calculation is intended to allocate pension costs in the same manner as a separate employer plan. Assets of the plan are not segregated or restricted by CenterPoint Energy's participating subsidiaries. Pension benefit was \$21 million for the year ended December 31, 2000. CERC recognized pension expense of \$1 million and \$13 million for the years ended December 31, 2001 and 2002, respectively.

In addition to the Plan, CERC participates in CenterPoint Energy's non-qualified pension plan, which allows participants to retain the benefits to which they would have been entitled under the qualified pension plan except for federally mandated limits on these benefits or on the level of salary on which these benefits may be calculated. The expense associated with the non-qualified pension plan was \$13 million, \$5 million and \$2 million for the years ended December 31, 2000, 2001 and 2002, respectively.

As of December 31, 2001, CenterPoint Energy allocated \$94 million of pension assets, \$40 million of non-qualified pension liabilities and \$2 million minimum pension liabilities to CERC. As of December 31, 2002, CenterPoint Energy has not allocated such pension assets or liabilities to CERC. This change in method of allocation had no impact on pension expense recorded for the year ended December 31, 2002.

10. COMMITMENTS AND CONTINGENCIES

(a) ENVIRONMENTAL CAPITAL COMMITMENTS

CERC has various commitments for capital and environmental expenditures. CERC anticipates no significant capital and other special project expenditures between 2003 and 2007 for environmental compliance.

(b) Lease Commitments

The following table sets forth information concerning CERC's obligations under non-cancelable long-term operating leases, principally consisting of rental agreements for building space, data processing equipment and vehicles, including major work equipment (in millions):

2003.....	\$ 15
2004.....	12
2005.....	10
2006.....	8
2007.....	7
2008 and beyond.....	74

Total.....	\$126
	====

Total rental expense for all operating leases was \$33 million, \$31 million and \$27 million in 2000, 2001 and 2002, respectively.

(c) Environmental Matters

Hydrocarbon Contamination. On August 24, 2001, 37 plaintiffs filed suit against Reliant Energy Gas Transmission Company (REGT), Reliant Energy Pipeline Services, Inc., RERC Corp., RES, other Reliant Energy entities and third parties, in the 1st Judicial District Court, Caddo Parish, Louisiana. The petition has now been supplemented seven times. As of November 21, 2002, there were 695 plaintiffs, a majority of whom are Louisiana residents. In addition to the Reliant Energy entities, the plaintiffs have sued the State of Louisiana through its Department of Environmental Quality, several individuals, some of whom are present employees of the State of Louisiana, the Bayou South Gas Gathering Company, L.L.C., Martin Timber Company, Inc., and several trusts. Additionally on April 4, 2002, two plaintiffs filed a separate suit with identical allegations against the same parties in the same court. More recently, on January 6, 2003, two other plaintiffs filed a third suit of similar allegations against CenterPoint Energy, as well as other defendants, in Bossier Parish (26th Judicial District Court).

The suits allege that, at some unspecified date prior to 1985, the defendants allowed or caused hydrocarbon or chemical contamination of the Wilcox Aquifer, which lies beneath property owned or leased by certain of the defendants and which is the sole or primary drinking water aquifer in the area. The primary source of the contamination is alleged by the plaintiffs to be a gas processing facility in Haughton, Bossier Parish, Louisiana known as the "Sligo Facility." This facility was purportedly used for gathering natural gas from surrounding wells, separating gasoline and hydrocarbons from the natural gas for marketing, and transmission of natural gas for distribution. This site was originally leased and operated by predecessors of REGT in the late 1940s and was operated until Arkansas Louisiana Gas Company ceased operations of the plant in the late 1970s.

Beginning about 1985, the predecessors of certain Reliant Energy defendants engaged in a voluntary remediation of any subsurface contamination of the groundwater below the property they own or lease. This work has been done in conjunction with and under the direction of the Louisiana Department of Environmental Quality. The plaintiffs seek monetary damages for alleged damage to the aquifer underlying their property, unspecified alleged personal injuries, alleged fear of cancer, alleged property damage or diminution of value of their property, and, in addition, seek damages for trespass, punitive, and exemplary damages. The quantity of monetary damages sought is unspecified. As of December 31, 2002, CERC is unable to estimate the monetary damages, if any, that the plaintiffs may be awarded in these matters.

Manufactured Gas Plant Sites. CERC and its predecessors operated manufactured gas plants (MGP) in the past. In Minnesota, remediation has been completed on two sites, other than ongoing monitoring and water treatment. There are five remaining sites in our Minnesota service territory, two of which CERC believes were neither owned nor operated by CERC, and for which CERC believes it has no liability.

At December 31, 2001 and 2002, CERC had accrued \$23 million and \$19 million, respectively, for remediation of the Minnesota sites. At December 31, 2002, the estimated range of possible remediation costs was \$8 million to \$44 million based on remediation continuing for 30 to 50 years. The cost estimates are based on studies of a site or industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites to be remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used. CERC has an environmental expense tracker mechanism in its rates in Minnesota. CERC has collected \$12 million at December 31, 2002 to be used for future environmental remediation.

CERC has received notices from the United States Environmental Protection Agency and others regarding its status as a PRP for sites in other states. Based on current information, CERC has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

Mercury Contamination. CERC's pipeline and distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area with elemental mercury. This type of contamination has been found by CERC at some sites in the past, and CERC has conducted remediation at these sites. It is possible that other contaminated sites may exist and that remediation costs may be incurred for these sites. Although the total amount of these costs cannot be known at this time, based on experience by CERC and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, CERC believes that the costs of any remediation of these sites will not be material to CERC's financial condition, results of operations or cash flows.

Other Environmental. From time to time CERC has received notices from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. Considering the information currently known about such sites and the involvement of CERC in activities at these sites, CERC does not believe that these matters will have a material adverse effect on CERC's financial position, results of operations or cash flows.

Department of Transportation

In December 2002, Congress enacted the Pipeline Safety Improvement Act of 2002. This legislation applies to CERC's interstate pipelines as well as its intra-state pipelines and local distribution companies. The legislation imposes several requirements related to ensuring pipeline safety and integrity. It requires companies to assess the integrity of their pipeline transmission and distribution facilities in areas of high population concentration and further requires companies to perform remediation activities, in accordance with the requirements of the legislation, over a 10-year period.

In January 2003, the U.S. Department of Transportation published a notice of proposed rulemaking to implement provisions of the legislation. The Department of Transportation is expected to issue final rules by the end of 2003.

While CERC anticipates that increased capital and operating expenses will be required to comply with the requirements of the legislation, it will not be able to quantify the level of spending required until the Department of Transportation's final rules are issued.

(d) OTHER LEGAL MATTERS

Natural Gas Measurement Lawsuits. In 1997, a suit was filed under the Federal False Claims Act against RERC Corp. (now CERC Corp.) and certain of its subsidiaries alleging mismeasurement of natural gas produced from federal and Indian lands. The suit seeks undisclosed damages, along with statutory penalties, interest, costs, and fees. The complaint is part of a larger series of complaints filed against 77 natural gas pipelines and their subsidiaries and affiliates. An earlier single action making substantially similar allegations against the pipelines was dismissed by the federal district court for the District of Columbia on grounds of improper joinder and lack of jurisdiction. As a result, the various individual complaints were filed in numerous courts throughout the country. This case has been consolidated, together with the other similar False Claims Act cases, in the federal district court in Cheyenne, Wyoming.

In addition, CERC Corp., CenterPoint Energy Gas Transmission Company, CenterPoint Energy Field Services, Inc. and CenterPoint Energy-Mississippi River Transmission Corporation are defendants in a class action filed in May 1999 against approximately 245 pipeline companies and their affiliates. The plaintiffs in the case purport to represent a class of natural gas producers and fee royalty owners who allege that they have been subject to systematic gas mismeasurement by the defendants for more than 25 years. The plaintiffs seek compensatory damages, along with statutory penalties, treble damages, interest, costs and fees. The action is currently pending in state court in Stevens County, Kansas. Motions to dismiss and class certification issues have been briefed and argued.

City of Tyler, Texas, Gas Costs Review. By letter to Entex dated July 31, 2002, the City of Tyler, Texas, forwarded various computations of what it believes to be excessive costs ranging from \$2.8 million to \$39.2 million for gas purchased by Entex for resale to residential and small commercial customers in that city under supply agreements in effect since 1992. Entex's gas costs for its Tyler system are recovered from customers pursuant to tariffs approved by the city and filed with both the city and the Railroad Commission of Texas (the Railroad Commission). Pursuant to an agreement, on January 29, 2003, Entex and the city filed a Joint Petition for Review of Charges for Gas Sales (Joint Petition) with the Railroad Commission. The Joint

Petition requests that the Railroad Commission determine whether Entex has properly and lawfully charged and collected for gas service to its residential and commercial customers in its Tyler distribution system for the period beginning November 1, 1992, and ending October 31, 2002. The Company believes that all costs for Entex's Tyler distribution system have been properly included and recovered from customers pursuant to Entex's filed tariffs and that the city has no legal or factual support for the statements made in its letter.

Gas Recovery Suits. In October 2002, a suit was filed in state district court in Wharton County, Texas, against CenterPoint Energy, CERC, Entex Gas Marketing Company, and others alleging fraud, violations of the Texas Deceptive Trade Practices Act, violations of the Texas Utility Code, civil conspiracy and violations of the Texas Free Enterprise and Antitrust Act. The plaintiffs seek class certification, but no class has been certified. The plaintiffs allege that defendants inflated the prices charged to residential and small commercial consumers of natural gas. In February 2003, a similar suit was filed against CERC in state court in Caddo Parish, Louisiana purportedly on behalf of a class of residential or business customers in Louisiana who allegedly have been overcharged for gas or gas service provided by CERC. The plaintiffs in both cases seek restitution for alleged overcharges, exemplary damages and penalties. CERC denies that it has overcharged any of its customers for natural gas and believes that the amounts recovered for purchased gas have been in accordance with what is permitted by state regulatory authorities.

Other Proceedings. CERC is involved in other proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business. Management currently believes that the disposition of these matters will not have a material adverse effect on CERC's financial position, results of operations or cash flows.

13. REPORTABLE SEGMENTS

Because CERC Corp. is a wholly owned subsidiary of CenterPoint Energy, CERC's determination of reportable segments considers the strategic operating units under which CenterPoint Energy manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments. The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that some executive benefit costs have not been allocated to segments. Reportable business segments from previous years have been restated to conform to the 2002 presentation. CERC accounts for intersegment sales as if the sales were to third parties, that is, at current market prices.

Beginning in the first quarter of 2002, CERC began to evaluate performance on an earnings (loss) before interest expense, distribution on trust preferred securities and income taxes (EBIT) basis. Prior to 2002, CERC evaluated performance on the basis of operating income. EBIT, as defined, is shown because it is a measure CERC uses to evaluate the performance of its business segments and CERC believes it is a measure of financial performance that may be used as a means to analyze and compare companies on the basis of operating performance. CERC expects that some analysts and investors will want to review EBIT when evaluating CERC. EBIT is not defined under accounting principles generally accepted in the United States (GAAP), should not be considered in isolation or as a substitute for a measure of performance prepared in accordance with GAAP and is not indicative of operating income from operations as determined under GAAP. Additionally, CERC's computation of EBIT may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate it in the same fashion.

CERC's reportable business segments include the following: Natural Gas Distribution, Pipelines and Gathering, Wholesale Energy and Other Operations. Natural Gas Distribution consists of intrastate natural gas sales to, and natural gas transportation for, residential, commercial and industrial customers, and some non-rate regulated retail gas marketing operations. Pipelines and Gathering includes the interstate natural gas pipeline operations and natural gas gathering and pipeline services. Reliant Energy Services was previously reported within the Wholesale Energy segment. Other Operations includes unallocated general corporate expenses and non-operating investments. During 2000, Reliant Energy transferred RERC's non-rate regulated retail gas marketing from Other Operations to Natural Gas Distribution and RERC's natural gas gathering business from Wholesale Energy to Pipelines and Gathering. On December 31, 2000, RERC Corp. transferred all of the outstanding stock of RESI, Arkla Finance and RE Europe Trading, all wholly owned subsidiaries of

RERC Corp., to Reliant Resources. Also, on December 31, 2000, a wholly owned subsidiary of Reliant Resources merged with and into Reliant Energy Services, a wholly owned subsidiary of RERC Corp., with Reliant Energy Services as the surviving corporation. As a result of the Merger, Reliant Energy Services became a wholly owned subsidiary of Reliant Resources. Reportable segments from previous years have been restated to conform to the 2002 presentation. All of CERC's long-lived assets are in the United States.

Financial data for business segments and products and services are as follows:

NATURAL GAS PIPELINES AND
 WHOLESAL E OTHER RECONCILING
 SALES TO DISTRIBUTION
 GATHERING ENERGY OPERATIONS
 ELIMINATIONS AFFILIATES
 CONSOLIDATED -----

 ----- (IN MILLIONS) AS OF AND
 FOR THE YEAR ENDED DECEMBER
 31, 2000: Revenues from
 external
 customers(1).....
 \$4,445 \$ 182 \$1,729 \$ 1 \$ --
 \$-- \$6,357 Intersegment
 revenues..... 34 202 579
 -- (815) -- -- Depreciation
 and
 amortization.....
 145 55 11 3 -- -- 214
 EBIT.....
 125 137 106 (30) (4) -- 334
 Total
 assets.....
 4,518 2,358 -- 448 (748) --
 6,576 Expenditures for long-
 lived
 assets.....
 195 61 27 8 -- -- 291 AS OF
 AND FOR THE YEAR ENDED
 DECEMBER 31, 2001: Revenues
 from external
 customers(1).....
 4,737 307 -- -- -- 5,044
 Intersegment
 revenues..... 5 108 -- --
 (113) -- -- Depreciation and
 amortization.....
 147 58 -- 2 -- -- 207
 EBIT.....
 149 138 -- 3 (10) -- 280 Total
 assets.....
 3,732 2,361 -- 101 (202) --
 5,992 Expenditures for long-
 lived
 assets.....
 209 54 -- -- -- 263 AS OF
 AND FOR THE YEAR ENDED
 DECEMBER 31, 2002: Revenues
 from external
 customers(1).....
 3,927 253 -- -- -- 4,208
 Intersegment
 revenues..... 7 119 -- --
 (126) -- -- Depreciation and
 amortization.....
 126 41 -- -- -- 167
 EBIT.....
 210 158 -- 6 (13) -- 361 Total
 assets.....
 4,051 2,481 -- 206 (752) --
 5,986 Expenditures for long-
 lived
 assets.....
 196 70 -- -- -- 266

(1) Included in revenues from external customers are revenues from sales to Reliant Resources, a former affiliate, of \$816 million, \$181 million and \$42 million for the years ended December 31, 2000, 2001 and 2002, respectively.

YEAR ENDED DECEMBER 31, -----	2000	2001	
2002 -----			(IN MILLIONS)
RECONCILIATION OF OPERATING INCOME TO EBIT AND EBIT TO NET INCOME: Operating			
income.....	\$ 332	\$	
	266	\$ 353	Other,
net.....	2	14	
	8		-----
EBIT.....			
	334	280	361
charges.....	(143)	(155)	(153)
taxes.....			(93)
	(58)	(88)	Loss from discontinued
operations.....		(24)	-----
			Net
income.....	\$ 74		
\$ 67	\$ 120	=====	=====
REVENUES BY PRODUCTS AND SERVICES: Retail gas			
sales.....	\$4,358		
\$4,645	\$3,857	Wholesale energy and energy related	
sales.....	1,729	-- --	Gas
transport.....			
182	307	255	Energy products and
services.....	88	92	96

Total.....			
\$6,357	\$5,044	\$4,208	=====
REVENUES BY GEOGRAPHIC AREAS U.S.			
	\$6,339	\$5,044	\$4,208
Canada.....			
	18		-----
Total.....			
\$6,357	\$5,044	\$4,208	=====